



FULL YEAR 2018/19 RESULTS

21 May 2019

WONDERFUL ON TAP



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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LIV GARFIELD

Chief Executive



HIGHLIGHTS

Continued momentum and fast-track status building a strong platform for AMP7

H2 Strong water performance gives FY20 confidence

£769m Largest year of capital investment in a decade

**At least
£177m⁽¹⁾** AMP7 revenue from AMP6 customer ODIs

c£1.5bn Partners appointed for AMP7 capital programme



Making bold commitments with triple carbon pledge and World Water Innovation Fund

¹ £177 million is quoted pre-tax in nominal prices, assuming customer ODIs are spread evenly across AMP7. CPIH inflation assumptions are taken from the Oxford Economics March forecast. The equivalent in 2012/13 prices is £132m. Figure includes FY19/20 guidance of at least £25 million (pre-tax, 2012/13 prices) and excludes SIM, which we expect to be determined by Ofwat in July 2019.

JAMES BOWLING

Chief Financial Officer



2018/19 FINANCIAL HIGHLIGHTS

Delivering a strong set of results in a pivotal year

Turnover⁽¹⁾

£1,767.4m
+4.2%

Underlying PBIT^(1,2)

£573.6m
+6.3%

Effective interest rate

3.9%
down 60 basis points

Underlying basic EPS^(1,3)

145.8 pence
+21.0%

Full-year dividend

93.37p
in line with our policy

AMP6 cumulative RoRE⁽⁴⁾

9.1%
spread across all three levers

1. Prior year comparatives are restated to reflect adoption of IFRS15 – see the Full Year Results RNS for further detail.

2. Underlying Profit before interest and tax (PBIT) excludes exceptional items. Reported PBIT of £563.3m (2017/18: £527.2m) includes an exceptional charge of £9.6m (2017/18: £12.6m).

3. Underlying Earnings per Share (EPS) before exceptional items, net gains/losses on financial instruments, current tax on exceptional items and on financial instruments, exceptional current tax and deferred tax. Reported basic EPS from continuing operations of 133.4p (2017/18: 101.8p).

4. AMP6 cumulative Return on Regulatory Equity, reported using Ofwat's RoRE methodology.

REGULATED WATER AND WASTE WATER

Turnover
£1,638m

- Up 4% driven by RPI-linked price increases in Severn Trent Water and Hafren Dyfrdwy
- Revenue uplift from 2016/17 WRFIM⁽¹⁾ adjustment partially offset by decision to take lower customer ODI reward into 2018/19 revenue

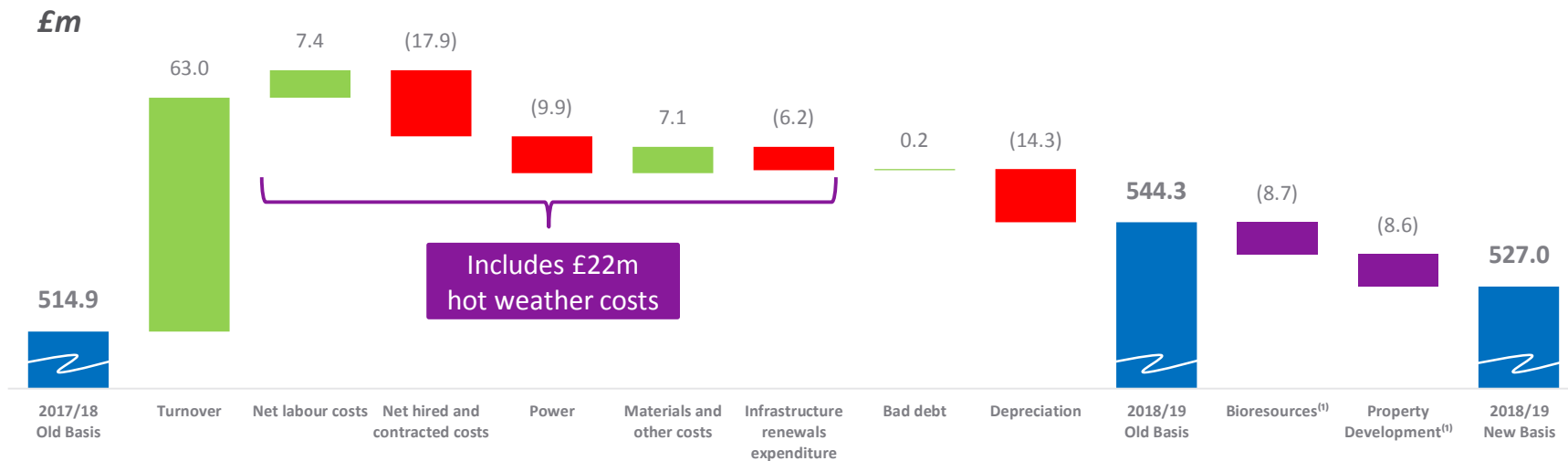


1. WRFIM = Wholesale Revenue Forecasting Incentive Mechanism, which trues up billing over the five year Final Determination.
2. As of 1 April 2018, our Bioresources and property development activity has been managed in the Business Services segment. For ease of comparison, commentary for this financial period has been shown on the old basis. See note 2 of our Full Year Results RNS for more detail.

