Liv Garfield (Chief Executive)

Good morning everyone and welcome to Severn Trent's 2019/20 full-year results presentation.

I'm Liv Garfield, Chief Executive of Severn Trent and joining me, at a safe distance, is James Bowling, our CFO.

Before James and I reflect on what has been achieved this year, I wanted to take this moment to say a massive thank you to all of my wonderful colleagues at Severn Trent for the outstanding work they have undertaken, in particular during the situation we all find ourselves in today. I couldn't be prouder to be Chief Executive of an organisation where our teams have been so calm and so professional while making sure they show amazing care for each other and the customers and communities we serve in keeping taps flowing and waste water taken safely away.

Throughout the course of this presentation you will see lots of great examples of how we are leaving AMP6 in much better shape than when we entered it five years ago. But hopefully you will also see it isn't only what we have achieved but how we have gone about it that makes me feel confident we are on the right path to be a truly sustainable business for the long term.

Rightly I'm going to start by talking about the biggest challenge our country has faced – certainly in my life time and how Severn Trent have responded. And perhaps most importantly I'm going to start with how we have responded to help people.

For our Severn Trent colleagues it has been vital that they have felt safe and supported at all times. Whether that is through the financial support of job certainty and agreeing 3 year pay increase or supporting vulnerabilities around mental health we have listened carefully and responded the best way we can.

For customers, we know that for some the situation is bleak right now. Where we have people struggling financially we want to make sure they are aware of, and can fully utilise the help to pay schemes we have established. For those whose struggles might be making them more vulnerable, we are also working hard to add their unique situation to our Priority Services register so they receive the bespoke service they need from us.

And we know that right now the best way for us to play a role in our communities is to help the helpers. The amazing organisations from local food banks to national charities that are so stretched right now need our support which is why we have created a £1m COVID emergency Fund to help, with £500k already distributed to around 200 charities.

Recognising we are a large local employer both directly and indirectly has been important to play our role in supporting our supply chain during this time. Paying £38m worth of small suppliers immediately to help their cash flow and making sure we remain open for business, securing future work for organisations in the Midlands so they can plan with some more certainty too.

While we've not been one of the hardest hit industries from COVID-19, it has still had a significant effect on the way we manage our business internally. Thankfully our well-practised and long established incident management plans meant we were quickly able to establish a new normal for our front-line and back office teams to continue to deliver a great service.

Keeping our people safe will always be our number one priority and we have been able to manage the situation well with our key worker teams – changing the way we work, making sure they have the right PPE and importantly explaining to the public how they can help in this process.

But we are still very much planning for life beyond this current crisis. While we do have to work differently, our focus on making the most of our fast track status to have a strong start in AMP7 remains undiminished. It might mean that different work is re-prioritised in the short term and people with capacity are re-deployed to give an extra boost in some areas but we are being creative in how we continue to deliver.

Turning now to look at our busy year as a whole, it has been a strong finish to AMP6 with significant improvement in many areas.

Operationally:
- I'm pleased to say the improvements we have made for customers have earned a further £36m of Customer ODI rewards this year taking our AMP7 total to £174m
- We continue to make significant strides in our water performance across key measures which puts us in strong position entering AMP7
- And in recognition of our performance on Environmental measures we anticipate earning the highest accolade of four star EPA status this year from the Environment Agency.

It has also been our highest capital investment year in over a decade and one where schemes we have been working on for a while have come to fruition. We invested £800m in improving our assets taking our total investment to £3bn in the last 5 years delivering an improved performance and resilience while enhancing the environment.

This means that as we think about the AMP7 period we have now entered:
- We can say with a good degree of confidence and despite the current situation that we will be able deliver a positive outcome for customer ODIs in year one.
- And we have our investments and financing lined up to deliver on our plans.

So I've talked a little more than usual for my opening but with that I will hand over to James to talk us through our financials.

James Bowling (Chief Financial Officer)

Thank you Liv and hello everyone.

Despite these challenging circumstances, today I'm pleased to report a good set of results for the year just past, to round off a great AMP for Severn Trent both operationally and financially.

So let's now turn to the highlights.

