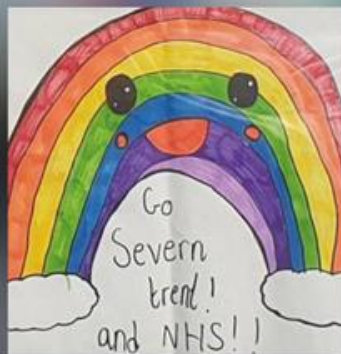




# Investor presentation

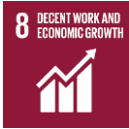


WONDERFUL ON TAP



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# AMP6 SUMMARY

## Balancing the needs of key stakeholders across AMP6

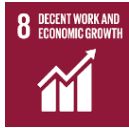
### COLLEAGUES

- Engagement in the **top 5%** of utilities globally
- **75,000 days** of **training** delivered
- Recruited c.**400 graduates** and **apprentices**
- Sharing success with **all-employee bonus** scheme
- **Top 3** company in **Hampton-Alexander** review and **Social Mobility** Index



### INVESTORS

- Cumulative **RoRE of 8.5%**, delivered across all 3 levers
- **£174m** of customer **ODIs** delivered over 5 years
- Invested for real **RCV** growth of around **9%**
- Effective **finance cost** reduced 170bps to **3.7%**
- Sharing success through RPI+4% **dividend policy**



# AMP6 SUMMARY

## Balancing the needs of key stakeholders across AMP6



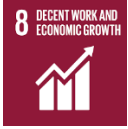
### CUSTOMERS

- Maintained **lowest bills** in England and Wales
- **£3bn invested** in assets for future generations
- Improved **accessibility** and **digital** experience
- Annually **supported 50,000** customers with bills
- Improvements across range of **service measures**

### COMMUNITIES/ ENVIRONMENT

- **800,000** customers **educated** about water and waste
- **£17m donated** to the Severn Trent Trust Fund
- Anticipate **4\* EPA status** for third time in AMP
- Improved quality of **1,600km** of local **rivers**
- **100% renewable** energy – **51% self-generated**





# 2019/20 HIGHLIGHTS

## A good end to AMP6 operationally

Net customer ODIs of **£36m<sup>1</sup>** taking AMP6 total to **£174m**

Delivering consistent **improvements in Water**

Anticipate **4\* EPA status** from the Environment Agency

## A substantial year of investment

**£800m** of capital invested, taking AMP6 total to **£3bn**

**Birmingham Resilience** completed on time and to budget

Improved **1,600km** of rivers with **Water Framework Directive**

## Entering AMP7 in a strong position

Expect to deliver **positive customer ODIs** from year one

**80%** of year one capital programme already **contracted**

Effective **interest cost of 3.7%** as we enter the AMP



In a year of important global, political, regulatory and company milestones, Severn Trent has maintained focus on supporting our customers and communities, demonstrating our commitment to our social purpose

## Our Values

We believe that if we are united by a **clear social purpose** we will deliver better outcomes for all our stakeholders- our customers, our colleagues, our investors, the society we live in and the environment we depend on. So at Severn Trent, we are first and foremost driven by our purpose – to **take care of one of life's essentials** – and we're guided by our values



## Our Framework

We'll be reporting on our commitments in our first **Sustainability Report in June 2020**

This year, we plan to review our contribution to the SDGs in detail, mapping to target level for those Goals where we have the most significant impact, and asking stakeholders for their input



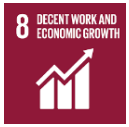
## Our Commitments

We know that the resilience of our business is intrinsically linked to the resilience of our region, its communities and natural environment.

Over the next five years, we will be investing **£1.2 billion in our sustainability ambitions**, from climate and biodiversity to supporting the customers who need us most.



# COVID19



# MANAGING THE IMPACT OF COVID-19

## Supporting people through the COVID-19 crisis

### Colleagues



- Committed to no **redundancies** or **furloughing** from COVID-19
- Supporting financial wellbeing with **full sick pay**, payment of 2019/20 **bonus** and three year **pay deal**
- **Caring for our Colleagues** campaign

### Customers



- Helping customers **struggling to pay** with established **WaterSure** and **Big Difference** schemes
- Supporting vulnerable customers through **Priority Services Register**
- **£3.5m** donation to **Severn Trent Trust Fund**

### Communities



- £1m **emergency fund** – £500k supporting c.200 organisations so far
- Supporting **supply chain** with **immediate payment** and secure **future work** in Midlands
- Working with **Business in the Community** and **local forums**

# MANAGING THE IMPACT OF COVID-19

Preparation, agility and culture enable delivery of essential services and AMP7 plans

## Delivering essential services



- Quickly enabled well-practised **incident management**
- **Flexible working** to keep frontline colleagues **safe**
- **Almost half** of colleagues working from **home**
- Embracing **technology** with increased use of virtual technicians and at-home network monitoring
- Quickly identified and trained **reserve teams** to ensure **adequate skilled resource** for essential tasks

## Continued focus on AMP7



- Well prepared through **fast-track status** and **substantial investment** in final year of AMP6
- **Re-focusing** customer ODI delivery plans to counteract impact on some measures, e.g. Per Capita Consumption
- Teams with capacity working on **new projects**
- Taking advantage of **reduced traffic**, pulling forward **network renewal** in normally busy streets

# COVID-19 IMPACT ON PBIT

Limited impact on 2019/20 PBIT; direct costs largely absorbed; bad debt provision increased



No material step up in operating costs as a result of COVID-19 to date

March/April cash receipts strong; low levels of direct debit cancellations

Direct impact to bad debt of £2m; indirect impact of some activity restrictions on older debt recovery plan

## Potential impact in 2020/21:

Lower **non-household revenue**; recovered later in AMP7

**£50m to £85m impact**

Increased household **bad debt risk** from economic recession

Reduced **property sales**; deferred to later in AMP7

**£1m to £5m for year**

# WATER PLUS

## Improving performance in H2; overtaken by economic impact of COVID-19

Recovery plans drove improved performance in H2

Marked improvement in cash collections after a challenging first half...

...but tail-off in receipts seen post lockdown

**£14.3m**

FY share of underlying trading loss  
(H1: £9.3m; H2: £5.0m)

Economic impact of COVID-19 on Water Plus recovery

Additional bad debt provision at year end for expected COVID-19 business failures

Impairment of goodwill and intangibles based on expected impact on Water Plus recovery plan

**£37.4m**

Share of write-downs  
(Equity: £32.5m; Debt: £4.9m)

On 30 April Ofwat announced code changes to cap bad debt exposure and provide short-term liquidity for retailers

**£51.7m**

Total losses reported as exceptional

# WHOLESALE REGULATORY FRAMEWORK

Effective regulatory framework mitigates NHH COVID-19 consumption risk over AMP7

## Impact of lower volumes

COVID-19 lockdown will significantly decrease business **consumption** with some offset in higher household demand

We are anticipating c.**£50m-£85m impact** on 2020/21 revenue, assuming government's published path out of lockdown

The Ofwat regulatory model allows us to **recover this revenue** in two years



**Ofwat  
Consultation  
April 2020**

- Ofwat announced **protection for wholesalers** against retailer default from COVID-19
- **Capped exposure** from providing retailers with liquidity
- Wholesalers can charge interest on deferred payments; amounts to be **fully repaid by March 2021**

# INVESTMENT FUNDAMENTALS

# INVESTMENT FUNDAMENTALS

## Stable earnings with strong cost control

Slides  
35,36

- Five year certainty of revenues – set to 2025
- Reduced opex by 7% in real terms since 2015
- AMP6 efficiencies partly reinvested for AMP7 success

## Attractive inflation-linked dividend

Slides  
18,19

- Growth of at least CPIH for the next five years
- Total Shareholder Return of 34% over past five years
- Dividend yield of 4.4% at 31 March 2020

## Long-term sustainable RCV growth

Slides  
15,16

- Only listed water co with real growth in AMP7 - 3.8%
- Fundamental long term drivers include: climate change, population growth and asset replacement

## Growing non-regulated business

Slides  
21

- Green Power – 255GWh and £17.6m EBITDA in FY20
- Property – on track for £100m PBIT over 10 years
- Operating Services – long-term secure contracts

## Strong industry performers

Slides  
20,53

- Cumulative AMP6 RoRE of 8.5% - 2.9% above base
- High quality AMP7 plan ‘fast tracked’ by Ofwat
- Industry leaders on ODIs - £174m earned in AMP6

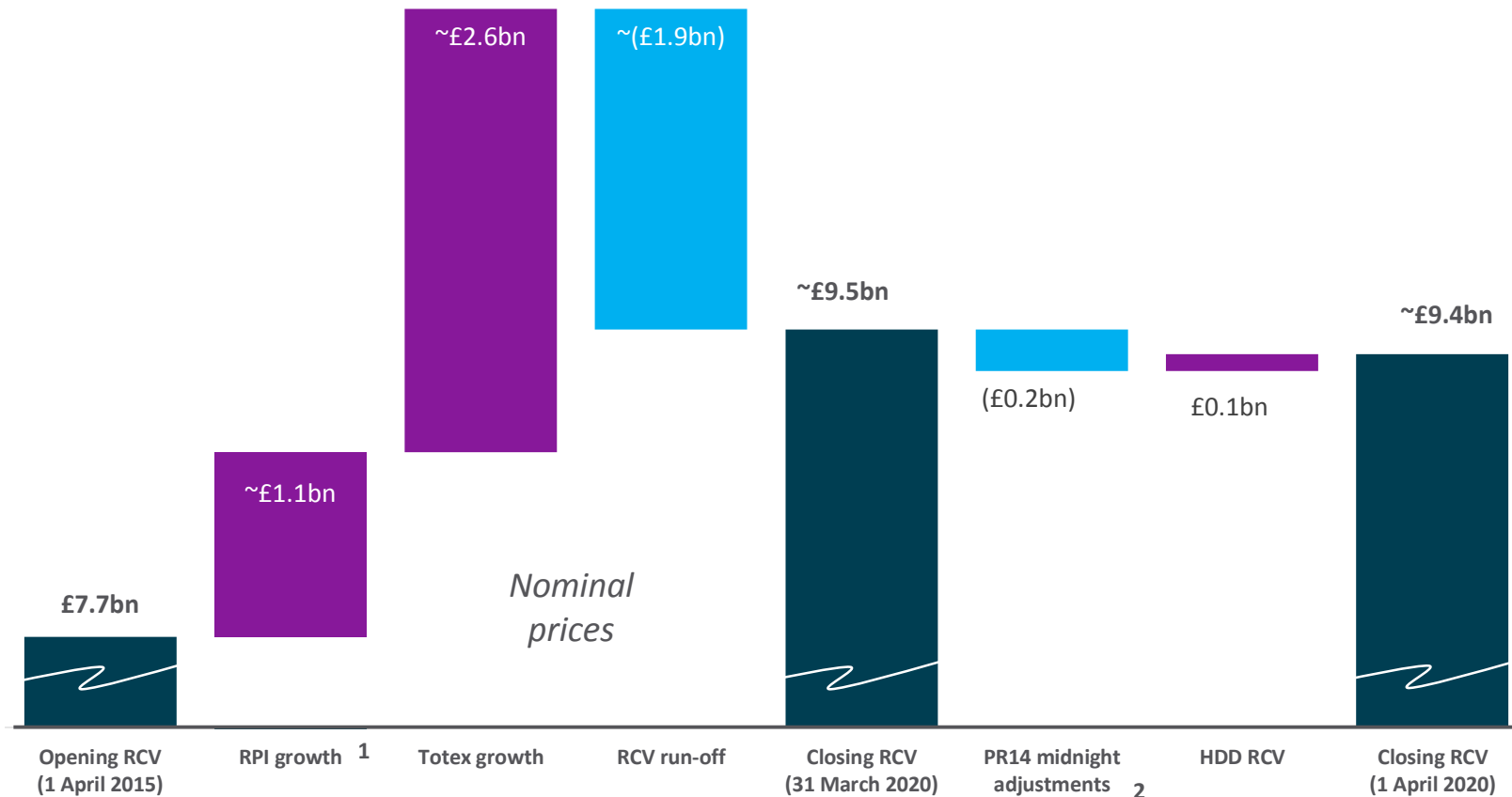
## A socially purposeful company

Slides  
43-51

- Taking care of the environment
- Helping people to thrive
- Being a company you can trust