REGULATED WATER AND WASTE WATER

Underlying PBIT
£544m

- Up 5.7% driven by higher turnover and disciplined cost control
- PBIT margin up despite absorbing around £22m of hot weather costs, higher depreciation (£14.3m) and other anticipated cost pressures in power and licence fees



1. As of 1 April 2018, our Bioresources and property development activity has been managed in the Business Services segment. For ease of comparison, commentary for this financial period has been shown on the old basis. See note 2 of our Full Year Results RNS for more detail.

BUSINESS SERVICES

An exciting period of potential opportunity

2018/19 performance⁽¹⁾

Turnover £146m

up £5.4m

PBIT £36m

up £0.7m

In line with guidance

Under the new segments:

Turnover - £201m

PBIT - £64m

Property Development

- Delivered **£20m** in 2018/19
- On track for a further **£5m - £10m** in 2019/20
- Pipeline of land sales ready for AMP7 delivery



Renewable Energy

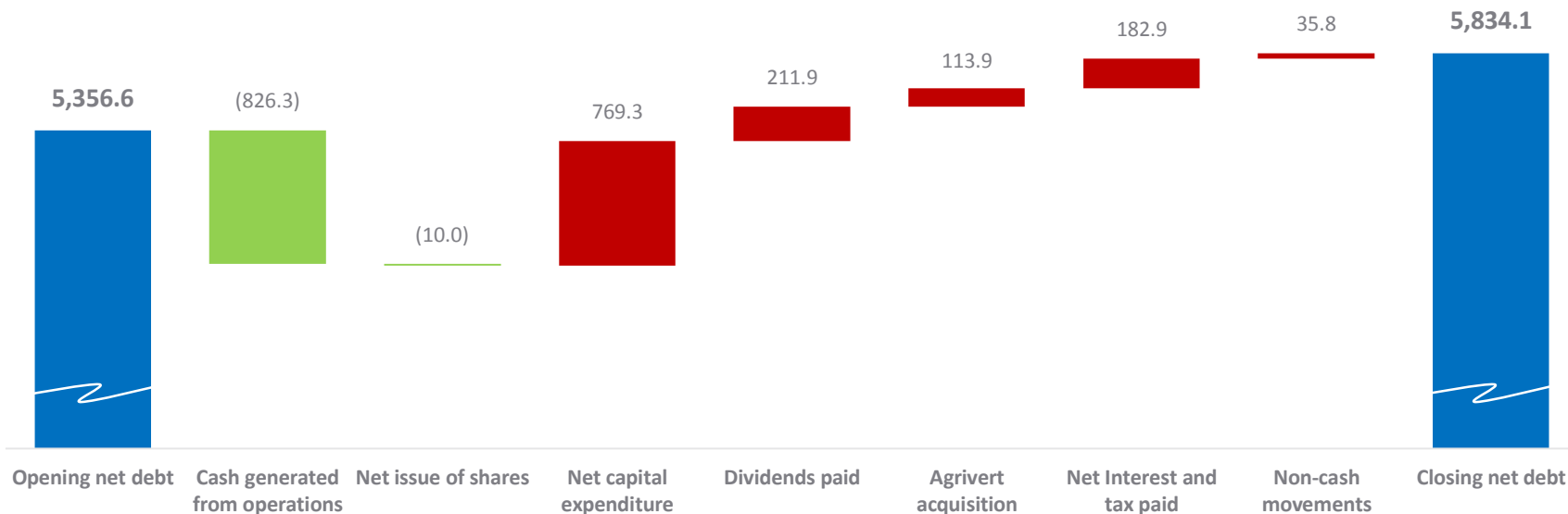
- On track to **exceed 50% self-generation** target in 2019/20 – a key contributor to commitment for **100% of energy from renewable sources** by 2030
- Potential **growth opportunities in food waste** from government consultation on mandated kerbside collection in England