Group PBIT of £570 million was in line with our expectations, and reflects our conscious deferral of customer ODI rewards into AMP7, and lower property profits compared to last year's notable gains.
On Financing, our effective interest rate of 3.7% confirms a 170 basis point reduction since the beginning of this AMP.

These combined to give underlying earnings per share of 146 pence -- broadly flat compared to last year.

A strong performance on environmental commitments helped us deliver net customer ODI rewards of £36 million - taking total net rewards for AMP6 to £174 million.

And combined with our totex and financing achievements, we've delivered a strong cumulative AMP6 RoRE of 8.5%, and expect to be one of very few companies delivering outperformance across all three levers.

Financially, we're well positioned to manage the COVID-19 crisis, with £755 million of undrawn facilities at the year end and less than 2.5% of our debt maturing this year.

And finally, we're recommending payment of the final dividend for the year just past, in line with our AMP6 policy, to bring the full year payment to just over 100 pence.

A word now on the COVID-19 impact. While the pandemic has changed the way we're working, so far we've been able to largely absorb the direct costs of lockdown disruption.

To assess the impact on our year-end household debt provision, we considered a range of published economic forecasts and government information, and also took account of our own experience - of continued good cash collection from household customers, and low levels of direct debit cancellations over the last two months. We've incorporated into our provision the indirect impact of activity restrictions on our debt recovery plan, as well a direct cost of £2 million for current good payers that may find themselves struggling to pay the balance of last year's bills.

Looking ahead, none of us can confidently predict how the pandemic, and its economic consequences, will unfold over the next year. But our modelling and experience to date suggest the financial impact for us is likely to be in three key areas:

- First, a reduction in non-household demand, with only limited offset from higher household demand. Based on the latest economic forecasts, we believe this has the potential to reduce wholesale revenue by £50 - £85 million in the coming year. The regulatory mechanism allows us to recover revenue shortfalls in two years' time.
- Second, there's a risk that a recession, and resulting unemployment, will mean more of our customers struggling to pay their bills, requiring an increase in our bad debt provision; and
- Third, the property sales planned for the year ahead may be delayed, and so we're guiding lower profits of between £1 and £5 million this year. We still expect these sales to happen, just later in the AMP.

And we also expect an impact from COVID-19 on our non-household Retail JV, Water Plus, which I'll come to in a moment.

Before we do that, let's turn now to last year's core business performance, starting with Regulated Water and Waste Water.

- Turnover was up £38 million, lower than the underlying increase in RPI, as we chose to defer some £78 million of our customer ODI rewards from 17/18 into AMP7.
- Our net labour costs were up around 10% -- due to this year's pay award and our strategy to bring more work in house – which is partly reflected in the lower hired and contracted costs this year.
- Our overall cash collections on household debt continue to improve, and our aged debt recovery plan, targeted at difficult-to-collect early and pre-AMP6 debt, is showing promising results. We've increased our provision to take a prudent view of this older debt, as well as the likely impact of COVID-19 on our more up to date customers, and in combination these have increased our bad debt expense to 3.2% of household revenue.
- Power and other costs were both up marginally as guided, and expenditure on infrastructure renewals was up £8 million, as we increased investment this year to close out AMP6 and some of our largest ever schemes.
- Together with the increased depreciation on our larger asset base, total PBIT for our Regulated Water and Waste Water business came in at £512 million for the year.

Turning now to our Business Services division, which contributed PBIT of £65 million, marginally up from last year.

We've seen good growth in both Operating Services and Green Power, which benefitted from a full year of Agrivert trading.

Our total green energy generation increased by 19%, and we now self-generate the equivalent of 51% of our energy needs. And since April 1st all of our purchased electricity is from 100% renewable sources, delivering on our pledge well ahead of time.

As guided, Property Profits were lower this year, as we lapped the proceeds of the Teal Close sale in the prior year. We've now made £34 million since 2017 – and remain on track to deliver £100m in property profits by 2027.

As I mentioned earlier, the impact of COVID-19 has been felt most keenly in non-household, and in particular in our retail joint venture Water Plus.

Prior to the pandemic, we saw a good recovery in Water Plus's performance -- and cash collections -- in the second half of the year.

However, progress was interrupted in March, and Water Plus saw a tail-off in cash receipts as its customers went into lockdown, which has continued into April and early May.