# AMP6 RCV GROWTH

Cost efficiencies and targeted investment contributed to strong real RCV growth



Efficient spending, with a **7% real** reduction in STW operating costs across AMP6

Over **£3bn capex** invested, completing some of our largest ever schemes

Contributing to **9% real RCV growth<sup>3</sup>** over AMP6

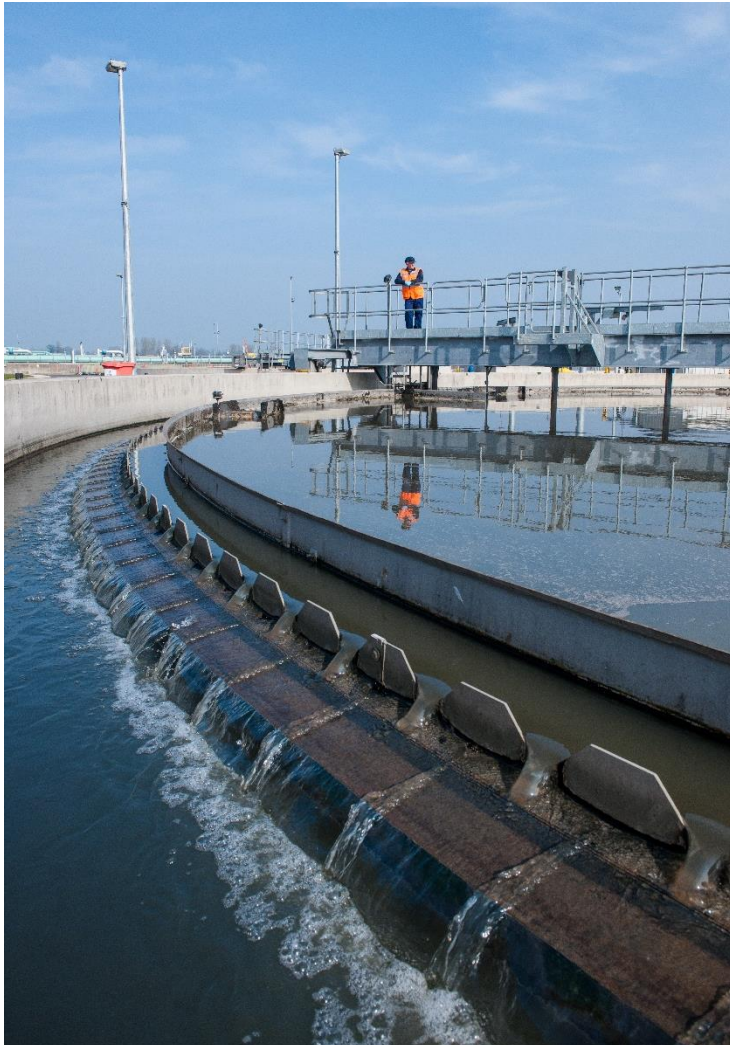
1. Based on actual RPI of 1.6% for 2015/16, 3.1% for 2016/17, 3.3% for 2017/18, 2.4% for 2018/19 and 2.6% for 2019/20.

2. PR14 midnight adjustments as per Ofwat's PR19 Final Determination published in December 2019.

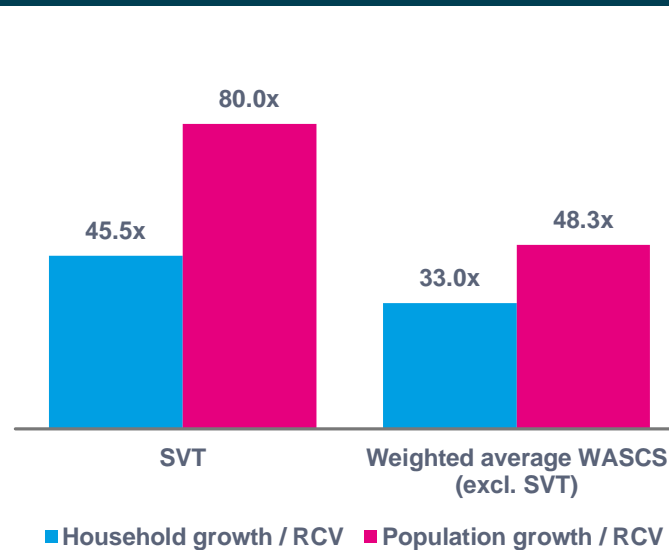
3. Growth rates as per Final Determination, pre midnight adjustments and excluding Hafren Dyfrdwy expected RCV of c.£100m (in no nominal prices).

# MULTI-AMP RCV GROWTH

A key driver of long-term value creation



## Population and household growth<sup>1</sup>



- Largest population and household growth forecast outside of London
- Over 750,000 more people and 430,000 more households by 2040

<sup>1</sup> Forecast change in population / household growth to 2040 ('000) to RCV (£bn)

## Environmental expenditure

Most likely

Greater uncertainty

Water Framework Directive  
£0.2 bn in AMP8  
(integrated river basin management)

Urban Waste Water Treatment Directive  
£1.0 bn AMP8-10  
(protecting the water environment in relation to urban waste water and certain industrial discharges)

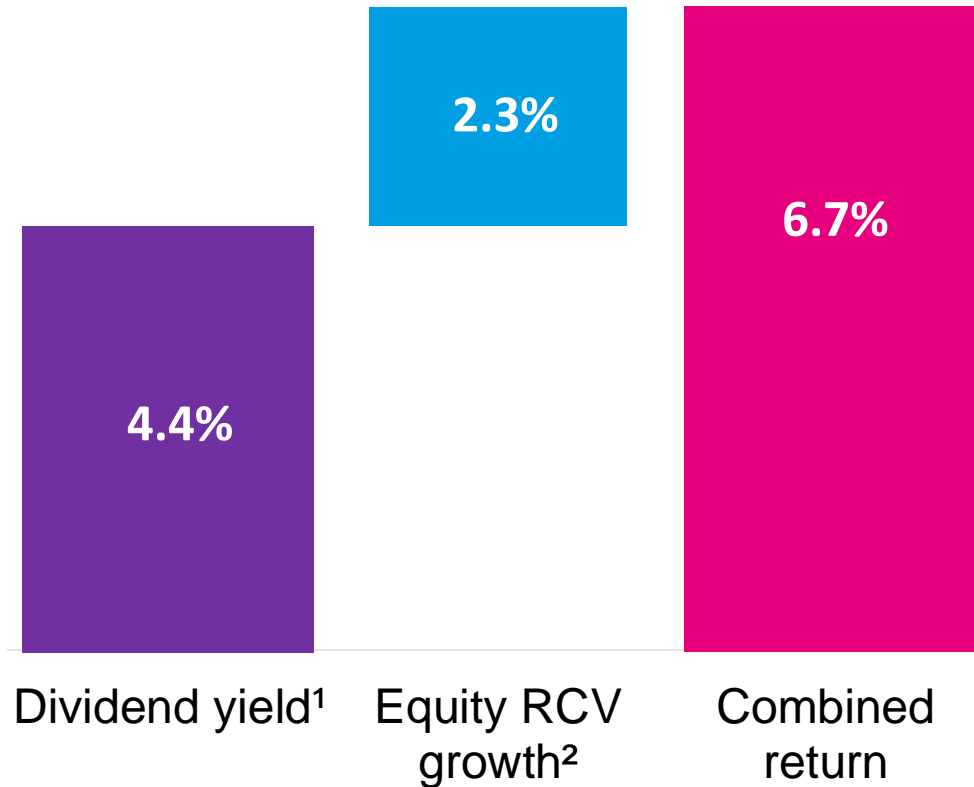
Other stronger standards

- hazardous substances
- micro plastics
- microbial resistance

- £0.2bn in WFD schemes in AMP8
- £1bn from AMP8-10 if EU strengthens the UWWTD
- Potential for further investment should the EU raise standards on hazardous substances, micro plastics and anti-microbial resistance