GROUP CASH FLOW AND NET DEBT

**Net debt
£5,834m**

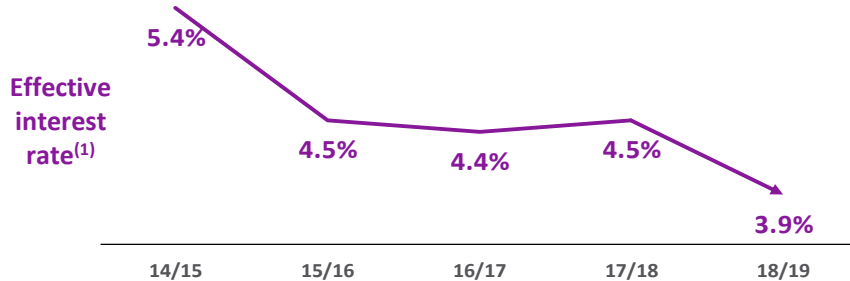
Increase in net debt of £478m following an increase in net capital expenditure to £769m, our biggest annual capital spend in a decade

£m

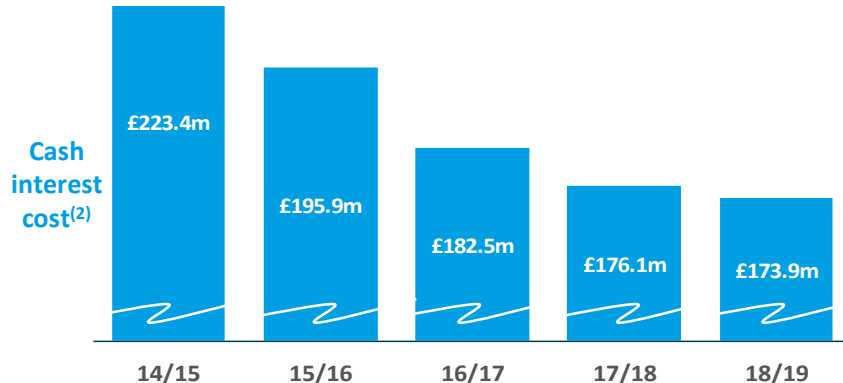


FINANCING PERFORMANCE

Delivered 150bps reduction in cost of debt...



...driving down cash interest paid across AMP6



Effective interest cost⁽¹⁾

3.9%

- Down **60 bps** from 17/18
- Effective cash interest cost down **30 bps** to **3.1%**

- Net finance costs down **£25.3m year-on-year** to **£194.2m**
- Taking advantage of low rate environment, now reducing floating rate exposure and **locking in low fixed rates** on new debt
- Actions taken in AMP6 place us in a **strong position** going into AMP7

1. Before net pension finance costs but including capitalised interest
2. Before net pension finance costs and RPI rolled up but including capitalised interest

A RESILIENT FINANCING STRATEGY

AMP7 preparation under way with a diverse, low cost debt portfolio

New debt at competitive rates

- Raised **£523m** at **competitive** fixed rates
- Further opportunity from **£3bn** of debt to raise in AMP7

Increased CPI exposure

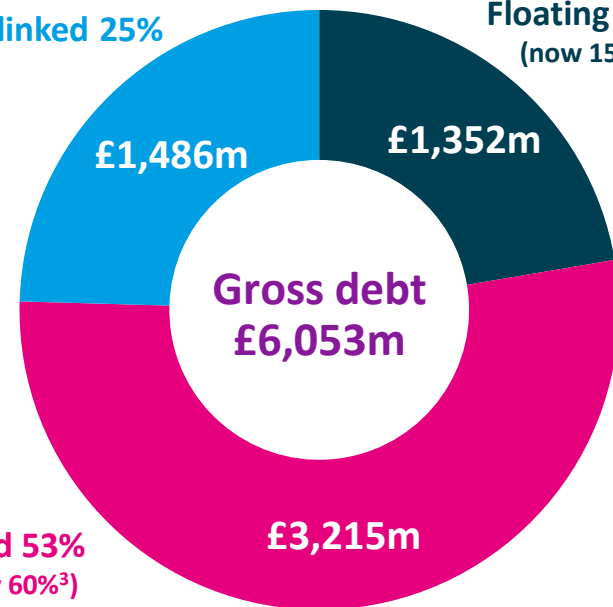
- Replaced existing RPI loan with **£125m CPI loan** in May 2019
- Total CPI exposure at **£375m**

Reduction in pension deficit

- Pension deficit reduced to **£453m**
- 2019 actuarial triennial valuation work underway and on track

Index-linked 25%

Floating 22%,
(now 15%³)



Fixed 53%
(now 60%³)