In total, we've recorded an exceptional loss of just under £52 million, reducing the value of our long term investment to nil, and writing down part of our loans to the JV. We've provided a more detailed breakdown in this morning's market release.

Of course, the issues seen in non-household are not unique to Water Plus, and we were pleased to see Ofwat respond quickly with strengthened regulation to manage the economic consequences of the pandemic in the business retail market.

As a Wholesaler, Severn Trent's revenue risk from the impact of COVID-19 will be mitigated over AMP7.

While the lower business demand will impact our financial results this year, the regulatory framework provides an effective true-up mechanism for revenue, allowing us to recover any shortfall in two years' time.

And following Ofwat's proposed changes for the non-household market, while wholesalers are being asked to provide extra liquidity to retailers, it will be fully repaid, with interest, by the end of the year and exposure to default is capped.

Turning now to our financing performance.

Our effective interest rate is down 20 basis points from last year to 3.7%, and our overall finance costs continued to fall, despite our largest year of capital investment this AMP.

Overall, we've successfully brought down our effective interest rate by one hundred and seventy basis points since the start of AMP6, to give us an AMP7 starting position comfortably below the embedded debt rate.

Let's turn now to our debt. We're exiting the AMP with a robust balance sheet and have continued to de-risk our debt mix over the year.

We have £1.1 billion of facilities, and almost £0.8 billion of this was undrawn at year end.

In March this year, we completed the first issue of debt under our Sustainable Finance Framework announced in November. We raised £200 million for Severn Trent Plc through a US private placement, attracting new ESG-focused investors to our portfolio, at favourable rates, over maturities averaging nearly 18 years, just before market conditions turned for the worse.

Looking ahead, we only have one significant debt maturity in the next 12 months of £150 million, but of course we continue to look out for opportunities across global debt markets to help keep bills low for our customers.

Overall, net debt was £6.2 billion, up £400 million due to high capital investment within the year, taking regulatory gearing to just over 64%.

Turning now to pensions.

As a reminder, our IAS19 deficit peaked in 2016 at over £700 million, but we've steadily reduced this in the last few years through our effective hedging strategy, asset performance and a package of sustainable repair payments. This includes the new schedule of contributions agreed in 2019 that runs to 2027, which I outlined at the half year.

We've continued to benefit from that approach this year, with assets maintaining their value over the year despite difficult March conditions, in part due to a hedging strategy that has provided collateralised protection from equity and gilt yield shocks.

Our year-end position also benefitted from a lower forecast for long-term RPI inflation, and a sharp, temporary spike in corporate bond spreads at 31st March. While flattering, this latter effect has proven short lived, as spreads have narrowed over the last month.

So, you should continue to expect us to contribute an average of £60 million a year throughout AMP7, in line with previous guidance.

Turning now to RCV.

We've now invested over £3 billion in capital schemes since the start of the AMP, and shown tight cost control, with a real reduction in operating costs of over 7% in AMP6, including a 23% reduction in head-office costs over the past two years.

We close the AMP with an RCV of around £9.4 billion, reflecting sector-leading real RCV growth of around 9% since 2015.

Turning now to RoRE, where outperformance across all three levers has resulted in a cumulative AMP6 return of 8.5%.

On Customer ODIs, we've delivered sector leading outperformance over the AMP, equivalent to 0.9% of RoRE, whilst providing £191 million of additional revenue for AMP7 in nominal prices.

On Financing, the significant reduction in our cost of debt since 2015 has helped us deliver 2.2% outperformance this year, and 1.5% across the AMP.

On Totex, we've delivered a cumulative half percent of outperformance. This year's Totex performance was impacted by our choice to reinvest some of the efficiencies we made earlier in the AMP to increase resilience and improve service performance in AMP7.

Let's turn now to our technical guidance for 20/21.

I'll leave you to read the detail, but there's a few key areas I wanted to highlight:

- In Regulated Water and Waste Water, turnover will be lower year-on-year reflecting the impact of COVID-19. We expect this potentially to reduce revenue for the year by between £50 and £85 million – remembering that the Ofwat regulatory model allows us to recover this revenue in two years.
- We expect our operating costs to be higher year-on–year, as new schemes to meet tighter AMP7 effluent consents increase chemical usage, and COVID-19 results in increased household bad debt. These will be partially offset by our insourcing strategy and a reduction in our IRE spend.
- On Customer ODIs, we expect some measures such as Per Capita Consumption to become tougher following the pandemic, but we've re-focused delivery plans on others to offset these and we expect to outturn in net positive territory.
- And finally, in line with our announcement in January, our guidance remains for our dividend to grow in line with CPIH.