# SHAREHOLDER RETURN

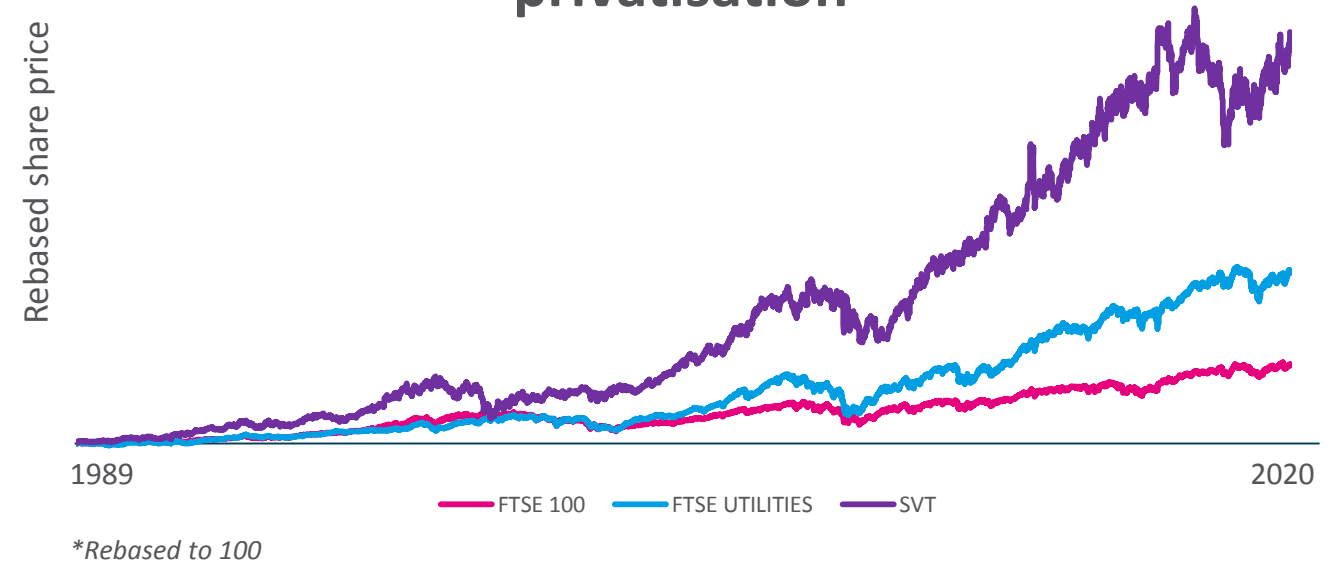
## AMP6 shareholder return



**Well positioned for growth in AMP7 and beyond**

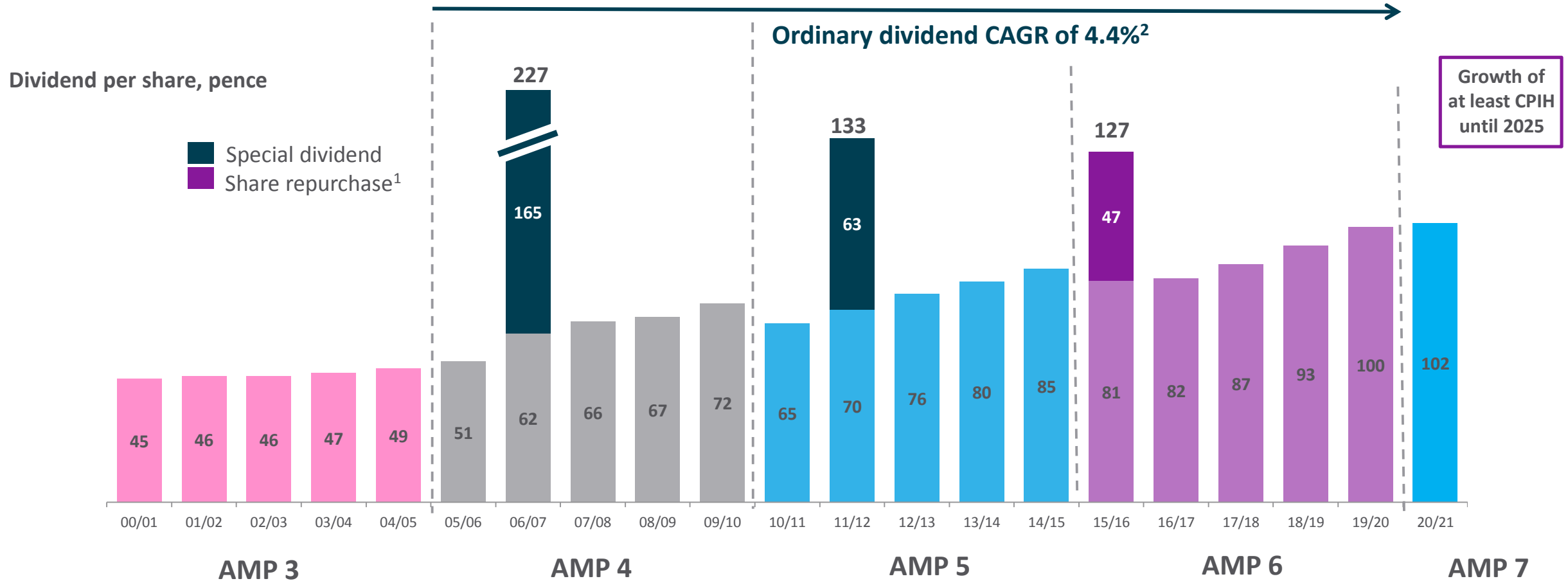
1. Based on 2019/20 dividend of 100.08p and a share price at 31<sup>st</sup> March 2020 of 2,280p  
 2. Annual average over AMP6

## Total shareholder return since privatisation\*



	Severn Trent	FTSE Utilities	FTSE100
Since Privatisation	4038%	2796%	626%
10 year	203%	99%	45%
5 year	34%	12%	2%
2 year	35%	19%	-12%
1 year	23%	11%	-19%

# HISTORIC DIVIDENDS



1. Based on £111m share buyback divided by 237m shares (average number over buyback period)  
 2. CAGR calculated from 2006 to 2019

# AMP7 DIVIDEND

## Our AMP7 dividend building blocks

Non-regulated	£100m property profits over 10 years	Operating Services long term contracts	Green Power providing growth opportunity
	AMP 7 Customer ODIs	Totex efficiencies	UQ Financing
	Fast track premium (10bps on RoRE <sup>1</sup> across AMP7)		
Included in Final Determination	£191m <sup>2</sup> AMP6 customer ODI carryover		
	Base regulatory dividend of 4% <sup>3</sup>		

2019/20 dividend  
will transition into  
AMP7 whole

Growth of at least  
CPIH throughout  
AMP7

Expected 2020/21  
dividend:  
101.58p<sup>4</sup>

1. Return on Regulated Equity

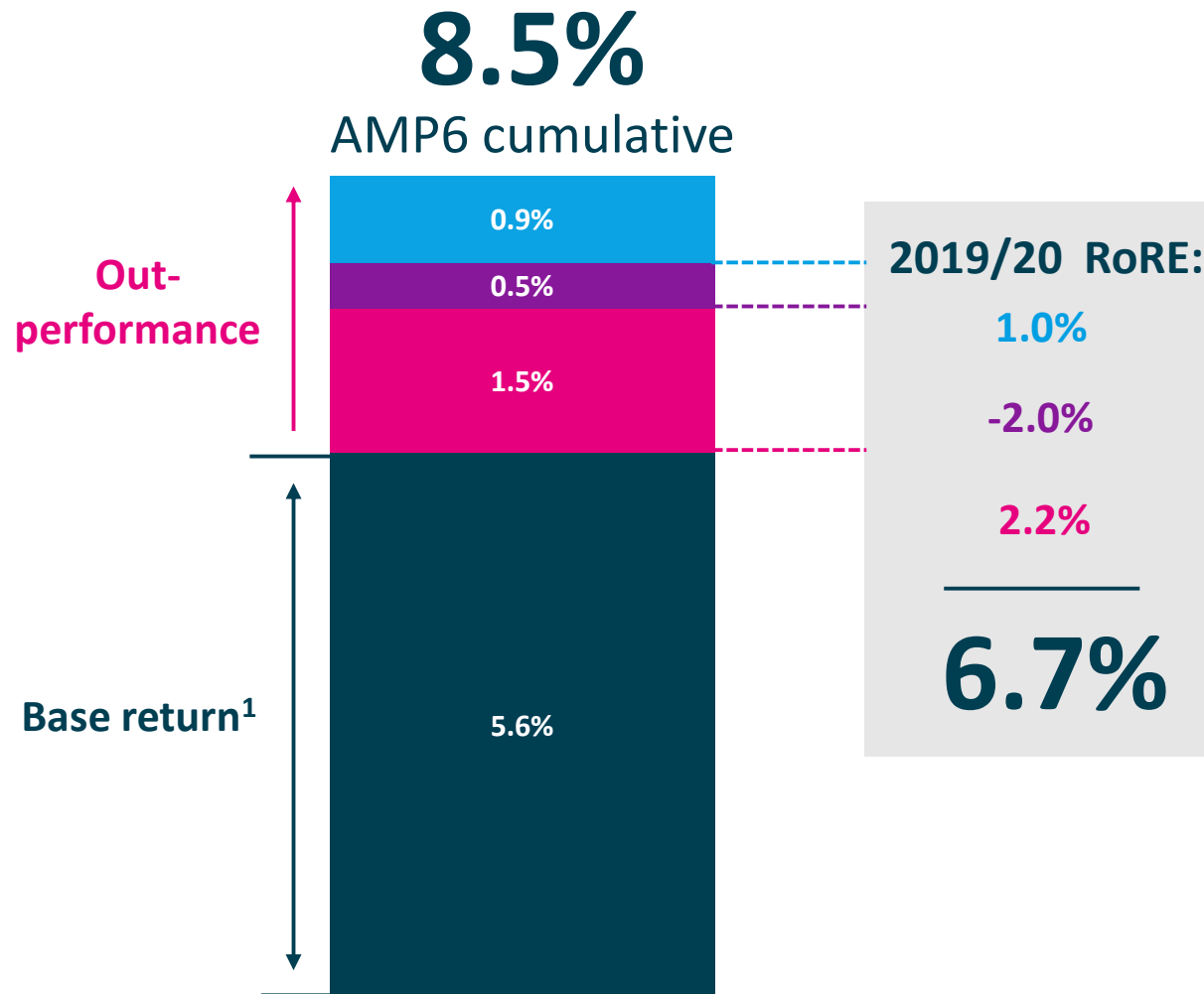
2. In nominal prices based on estimated CPIH

3. Calculated as 4% nominal dividend yield on equity RCV in line with Ofwat guidance

4. Calculated as 2019/20 dividend of 100.08p, plus CPIH of 1.50% based on November 2019 ONS data

# RETURN ON REGULATED EQUITY

Outperformance across all three levers delivering strong AMP6 RoRE



## CUSTOMER ODIS

Sustained strong ODI performance, £174m net reward across the AMP including £36m delivered in 19/20

## TOTEX

Focused reinvestment of early AMP6 efficiencies; confident in our ability to deliver AMP7 plan within allowance, despite COVID-19 disruption

## FINANCING

170 bps reduction in effective interest cost in AMP6 driven by our flexible financing strategy

1. The 2019/20 base return of 5.5% is lower than the AMP6 average of 5.6% as it has been adjusted for the non-household return that Severn Trent Water no longer earns as a result of exiting the non-household market.



### Energy generation

A significant contributor to the early achievement of our target for 100% energy from renewable sources. Generation **increased 19%** to **491 GWh**, through Bioresources and our non-regulated activity

### Operating Services

**Increase in profits** from improved performance and higher expected whole life profits on key contracts

### Property Development

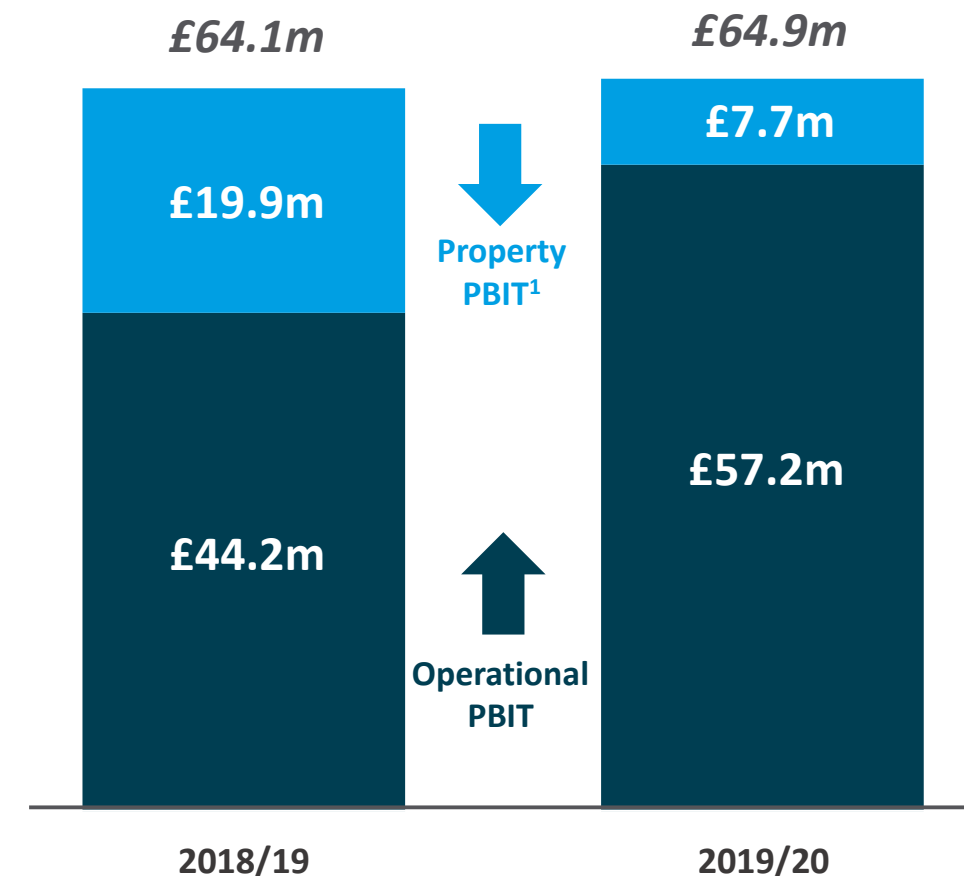
**£7m<sup>1</sup>** property sales delivered this year, **£34m of 2027 £100m** target now delivered

# BUSINESS SERVICES

Turnover  
**£240.4m**  
+20%

PBIT  
**£64.9m**  
+1%

PBIT  
(excl. Property)  
**£57.2m**  
+29%



1. Property Development PBIT of £7.7m includes £0.7m adjustment for provision for unrealised profit from internal sales and rental income of £0.1m; external property sales were £6.9m.