£5,834m
Group net debt¹

62.3%
STW net debt/RCV²

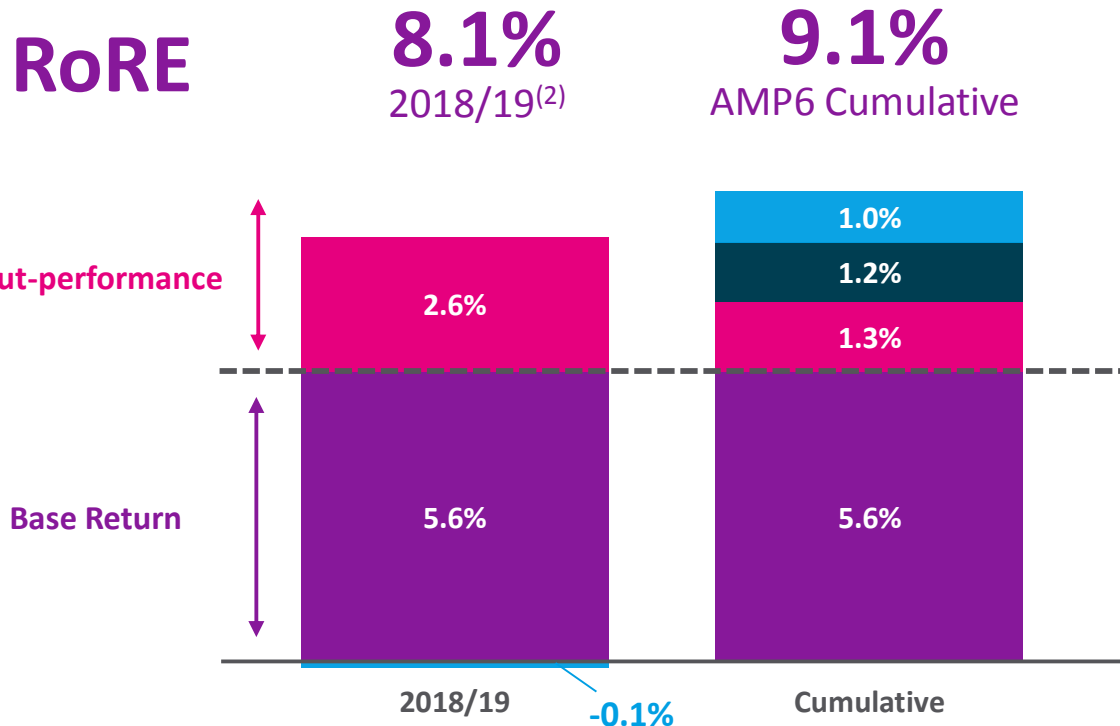
¹ Includes cross currency swaps

² Adjusted gearing per the Severn Trent Water Annual Performance Report, to be published in July 2019

³ As at 20 May 2019

RETURN ON REGULATED EQUITY (RoRE)⁽¹⁾

Strong RoRE, despite customer ODI capping and totex reinvestment



CUSTOMER ODIs

- Sustained strong performance constrained by customer ODI cap, impacting year 4 RoRE
- Benefit of uncapping to be realised in year 5

TOTEX/RETAIL

- Reinvestment of totex impacting RoRE in years 4 and 5

FINANCING

- Strong financing performance driven by RPI and low rate debt

FY20 TECHNICAL GUIDANCE

The following technical guidance is presented under the new segmental basis. Please refer to note 2 to the accounts in the Full Year Results RNS for more information regarding segmental changes.

Regulated Water and Waste Water		FY18/19	Year-on-Year
Turnover ¹	£1.61 billion to £1.64 billion.	£1.58bn	▲
Opex	Higher year-on-year as continued upward sector-wide cost pressures from energy pass-through costs, licences and materials offset ongoing efficiency programmes.	£600m	▲
IRE	£145 million to £170 million.	£141m	▲
Customer ODIs ^{2,3}	At least £25 million net reward across Water and Waste measures.	-£5m	▲
Business Services			
Underlying PBIT (excl. Property)	Higher year-on-year.	£44m	▲
Underlying Property PBIT	£5 million to £10 million.	£20m	▼
Group			
Interest charge	Higher year-on-year due to increased total debt reflecting end of AMP investment in our capital programme and the acquisition of Agrivert in the second half of the prior year.	£194m	▲
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 10% and 12%.	11.6%	▼
Group capex	£700 million to £800 million.	£769m	↔
Dividend ⁴	Annual dividend growth of at least RPI + 4% until March 2020. 2019/20 dividend set at 100.08p.	93.37p	▲

1. Includes £7m net penalty for customer ODIs (Customer Outcome Delivery Incentives, quoted pre-tax at nominal prices) relating to 2017/18 with £79m of that year's net reward deferred to AMP7.

2. Quoted pre-tax at 2012/13 prices.

3. Excludes AMP6 SIM ODI outcome. An update will be provided later in the year following Ofwat's confirmation of the outcome.