There's clearly lots of uncertainty about the impact of COVID-19 on the year ahead, so we'll use our trading statement in July to update you on any changes to our guidance and again at our Half Year Results in November.

So to summarise not only the year, but also to close out a very strong AMP for us:

- We've delivered Group PBIT of £570 million, evidencing the continued tight cost control demonstrated across the AMP, in the face of sector-wide cost pressures;
- We end the AMP with an effective interest rate of 3.7%, putting us in a strong position for AMP7;
- And we close out with an in-year RoRE of 6.7 %, and a cumulative 8.5% across the AMP, placing us amongst the best in the sector.

We start AMP7 with a strong balance sheet, an efficient cost base, and the experience to deliver further outperformance. And with that, I'll hand you back to Liv.

Liv Garfield (Chief Executive)

Thanks James.

While I appreciate the focus has shifted onto the future prospects of AMP7 I wanted to take a moment to reflect on the scale of improvement we have made in AMP6 and the confidence that gives us for the next few years.

I am particularly pleased we have been able to improve across a balanced set of measures to deliver value for all of our key stakeholder groups.

For our people we said we wanted to create an awesome place to work and our independent engagement scores reflect that. We've invested through training and reward and we've had success in creating an inclusive and diverse workplace where everyone can bring their whole self to work. This is what has created that special culture that many of you have commented on when you have spent some time with us.

Our long-term focused investors have also been with us on a journey as we have lived through our first five year cycle of ODIs, political uncertainty and a robust and thorough PR19 process. So importantly we are pleased to have been able deliver value for them through:

- Generating 8.5% of RORE outperformance, delivering against all three metrics of ODIs, Totex and Financing
- On ODIs, we've led the industry on outperformance by some distance which has delivered a return in AMP6 and also created some real benefit in AMP7
- The RCV has grown by 9% as we have invested in our assets and carefully reinvested some of our Totex efficiencies to improve resilience and performance for the long term.
- And on dividend we have maintained a growing dividend policy allowing investors to responsibly share our outperformance.

We've worked hard for our customers over the past 5 years:

- Making sure we're easier to deal with as we revolutionised our digital experiences and become a true 24/7 business.
- Delivering on the measures they care about most while keeping bills the lowest in England and Wales.

More broadly in our the areas we live in:

- We've educated over 800,000 customers on water scarcity and how they can help the environment
- We've made over £17m available to those in the need through our Severn Trent Trust Fund
- And we have played our part in starting the long road to decarbonisation by self-generating over 51% of our energy needs from renewable sources.

So if that was the story of the AMP – what about this year!

Well let me start with our strong water performance, which is really a continuation of the momentum we have been building for some time. The careful investment and changes to the way we operate are yielding great results as we head into AMP7 in a much stronger place on key metrics.

- On Water quality complaints another double digit percentage reduction has taken our overall AMP6 improvement to -28% which now creates only a small gap to close for the first year of AMP7. With this being a measure that runs on a Calendar year - I'm pleased to say that we're feeling positive about the progress we're making.
- At half year we spent a good deal of time talking about our Supply Interruptions performance and I'm pleased to say that the second half of the year was equally strong meaning we've had our best ever year this year with a 61% reduction. We can now head into AMP7 in decent shape in this measure.
- And it's a similar story on our leakage performance where we have met our targets again this year and are currently on the right run rates to meet our 20/21 target. And it is leakage I would like to talk about in more detail now.

We know that Leakage is a bell weather measure for the water industry from an operational and legitimacy perspective but it is also very important to us from an environmental and sustainability perspective too.