## Christine Hodgson

Christine took on her role as Chair of the Board effective 1 April 2020.



## Sharmila Nebhrajani

Sharmila has been appointed as Non-Executive Director effective from 1 May 2020.



## Sarah Bentley

Sarah will be leaving to join Thames Water as CEO in Summer 2020.



## Shane Anderson

Shane was appointed as Director for Strategy and Regulation in March 2020.



## Tony Ballance

Tony left Severn Trent in March 2020 to join Cadent as Chief Regulation Officer

# OUR SENIOR TEAM

## Severn Trent Executive Committee



**Liv Garfield**  
*Chief Executive*



**James Bowling**  
*Chief Financial Officer*



**Helen Miles**  
*Group Capital & Commercial Director*



**James Jesic**  
*Production Director\**



**Sarah Bentley**  
*Chief Customer Officer*



**Andy Smith**  
*Managing Director, Business Services*



**Bronagh Kennedy**  
*Group General Counsel and Company Secretary*



**Shane Anderson**  
*Director, Strategy & Regulation\**



**Bob Stear**  
*Chief Engineer\**



**Neil Morrison**  
*Director, Human Resources*

**\* Severn Trent has promoted three internal candidates to the Executive Committee in the last two years**

# DRIVERS OF RORE

*Financing*

# FINANCING PERFORMANCE

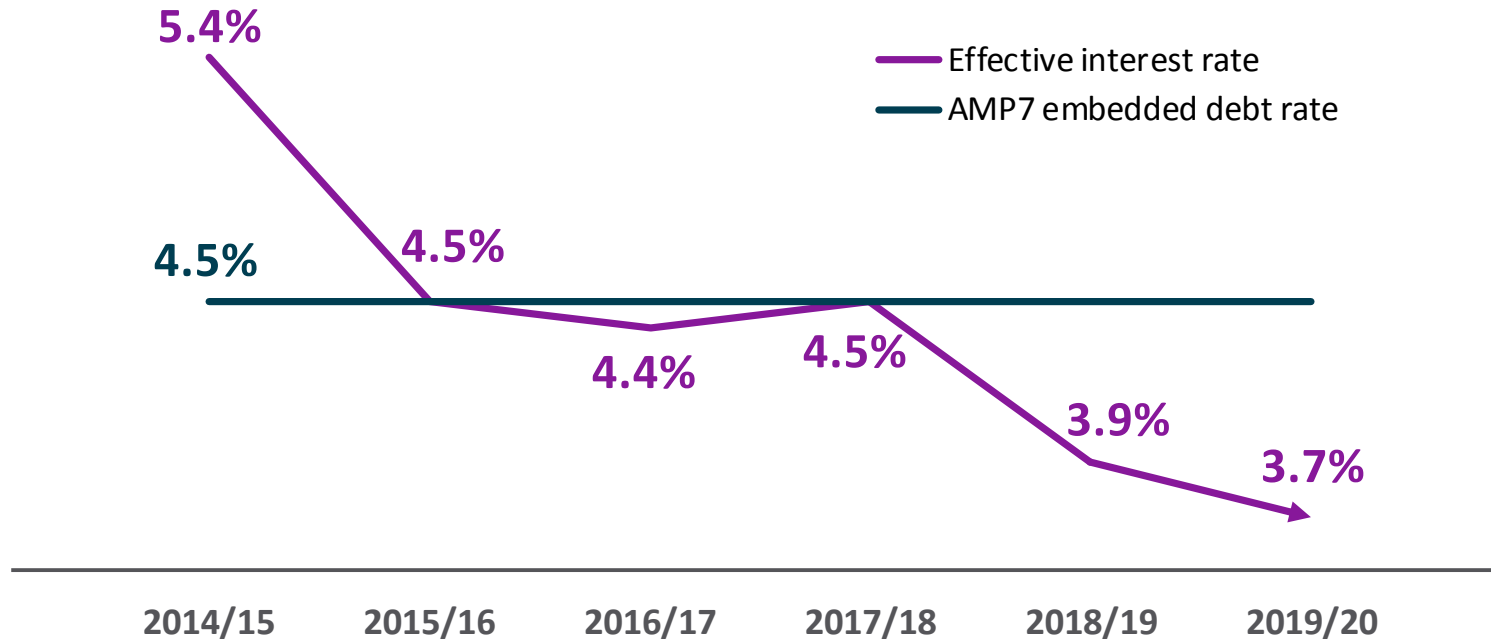
Strong AMP6 performance through effective management of our debt

**£188.4m**

Lower net finance costs as higher average debt is offset by lower effective interest cost

**170 bps**

Reduction in effective interest cost<sup>1</sup> in AMP6



**£194.2m**

**£39.7m**

RPI rolled up

**£13.8m**

Net pension finance cost

**£140.7m**

Cash interest<sup>2</sup>

**£188.4m**

**£34.0m**

**£11.1m**

**£143.3m**

2018/19

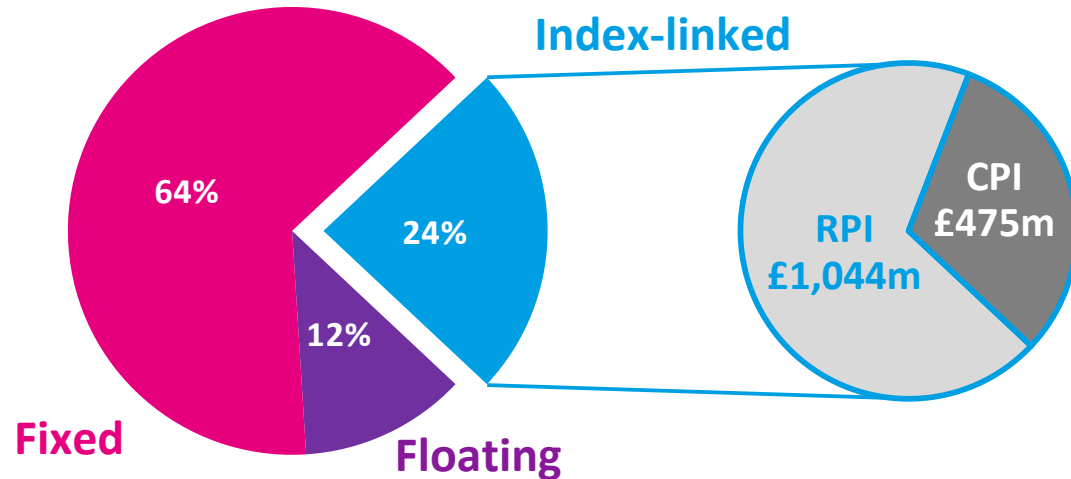
2019/20

1. Before net pension finance costs but including capitalised interest.  
2. Net of capitalised interest of £44.2 million (2018/19: £33.2 million). Gross cash interest cost was £187.5 million (2018/19: £173.9 million).

# FINANCIAL RESILIENCE

## Strong fundamentals and effective treasury strategy providing resilience

Gross debt  
£6,433m



- Facilities of **£1.1bn**, with **£0.8bn** available at 31 March 2020
- **Less than 2.5% (£150m)** of debt maturing in the next 12 months
- Strong track record of **flexible, risk-based** treasury management through AMP6

Net debt of  
**£6,232m**

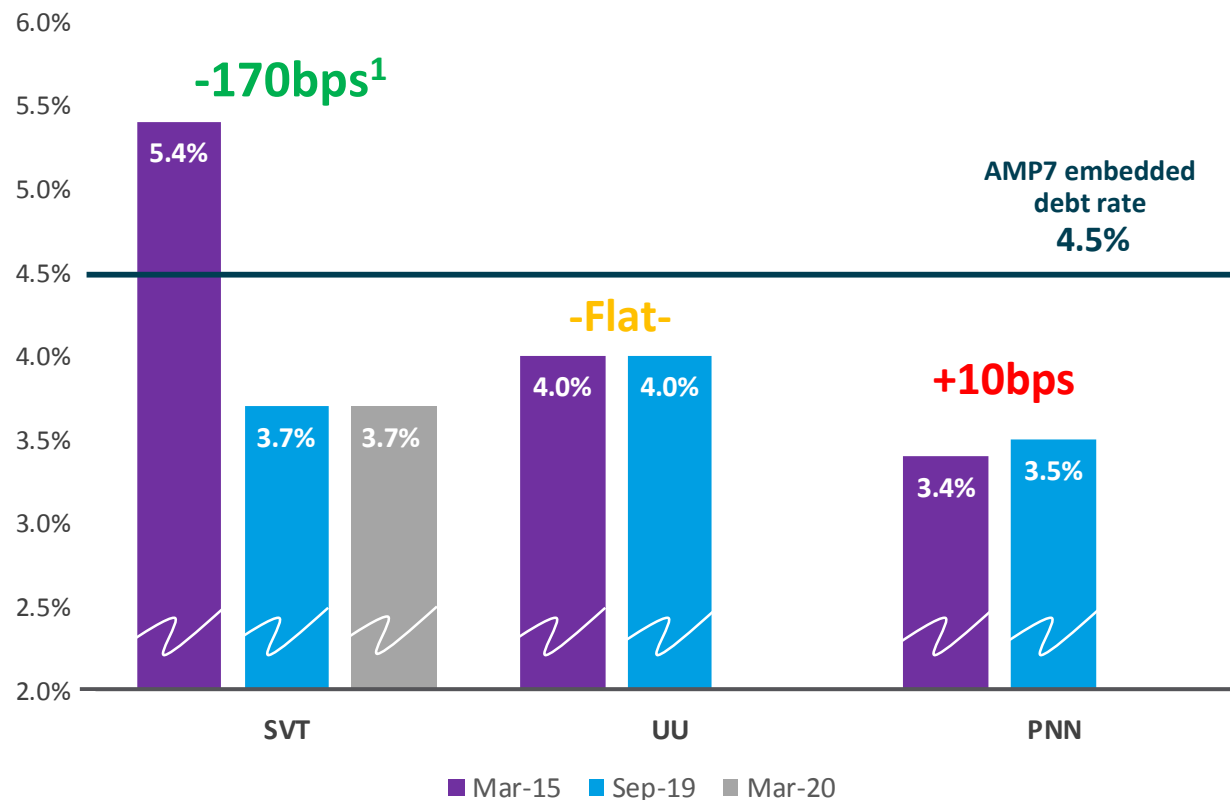
Gearing<sup>1</sup> of  
**64.4%**

**£200m USPP**  
March 2020  
in Plc

- Favourable rates, long average maturity
- First issue under Sustainable Finance Framework
- New US ESG investors attracted to our business

# EFFECTIVE INTEREST RATES: A SECTOR COMPARISON

Sector-leading improvement with 170bps reduction in our effective interest rate over 5 years



## 2015

- Implementation of **balanced and floating strategy**, refinancing £1bn committed facilities
- Issued **new low cost debt** in floating rates, including USPP debt issue
- Cancelled expensive historic interest rate swaps
- Repaid expensive fixed rate debt