4. 2019/20 dividend growth is based on November 2018 RPI of 3.19% plus 4%.

LIV GARFIELD

Chief Executive



DELIVERING FOR CUSTOMERS

We've delivered a lot for our customers over AMP6...

**On track to invest £1,300
for every household we
serve**

**Helped over 50,000
customers a year who
struggle to pay**

**Achieved status of the
most trusted water
company in England⁽¹⁾**

**Upper quartile in our
sector for UK Customer
Service Index**

**Delivered against performance
commitments, including:**

62%

reduction in external
sewer flooding

15%

reduction in water
quality complaints

**Over
670k**

customers educated on
water scarcity and
correct sewer use

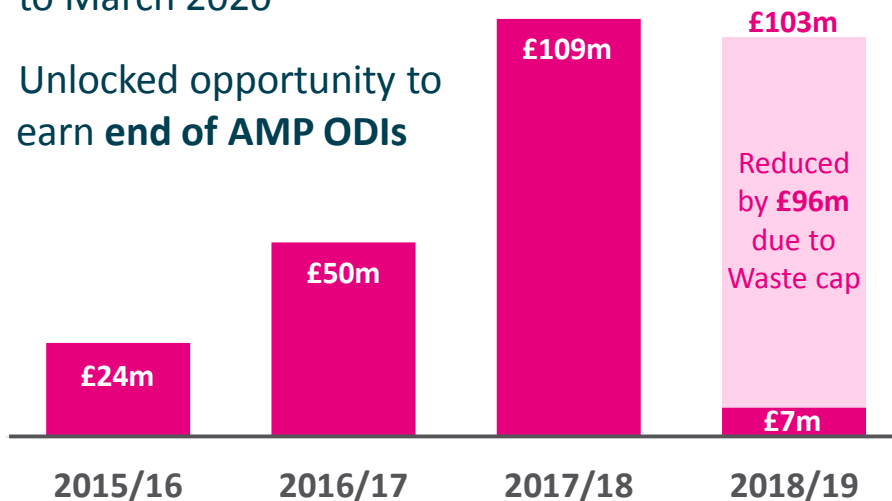
... but we're ambitious to do more

¹ Based on the most recent independent customer satisfaction tracker run by Future Thinking

LEADING THE WAY IN WASTE

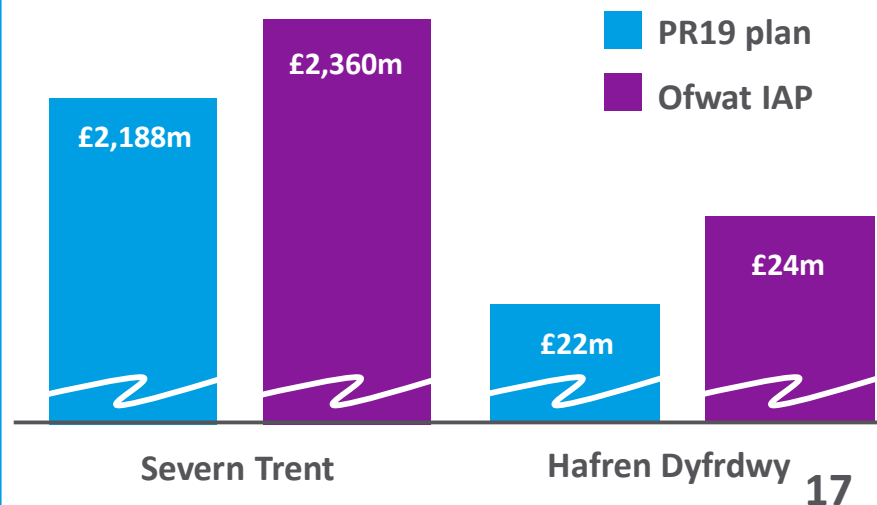
Leaders on customer ODIs and costs in AMP6 – set to continue into AMP7

- Hit the ODI¹ cap this year – **earned £7m** in Waste, **equivalent to £103m** on an uncapped basis
- Cap increased to **2.6% of RoRE** from January 2019 to March 2020
- Unlocked opportunity to earn **end of AMP ODIs**



¹ ODIs quoted pre-tax in 2012/13 prices

Severn Trent and **Hafren Dyfrdwy** lead the sector on base **cost efficiency**, more than **7%** below the Ofwat allowance for Waste