The key drivers for improvement come down to people and technology. In the past few years we have seen the power of getting teams to own the local patch that they live in. Their knowledge of the network is unrivalled and they take pride in keeping their local network in good shape. Of course you don't have to be an expert to spot a visible leak which is why all of our business is encouraged to keep an eye on their local areas with an easy to use phone app to allow them to report it. While having thousands of Severn Trenters keeping their eyes peeled is helpful, the real gains we have seen have come from the £10m we invested in 35,000 acoustic loggers over the past few years so we can detect even the smallest leak on our network.

As for our 2045 commitment is it highly likely that some of the game changing pieces of innovation to get us there have not been invented yet. By establishing the World Water Innovation Fund and driving our own innovation pipeline we are confident that we are working with the right organisations and investing in the right technologies to be in the right place at the right time when it does come to light.

In the meantime we are installing half a million meters in the next AMP that will be a huge help in understanding our network better and hopefully make our customers more water-wise in their usage.

Moving on to waste it has been one of the toughest years of the AMP not least because we accepted significantly tougher targets as part of the waste uncapping process.

Those tougher targets combined with a particularly stormy winter meant that our traditionally strong measures of Internal and External sewer Flooding yielded a penalty of £19.5M. While disappointing on its own, when taken in the round, the decision to accept the conditions around uncapping has set us up well for AMP7 and enabled us to turn what would have been a £2.7m penalty this year into a £36M ODI reward for the year and £226M of ODI waste rewards in the AMP.

And a quick word on pollutions – we know it is an important measure for the industry which is why we have an ambition beyond the target set in our business plan. We want to continue to be leaders on the Environment and our pollutions strategy is a key part of that. We had our best performance in a decade this year and outperformed even the stretch targets that were set by Ofwat. Being another of our calendar year measures we are encouraged by our progress to date.

We have been investing in improving the impact we have on the environment throughout the whole five years but it is perhaps only in the last year of the AMP as all of those projects come together that we can talk about the scale of the improvement we have made. It is within these measures that you can truly see how a sustainable approach to finding solutions can make brilliant business sense – reducing costs, making a positive environmental impact and delivering improvements that customers want us to make. It is an approach we are very excited about for AMP7 and beyond which I will talk more about later.

These environmental measures have contributed £65m of ODI reward in this AMP with £11.4m of Catchment coming in year 4.

While our investment in the environment is one highlight this year, our record investment year in infrastructure is clearly another. I am particularly delighted to have completed our biggest ever Scheme in the form of Birmingham Resilience but we have also brought additional sewer flooding resilience to the people of Newark and countless other projects that leave us in good shape for AMP7.

Our AMP6 programme is another great example of it not just being about what but how we have delivered. The majority of our Totex efficiencies have come from thinking differently about how we design and build solutions, forging stronger partnerships with our supply chain and utilising all the leading edge technology available to us.

It is with the backdrop of our AMP6 performance and the benefit of fast-track that we find ourselves in a good position at the beginning of AMP7.

A fast-track plan with minimal intervention has meant we have been able to plan and lock in much of the early years work already with 80% of year one contracted.

We're excited to see what we are capable of as our approach evolves from AMP6 to now include our own in-house design team and a broader range of specialist providers. Having greater control of our design will be a significant help in our drive to Net Zero Carbon as we seek to reduce our Scope 1 carbon emissions, influence our supply chain on our Scope 3 emissions and continue to invest in renewable energy generation.

While sustainability has been a theme running through much I have spoken about today I wanted to try and draw it all together for you in one place so you get a sense of how we think about the issue. Sustainability is in fact at the heart of our plan and strategy – we've just never articulated it that way. If we don't take care of the Environment, help people to thrive and continue to be a company that people can trust then sooner or later we will cease to be.

Now you all know I love a shameless plug so I would encourage you to visit the sustainability pages of our website to find out more AND keep an eye an out for our first dedicated sustainability report that will come out in mid-June.

Sometimes commitments on a page just don't paint a strong enough picture so I wanted to play a quick video that really highlights our approach to the Environment in particular and the power of nature in delivering long term improvement.

So to summarise our year:
- We've had an operationally strong year where significant investment has put us in a great position for even more improvement in AMP 7
- We've made some big strides on the environment, improving river quality and ramping up our renewable energy.
- And we've delivered outperformance for all of our stakeholders in the process.

And with that I thank you all for listening to our presentation, and I look forward speaking soon to answer any questions you may have.

Thank you.