## 2016 - 2018

- Took advantage of attractive conditions in the GBP bond market to raise **£900m new funds**.
- First RPI-CPI swap
- Undertook our 2<sup>nd</sup> USPP raising a further **£323m at competitive fixed rates**

## 2019

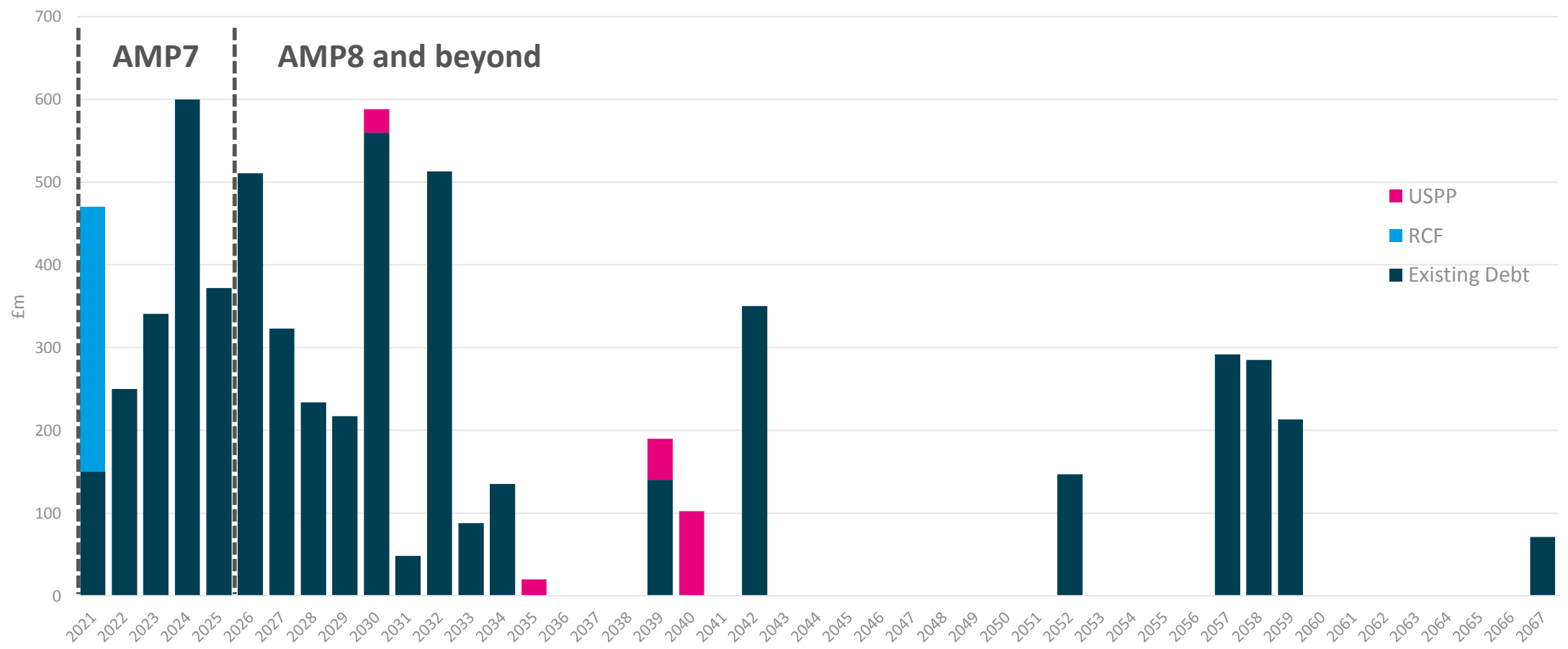
- De-risked our portfolio further, reducing our floating rate exposure through two further debt issues at **low all in rates**
- Agreed a new bilateral agreement in February 2019

## 2020

- Amended and extended an existing £100m RPI loan to **£125m CPI loan**
- Undertook our 3<sup>rd</sup> USPP, the first debt raised under our Sustainable Finance Framework, raising a further **£200m for ST Plc at competitive fixed rates** with a long average maturity

# DEBT MATURITY

Average debt maturity of 13 years, £3bn to raise in AMP7



# SUSTAINABLE FINANCE FRAMEWORK

Connecting our financing with the delivery of our bold commitments to the environment and wider society

Sources can include:

Committed  
Facilities

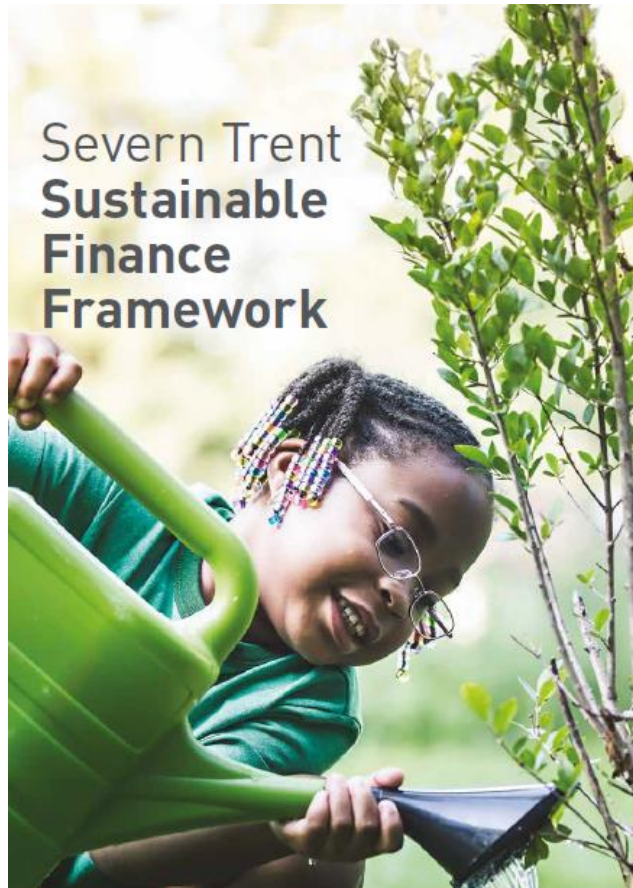
Sustainable  
Bonds

Private  
Placements

Leases

Eligible investments will fall within Social or Green Eligible Categories, which are aligned with our nine Business Plan outcomes and the UN Sustainable Development Goals

SUSTAINABLE  
DEVELOPMENT GOALS



We will report on the environmental and social impacts of the investments funded by our sustainable funding instruments

## Environmental

- 100% renewable generation
- Carbon footprint
- Leakage
- Biodiversity enhancements
- Length of river improved

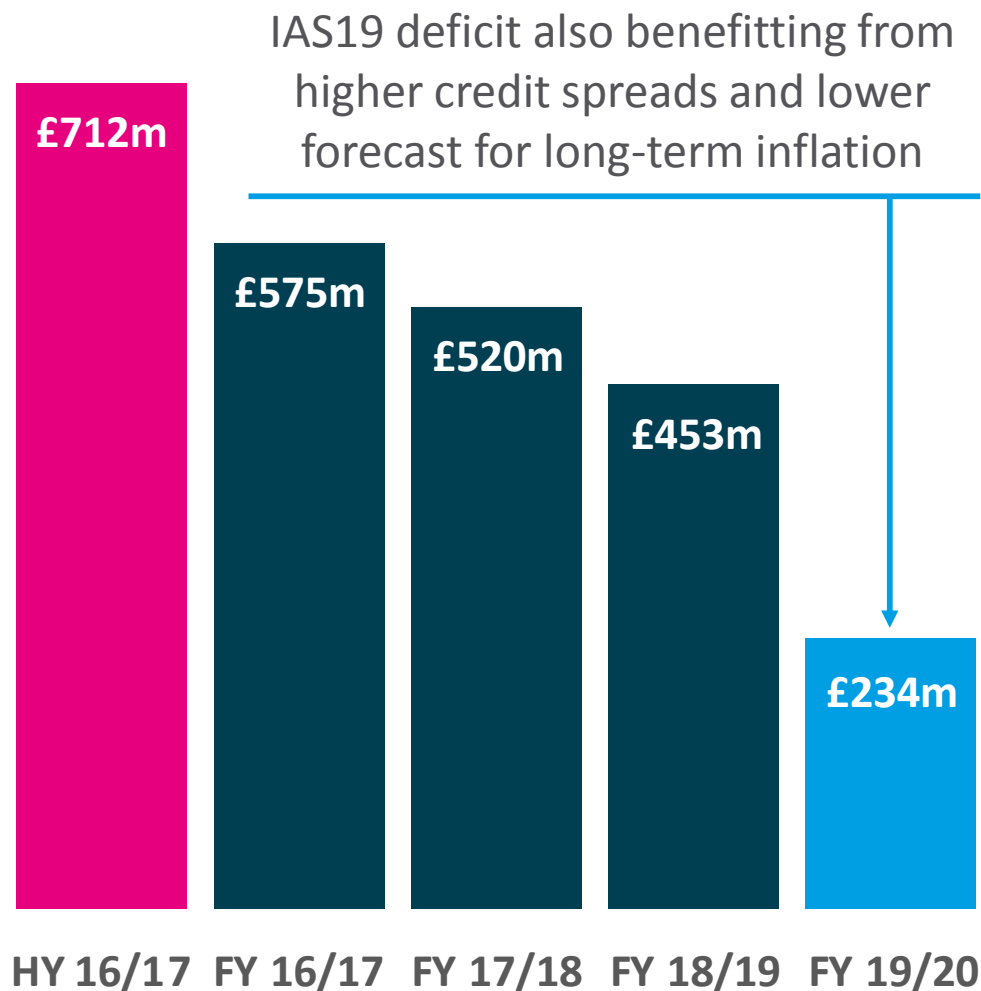
## Social

- Vulnerable customers
- Customer Education

£200m USPP in March 2020 the first raised under the framework to fund investments in our Green Power Business

# PENSIONS

## Deficit reduction strategy on track, AMP7 contributions of £60m to continue



### Effective hedging strategy

Protection in place from equity and gilt yield shocks

### Asset outperformance

Full year asset growth of £19m despite difficult March conditions

### Successful underlying management

### Sustainable cash contributions

Affordable average annual contributions of **£60m** agreed with the Trustee in 2019, built into our AMP7 plan and **expected to continue**