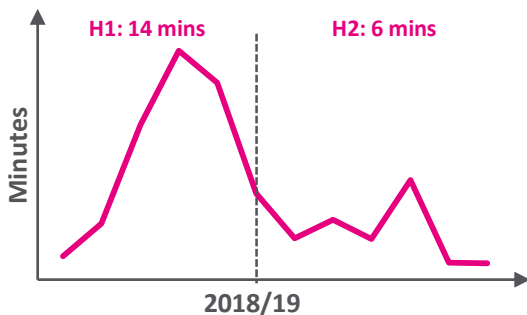
BUILDING MOMENTUM IN WATER

Second half performance gives confidence for FY19/20 and beyond

Refreshed strategies and increased focus following the summer delivered promising results. In particular:

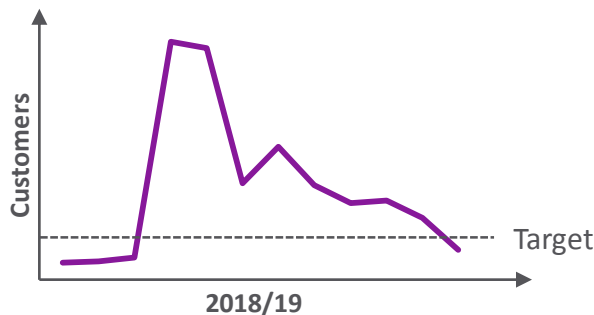
Supply interruptions

Prevent, Repair, Restore strategy delivered a **60% improvement** from the first to second half.

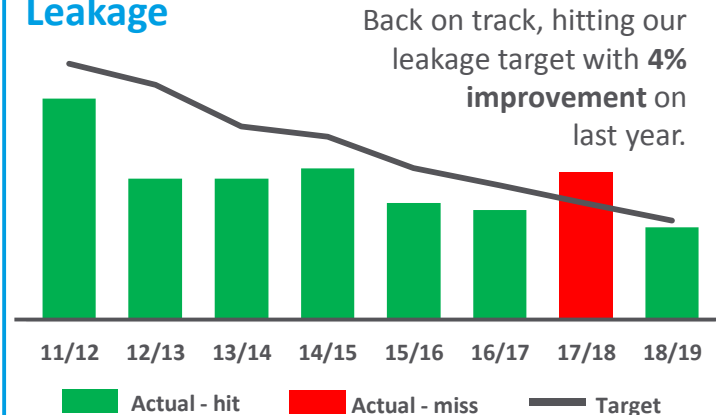


Low pressure

Beat target by 32% following significant collaboration across our business and supply chain.

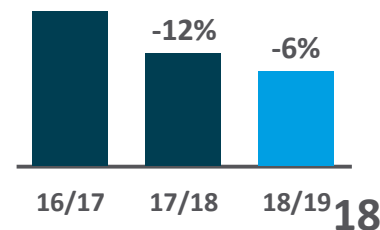


Leakage



Water quality complaints

Met commitment to **reduce by 6%** year-on-year as continued efforts drive improvement.



IMPROVING OUR ENVIRONMENT

Delivering ambitious environmental programmes and making long term commitments

Catchment management



- Working with farmers to improve **water quality**, generate **efficiency** and deliver **environmental benefits**
- Earned ODI reward of **£11 million**, recognising four years of performance

Water Framework Directive



- Improving **1,600km of rivers** by upgrading works
- Customer ODI of **£0.9m per WFD point** above target – unlocked in year 5 with uncapping

Our triple carbon pledge



We are one of only a handful of companies in the UK to make the triple pledge – by 2030:

1. Net **zero carbon emissions**
2. 100% **electric vehicles⁽¹⁾**
3. 100% of **energy from renewables**

¹ Assumes suitable specialist vehicles such as tankers become available within that time window

PREPARING FOR AMP7 CUSTOMER ODIS

Confident we can continue delivering for customers, communities and investors

Executive-led reviews of all performance commitments



Driver trees

- Using our experience to ensure better, more **efficient** and **effective** outcomes
- Taking key learnings to drive **benefits** across **multiple areas** of the business

Performance culture

- **Communication cells** vital to front-line teams to ensure new ways of working are **quickly embedded**

Fast-Track clarity

- **Minimal intervention** on planned customer ODIs reaffirms plans
- Clarity around commitments allows us to **accelerate preparation**

INVESTMENT PROGRAMME

Biggest year of capital investment in a decade, while preparing for our AMP7 programme



£300m **Birmingham Resilience Project** to deliver **more benefits** than planned for the **same cost**

Community Engagement award for a complex 3km tunnel in our **£60m Newark project**



Recycled Mansfield subway to **alleviate sewer flooding, reducing costs** and improving **local area**

Certainty over AMP7 investment programme supports:

Early contracting of supply chain

- c£1.5 billion announced in March

Implementation of our new strategy

- Using a broader range of suppliers
- Insourcing our design team
- Focusing on long-term asset strategy
- Investing in cutting-edge technology

AWESOME PLACE TO WORK

Creating an inclusive culture that recognises people as our most valuable asset

Glassdoor

Top 50 Company
April 19 score: 3.9

Social Mobility Index

Top 20 company

Company bonus

Aligned from top
to bottom

Engagement

5% above UK&I
91% completion

Gender diversity

Top 4 in Hampton
Alexander

Gender pay gap

Mean of 2.8%

Investing in skills

£10m technical
training academy

Modern Slavery Statement

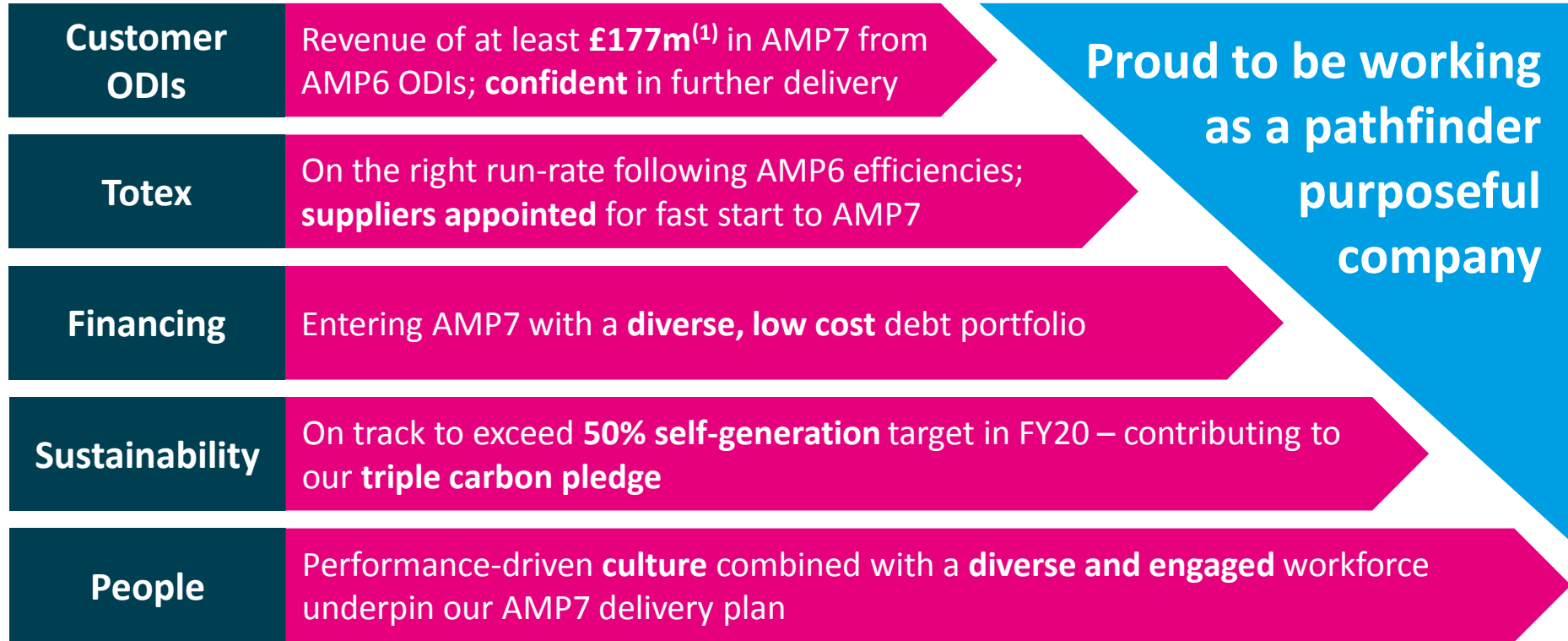
16th in FTSE100

Mental health

70% of leaders
trained



OUR AMP7 PLATFORM



¹ £177 million is quoted pre-tax in nominal prices, assuming customer ODIs are spread evenly across AMP7. CPIH inflation assumptions are taken from the Oxford Economics March forecast. The equivalent in 2012/13 prices is £132m. Figure includes FY19/20 guidance of at least £25 million (pre-tax, 2012/13 prices) and excludes SIM, which we expect to be determined by Ofwat in July 2019.