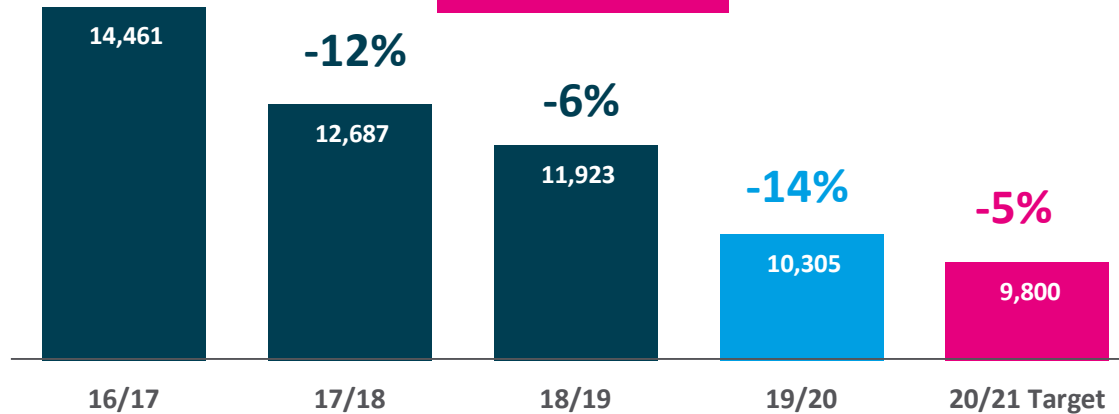
# DRIVERS OF RORE

*ODIs and TOTEX*

# STRONG WATER PERFORMANCE

## Water quality complaints

AMP6: -28%

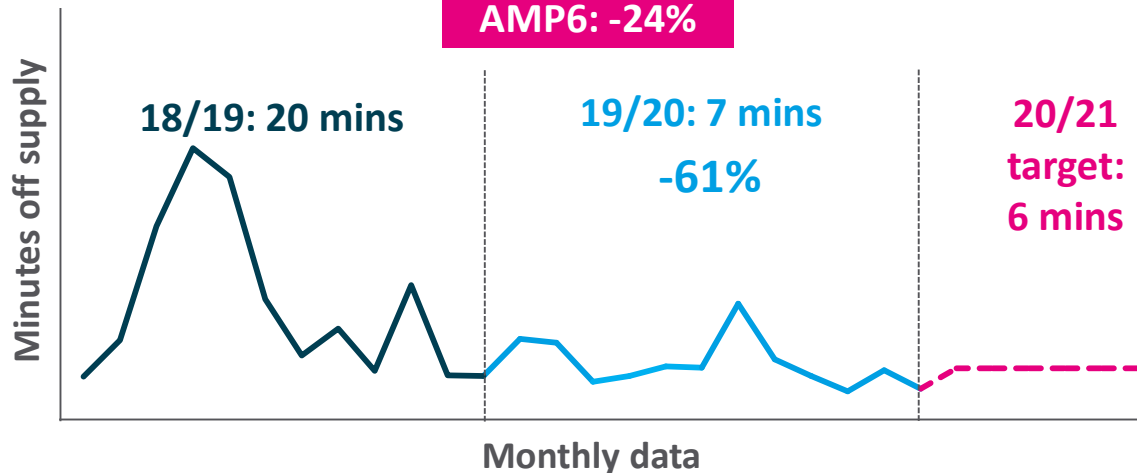


Targeted **reinvestment**, innovative **technology** and refreshed **strategies** driving continuous improvement

On the **right trajectory** to meet year one targets

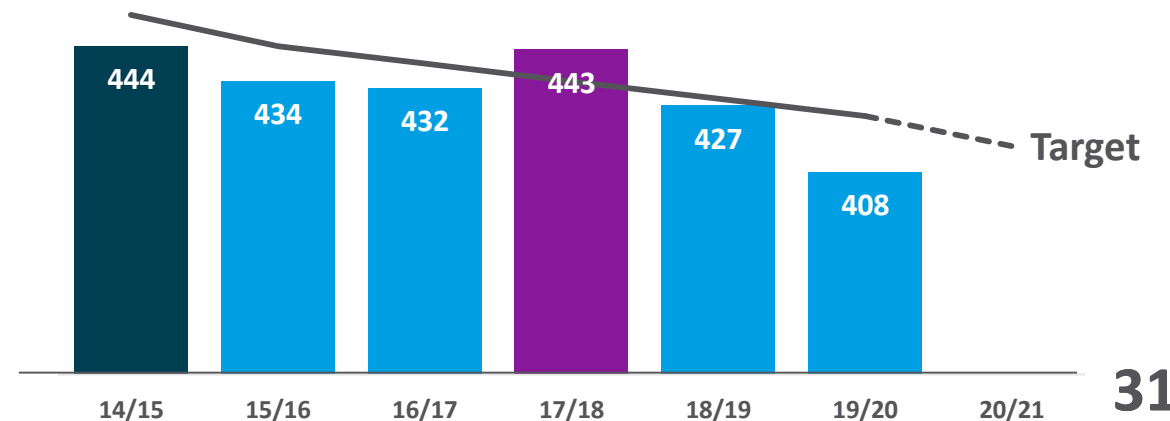
## Supply interruptions

AMP6: -24%



## Leakage

AMP6: -8%



# CONFIDENT IN LEAKAGE AMBITION

Consistent improvements give confidence in AMP7 and longer term targets

Leakage reductions:

Delivered

**8%**

in AMP6

Plan

**15%**

by 2025

Ambition

**50%**

by 2045

**Empowering  
our people**

New geographical ownership model enhances **local knowledge** and **accountability**

Volunteers from across the business are **looking out for assets** in their local areas

**Embracing  
new  
technology**

**£10m invested** in 35,000 acoustic loggers

**Fast followers** on Vacuum-Excavator

**Internal innovation** such as Seek-A-Leak

**Exciting  
future plans**

Installing **500,000 meters** in AMP7

Exploring **robotics** and trialling **fibre optics**

**World Water Innovation Fund** collaboration

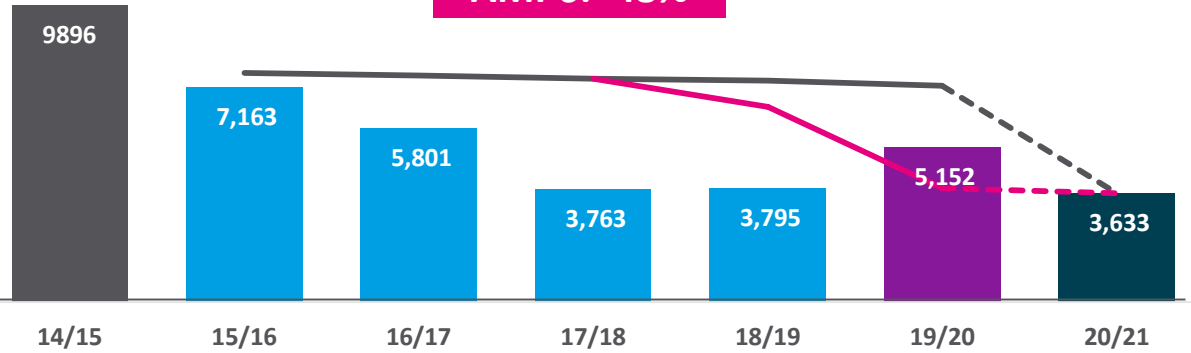


One of our teams with a Vacuum-Excavator

— Target (revised)  
— Target (FD)

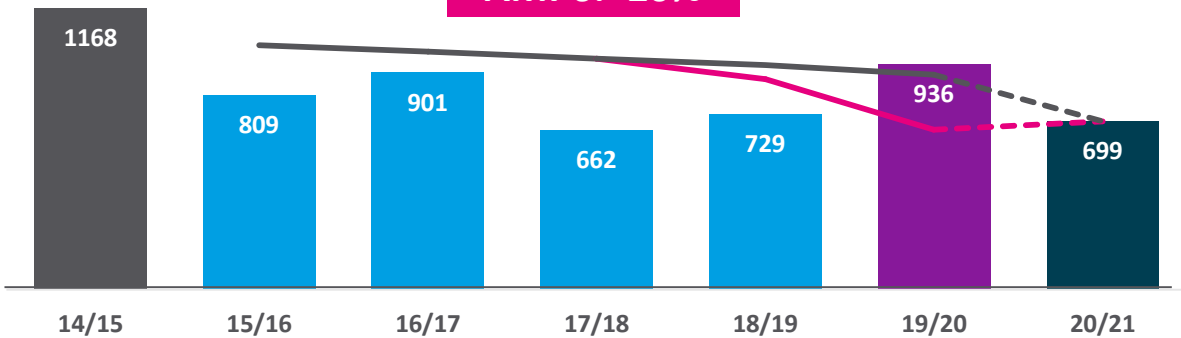
### External sewer flooding

AMP6: -48%



### Internal sewer flooding

AMP6: -20%



Penalties on flooding measures follow tougher targets and record-breaking wet weather

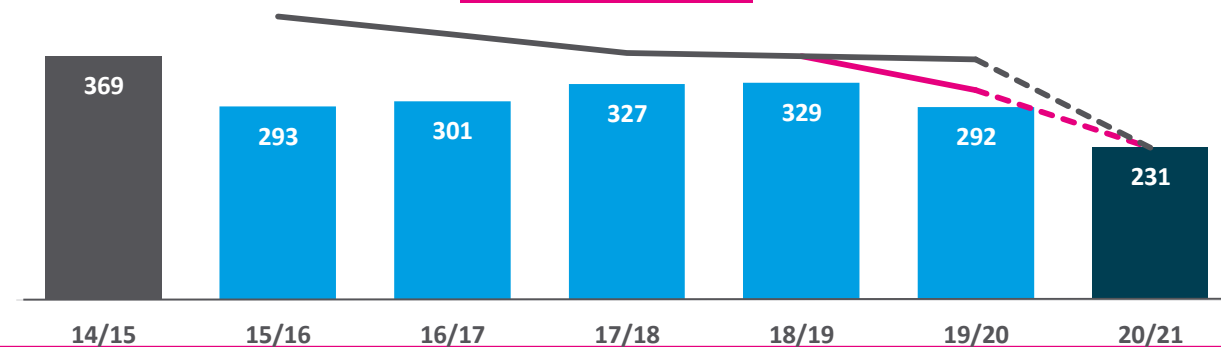
# A TOUGH YEAR BUT STRONG AMP IN WASTE

£226m

in waste customer ODIs over AMP6

### Pollutions (Category 3)

AMP6: -21%



Ambition to reduce pollutions by 50% by 2025 – going further than regulatory target



# INVESTING IN THE ENVIRONMENT

Caring for the environment delivers multiple benefits

### Reducing costs

Improving **water quality** upstream reduces cost of treatment

**Natural solutions** require less power and maintenance

Extracting more **resources** from our waste **creates value**

### Rewards for environmental improvement

Water Framework Directive  
£42.6m

Sustainable Sewage Treatment  
£9.9m

Biodiversity  
£0.9m

Catchment Management  
£11.4m

### Making a positive impact

Over AMP6 we have delivered:

1,600km **river quality** improvement

244 Ha enhanced for **Biodiversity**

**Carbon emissions** reduced by 42%



# MAINTAINING COST CONTROL

We have tightly controlled costs over AMP6...

Severn Trent Water  
operating costs over  
AMP6:

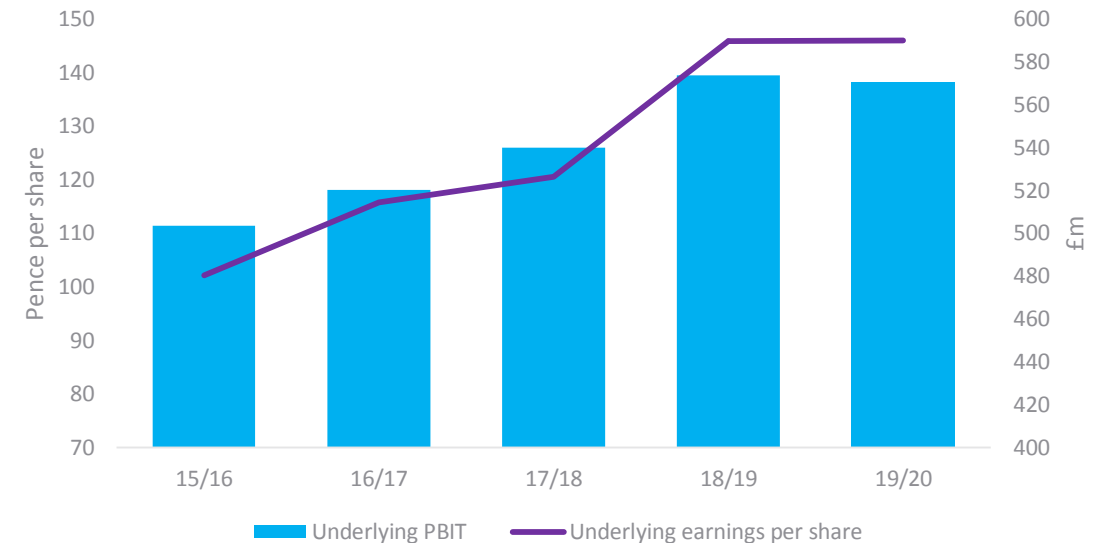
CAGR of 1.1%

Reduced by 7.2% in real terms

Strong cost control across the business has offset a number of cost pressures over the past five years, including:

- Power pass-through costs – up 70%
- EA license fees – up 22%
- Abstraction license increases – up 6%
- Annual pay award – c. 2.4% p.a.

...helping us to deliver PBIT and EPS growth



Small decline in FY20 in preparation for AMP7:

- deferral of **£191m customer ODIs**;
- increased **investment in infrastructure** renewals; and
- lower **property profits**, with a significant sale in FY19

# CASE STUDY: COST CONTROL

## Applying operational excellence to support functions

**Support Functions: 23% real reduction in cost base (£7.1m) since FY18**

HR



Financial  
Services



Strategy &  
Regulation



Chief  
Engineer



General  
Counsel



- Enhancing our in-house capabilities and reducing use of third party suppliers
- In-depth analysis to identify opportunities for automation and use of new technology
- Clear commitment to reducing costs over the long-term by focusing on activity reduction and efficiency
  - All headcount reduction through natural attrition and re-skilling existing colleagues

**Further opportunities in AMP7 through technology, data analytics and new ways of working**



# AMP6 PROGRAMME: COMPLETE

Substantial investment in final year completes ambitious AMP6 programme

**£800m**

2019/20 Capex

**Birmingham  
Resilience**  
Second source of  
water to Birmingham



**Mains Renewal**  
900km of network  
renewed



**£3bn**

AMP6 Capex



**Newark**  
protecting  
customer homes  
from flooding



**Ambergate Reservoir**  
increasing capacity  
and operational  
flexibility

**£689m**

AMP6 IRE

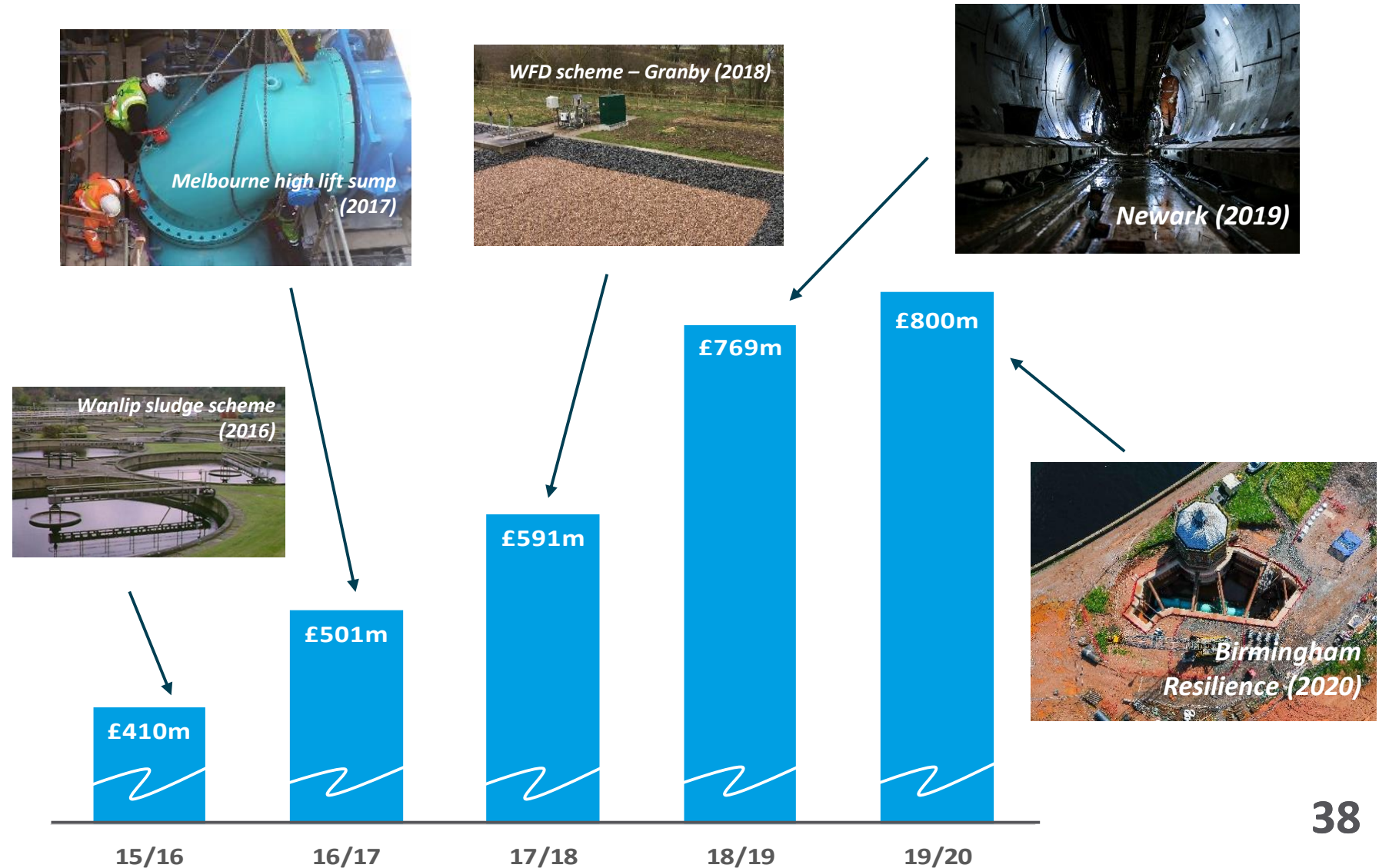
Delivered efficiently with increased standardisation, plug and play construction, and working with suppliers to reduce overheads



# AMP6 CAPITAL PROFILE

Our capital programme has ramped up over the course of the AMP, with FY 19/20 being our biggest year of investment in over a decade

Similarly we expect a step down in capex in year 1 of AMP7 – guiding between £430m and £510m





# AMP7 PROGRAMME: ON TRACK

We are on track:

- **80%** of year one programme spend **contracted**
- **Manageable impact** from COVID-19 – **safeguards** in place

Capital expenditure of **£430m to £510m** in year one

AMP7 will operate differently with a **broader range of suppliers** and **in-house design team**

Key role in **Triple Carbon Pledge** with:

- **New Thermal Hydrolysis Plants** to increase generation
- **Natural solutions** to waste water treatment



Generating more energy with new THPs







Exploring natural solutions such as Wetlands

# OUR AMP7 CAPITAL DELIVERY STRATEGY

## A refreshed contracting model

**We have appointed 20 supply chain partners instead of the six tier one partners we used in AMP6**

-  Direct access to a much broader range of skills and expertise
-  Bespoke supplier selection across our range of projects
-  Better pricing by going directly to tier two and tier three suppliers
-  All suppliers will sign up to our Sustainable Supply Chain charter and comply with our Code of Conduct

## An in-house design function

**We have brought an experienced team of design engineers in house**

-  More control over our investment programme
-  Carbon impact now built in to asset investment decisions
-  Focused on the best whole-life cost solution for the business
-  Brings together design, capital delivery and group commercial teams for more effective and efficient collaboration

## Innovation plays a key role in our AMP7 plans and sustainability ambitions

We opened our £5m Research Recovery and Innovation centre in 2019



Enabling large scale trials of new technology

### Circular Economy

Recovering **ammonia** and exploring opportunities in **hydrogen** production, **liquid ammonia** and **fertiliser**

### Water Quality

Ground breaking work using **online automated flow cytometry** means we can **optimise our treatment process** by using bacteria as a performance measure

### Energy reduction

Current sewage treatment needs lots of pumped air – expensive and high carbon impact. We're trialling **anaerobic membrane bioreactors** that remove this need

Removing 40k tonnes of CO2

Eliminating Nitrous Oxide

Saving £14m opex a year

# LONG TERM SUSTAINABILITY

# OUR SOCIAL PURPOSE JOURNEY

## Unconscious 'natural' purpose

We provide an **essential resource for life**. Our regulatory model **incentivises balanced performance** for all stakeholders.

**2016:** Our purpose headlines our new strategic framework and Annual Report and Accounts



2016

## Natural purpose meets customer intent

Customer research **broadened our thinking** on the needs of stakeholders. We **committed ourselves to delivering** on these.

**2018:** Our investors wanted to see more – we expand our hierarchies from one (customer) to three (people and investor)



**2019:** We launch an international innovation fund, combining forces with water companies internationally to tackle shared challenges

**2019:** Our purposeful business plan achieves 'Fast track' status from Ofwat

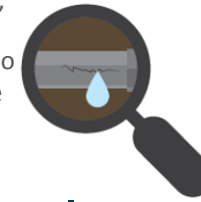
## Creating a conscious purpose

We continue to work with others as our **ambitions and vision for the future** evolve, and we are looking to make our commitments tangible.

**2019:** We proudly make the industry's 'public interest commitment'

We pledged to triple leakage reduction across the sector by

**2030**



**2019:** We reveal plans for a new company-wide bonus scheme that gives purpose and performance equal billing with profit, with a consistent design for every employee

## Taking others with us

Recognised as a **pathfinder company**, with our **social charter** and **triple carbon pledge** by 2030.

**2020:** We launched a community fund – financed from

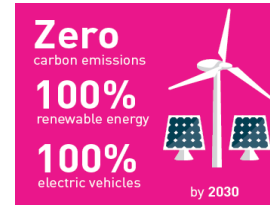
**1% of our profits**

**2020:** We invited investors to an immersive Capital Markets Day focused on Sustainability



2020

**2019:** We make the triple carbon pledge



**2020:** We outlined our most ambitious sustainability targets so far - we will be investing £1.2 billion over the next five years



**2018:** Our CEO annual review is dedicated to social purpose in our Annual Report and Accounts





# SUSTAINABILITY FRAMEWORK

## BEING SOCIALLY PURPOSEFUL



Our sustainability framework draws together our **environmental, social and governance (ESG)** ambitions. While those ambitions will be delivered as part of our business plan, **fully embedded in the way we work**, this framework helps us to articulate how we deliver **our purpose**.

This **sustainability framework** sets the foundations for how we intend to run our business **for the next five years and beyond**.



# SUSTAINABLE DEVELOPMENT GOALS

We have outlined our most significant contributions to the 17 goals through our core businesses and the way we run our company

## Core Business Impact



Ensure availability and sustainable management of water and sanitation for all



Ensure access to affordable, reliable, sustainable and modern energy for all



Take urgent action to combat climate change and its impacts

## Significant Impact



Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation



Ensure sustainable consumption and production patterns



Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

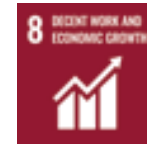
## Moderate Impact



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all



Achieve gender equality and empower all women and girls



Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



Reduce inequality within and among countries



Make cities and human settlements inclusive, safe, resilient and sustainable

# REPORTING/INDICES

Severn Trent has been recognised across multiple indices for our commitments to sustainability



FTSE4Good

## FTSE4Good

We have been a constituent of the FTSE4Good index since 2006



SUSTAINALYTICS

## Sustainalytics

In January 2020 we received a risk rating score of 18.6, which places us in the 1<sup>st</sup> percentile of the water utilities subindustry



## MSCI

In October 2019, MSCI rated us BBB (Scale AAA to CCC)

## CDP

Assesses our plans for climate change the action we are taking  
Rated B in 2019



## Tortoise Intelligence Responsibility100 Index

We were ranked tenth in the inaugural index, measuring the gap between companies' walk and talk



## ISS

In February 2020 we received a B 'Prime' ESG rating, on a scale of D- to A+

## Bloomberg Gender Equality Index

One of the 325 companies across 50 industries included in the 2020 Bloomberg Gender-Equality Index (GEI).



## Carbon Trust

We have held the Carbon Trust standard for over 10 years



## Task Force on Climate-related Disclosures (TCFD)

First year reporting inline with TCFD, with specific reporting in our Sustainability Report



# MAKING AN IMPACT

## Going above and beyond to lead the way in sustainability

Over the next five years, we will be investing **£1.2 billion in our sustainability ambitions**, from climate and biodiversity to supporting the customers who need us most.

**2,100**

Improving 2,100km of river quality by 2025

**5,000**

Enhance the biodiversity of 5,000 hectares of land by 2027

**500,000**

Educating 500,000 children on water scarcity, responsible sewer usage and healthy hydration

**9,000**

Work with around 9,000 farmers to adapt working practices

**50%**

50% reduction in pollutions by 2025

**By 2030**

Deliver our Triple Carbon Pledge of net zero emissions, 100% energy from renewable sources and 100% electric fleet <sup>1</sup>

**15%**

Leakage reduced 15% by 2025

**195,000**

Support 195,000 customers who struggle to pay their bill every year by 2025

**1%**

Donate 1% of Severn Trent Water's profits over the next five years into the Severn Trent Community Fund



<sup>1</sup>Assumes suitable specialist vehicles such as tankers become available within that time window



# COMMUNITY FUND

The Community Fund issued its first payments to local causes, while also paying over £500k from our £1 million Covid-19 emergency fund to around 200 organisations

## HELPING THE ELDERLY

### Here and Now, Chester

*"Here and Now Chester Ltd is a local Social Enterprise set up to alleviate social isolation in Blacon and Chester area. With the recent events Here and Now has adapted its sessions so that members are not left isolated, this includes a 3x weekly befriending phone/text/face time calls, a newsletter containing quiz wordsearch and a roundup to keep members and volunteers in touch and an online Zoom digital platform for people to connect on."*



### WAM Youth, Gloucestershire

**Supporting vulnerable young people with their mental health and wellbeing.**  
*"Thank you so much for this. Just before you rang I had heard from one of our young people that her mum had died this morning of Coronavirus which is incredibly tough for her so to have such an unexpected good news from you was a real blessing in the midst of the reality of what we're trying to support young people through."*

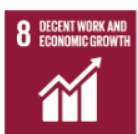
## MENTAL HEALTH SUPPORT

## OTHER SUPPORT SERVICES

### Women's Aid, Wrexham HD

*"The advice from Government is to stay at home, however for those affected by Domestic Abuse staying home does not represent staying safe. This is a time when our services are needed more than ever. Without donations from people like Severn Trent, we would not be able to support so many people in our communities."*





# CLIMATE CHANGE

## Triple Carbon Pledge

### Net Zero Carbon by 2030

Driven by real reductions in scope 1, 2 and 3 emissions measured by Science-Based Targets.

### 100% electric vehicles by 2030<sup>1</sup>

Only EV cars purchased going forwards, with 100% fleet by 2026  
Only EV vans purchased from 2023, with 100% fleet by 2030  
300 charging points by 2022

### 100% energy from renewable sources by 2030

Achieved in April 2020 with 51% self-generation and REGO-backed purchase agreements

## Task Force on Climate-related Financial Disclosures ('TCFD')

### Global ambition

Showing progress towards the Paris Agreement targets

### For Severn Trent

Climate change thinking is embedded in our decision making, strategy and risk assessment processes

### For investors

Our climate change risks are well governed and climate change is a priority at Board level

## Science-Based Targets

### Our Aim

In March 2020, we were the first Water company in the UK to commit to developing Science-Based Targets,

### How will we do this?

We will develop longer-term commitments to make real reductions across scope 1, 2 and 3 emissions

### Our commitment

UK water industry target:  
Net zero by 2030

<sup>1</sup>Assumes suitable specialist vehicles such as tankers become available within that time window



# BIODIVERSITY

Severn Trent is contributing to the essential role that nature plays in maintaining healthy ecosystems

## Our ambition

Improve the biodiversity of **5,000 hectares** across our region by **2027** (1% of the **UK Government's target** for a Nature Recovery Network), including planting **1.3 million trees** in partnership with NGOs, community groups and farmers.

Changing how we manage our own land

Working with our partners to improve biodiversity on third-party land

Working with farmers to change their practices

Offering grants to NGOs, schools and community groups

## Our partners

For every £1 Severn Trent spends through our **boost for biodiversity fund**, we can unlock **£4.80 match funding** and expertise from our partners – allowing us to **set more ambitious goals** and **deliver them faster**



# AWESOME PLACE TO WORK

Continued focus on culture underpins strong start to AMP7

## Caring for our Colleagues

2,166 trained in mental health awareness

Second lowest number of LTIs in a decade

Accredited Living Wage employer

Caring for our Colleagues campaign



## Embedding inclusivity

Top 3 Hampton Alexander Review for gender diversity

Top 3 Social Mobility Index

Compliant with Parker Report on Board Diversity

Rapid progress on Stonewall Inclusivity Index



## Engaging our people

Engagement in top 5% of global utilities

72% take part in Sharesave scheme

Launched new Purpose and Values

All employees engaged on Sustainability ambitions



# PR19

# STW Final Determination

We have accepted our Final Determination for the next five years

WONDERFUL ON TAP

SEVERN  
TRENT



Our **fast-track** status reflects a plan that benefits all stakeholders, and our commitment to **social purpose**

We have a suite of stretching but achievable **customer ODIs** following limited intervention



We're delivering a **9% bill reduction** while investing for the future, with real RCV growth of **3.8%**



We can deliver significant change within our region with:

**1%** of profit community dividend



**2,100km** of river quality improvements






Helping **195,000** customers a year pay their bill by 2025



We're well positioned to deliver our plan within Ofwat's cost corridors with a **£6.8bn totex allowance**

# STW FINAL DETERMINATION

Our Final Determination is broadly value neutral versus our April Draft Determination

Value changes	Value £m	Impact
WACC reduced by 38bps	£180m	 Revenue
Efficiency frontier reduced to 1.1% (+ other smaller totex changes)	£185m	 Totex
RCV run-off rate reduced by 0.1% (long-term value neutral)	£62m	 Revenue  RCV
PR14 legacy adjustments	£30m	 Revenue

## Other changes from DD to FD

Changes to totex and RCV run-off mean **real RCV growth up to 3.8%**

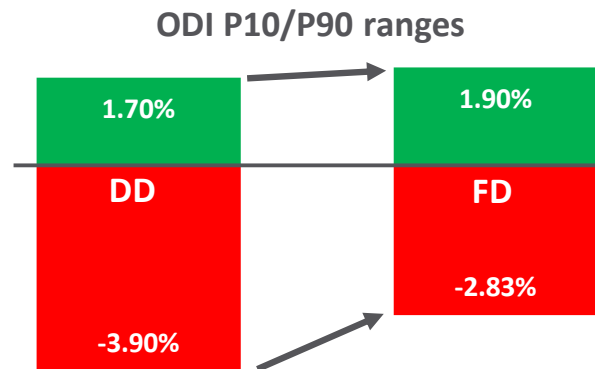
**Revenue re-profiled**, moving more into the early years (pre-COVID-19 impact)

New business rates **sharing mechanism** helps to de-risk our plan

# STW CUSTOMER ODIS

We have a broad suite of customer ODIs, with positive changes to our risk profile

## Improvements to FD



We **locked in** most ODIs in January. Of the five left open, two are unchanged, **three improved**:

- Supply interruptions
- CRI (water quality compliance)
- Mains Repairs

Creating **more upside** and **less downside** risk



**41**

Customer ODIs

**3**

comparative

Measured consistently and with targets based on sector upper quartile

**12**

common

Measured consistently but with targets based on company performance

**26**

bespoke

Unique to Severn Trent with design and targets based on extensive customer research

**35 financial**

**6 non-financial**

# STW INVESTMENT AND RCV GROWTH

STW AMP7 totex allowance in line with our original business plan – driving 3.8% real RCV growth

STW Gross Totex: £6,797m

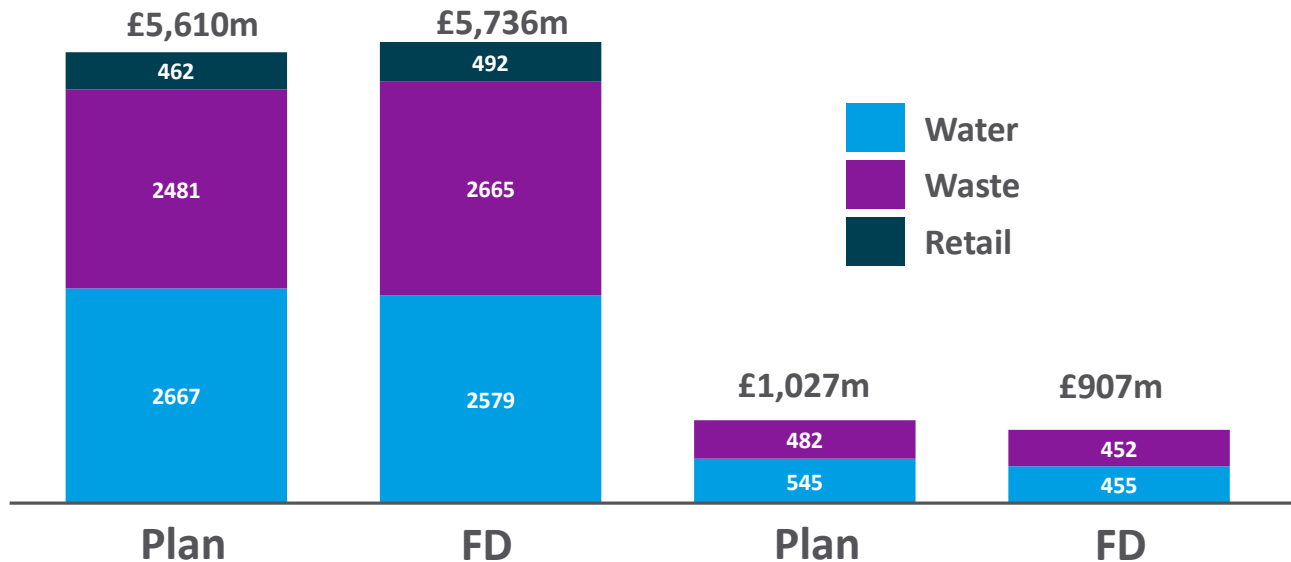


Base Totex<sup>1</sup>

+£126m

Enhancement Totex<sup>2</sup>

-£120m



STW and HD are two of only three companies to receive **more base totex** than requested

AMP6 efficiency enables us to get on the **right run rate** for AMP7

**£154m real options** for additional work on the environment and metering

1. Base totex includes third party costs and non-price control activity costs – these amounts are shown separately within the Ofwat Final Determination
2. Enhancement totex includes £42.5m relating to Strategic resources – this amount is shown separately within the Ofwat Final Determination

# APPENDIX

# DISCLAIMERS

## Cautionary statement regarding forward-looking statements

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

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal', 'estimates' or words with a similar meaning, and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

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