Q&A

APPENDIX

UNDERLYING EBITDA¹

YEAR ENDED 31 MARCH 2019

2018 (restated) ⁽²⁾ old basis £m		2019	2019	Variance	Variance
		new basis £m	old basis £m	£m	%
835.4	Regulated Water and Waste Water	841.9	879.0	43.6	5.2
43.2	Business Services	94.7	46.3	3.1	7.2
(9.6)	Corporate and Other	(8.1)	3.2	12.8	133.3
(0.5)	Eliminations	(9.7)	(9.7)	(9.2)	(1840.0)
868.5	Severn Trent Group	918.8	918.8	50.3	5.8

1. Earnings from continuing operations before interest, tax, depreciation, amortisation and exceptional items

2. Restated for adoption of IFRS 15 – see note 1 to the financial statements in the RNS for detail

BUSINESS SERVICES UNDERLYING EBITDA^{1,2}

YEAR ENDED 31 MARCH 2019

	Regulated £m	Non-Regulated £m	Total £m
Operating Services	-	7.9	7.9
Energy	0.1	7.4	7.5
Bioresources	52.5	-	52.5
Property Development	8.6	10.9	19.5
Other	3.9	3.4	7.3
Underlying EBITDA	65.1	29.6	94.7
Depreciation	(23.1)	(6.5)	(29.6)
Amortisation ⁽³⁾	-	(1.0)	(1.0)
Severn Trent Group	42.0	22.1	64.1

1. Earnings from continuing operations before interest, tax, depreciation and amortisation and exceptional items.

2. New basis only.

3. Excluding amortisation of customer contracts acquired with Agrivert.

DEPRECIATION¹

YEAR ENDED 31 MARCH 2019

2018 old basis £m		2019 new basis £m	2019 old basis £m	Variance £m	Variance %
320.5	Regulated Water and Waste Water	315.0	334.8	14.3	4.5
8.4	Business Services	30.6	10.8	2.4	28.6
0.1	Corporate and other	0.1	0.1	–	–
(0.3)	Eliminations	(0.5)	(0.5)	(0.2)	(66.7)
328.7	Severn Trent Group	345.2	345.2	16.5	5.0

POWER

YEAR ENDED 31 MARCH 2019

2018 ⁽¹⁾			2019			
Segmental analysis £m	Self generation £m	Group £m		Segmental analysis £m	Self generation £m	Group £m
Turnover						
60.4	(19.0)	41.4	Business Services	72.6	(26.4)	46.2
Costs						
(95.9)	18.5	(77.4)	Regulated Water and Waste Water ⁽²⁾	(105.8)	17.2	(88.6)
(2.3)	0.5	(1.8)	Business Services	(10.6)	8.9	(1.7)
(79.2)			Severn Trent Group	(90.3)		

NET FINANCE COSTS

YEAR ENDED 31 MARCH 2019

Income statement charge 2018 £m	Capitalised interest 2018 £m	Gross interest incurred 2018 £m		Income statement charge 2019 £m	Capitalised interest 2019 £m	Gross interest incurred 2019 £m
149.9	26.2	176.1	"Cash" interest (including accruals)	140.7	33.2	173.9
15.5	–	15.5	Net pension interest costs	13.8	–	13.8
54.1	–	54.1	RPI interest	39.7	–	39.7
219.5	26.2	245.7		194.2	33.2	227.4

UNDERLYING EARNINGS PER SHARE

YEAR ENDED 31 MARCH 2019

2018 (restated) ⁽¹⁾ £m		2019 £m	Variance £m	Variance %
539.8	Underlying profit before interest and tax	573.6	33.8	6.3
(219.5)	Net finance costs	(194.2)	25.3	11.5
320.3	Underlying profit before tax	379.4	59.1	18.5
(40.8)	Tax at the underlying effective rate of 11.6% (2018: 12.7%)	(43.8)	(3.0)	(7.4)
3.9	Current tax in respect of prior years	9.4	5.5	141.0
0.2	Share of net profit/(loss) of joint ventures	(0.4)	(0.6)	(300.0)
283.6	Earnings for the purpose of underlying basic and diluted earnings per share	344.6	61.0	21.5
235.3	Weighted average number of ordinary shares for basic earnings per share	236.3	1.0	0.4
120.5	Underlying basic EPS from continuing operations	145.8	25.3	21.0

1. Restated for adoption of IFRS 15 – see note 1 to the financial statements in the RNS for detail.

GROUP BALANCE SHEET AT 31 MARCH 2019

31 March 2018 (restated) ⁽¹⁾ £m	31 March 2019 £m	Variance £m	Variance %
8,622.5 Property, plant and equipment; intangible assets and goodwill	9,300.7	678.2	7.9
37.6 Joint ventures, associates and other investments	37.0	(0.6)	(1.6)
76.5 Working capital	109.7	33.2	43.4
(1,023.9) Deferred income	(1,093.0)	(69.1)	(6.7)
(519.8) Net retirement benefit obligations	(452.9)	66.9	12.9
(51.3) Provisions	(51.4)	(0.1)	(0.2)
(8.6) Current tax	(9.3)	(0.7)	(8.1)
(675.2) Deferred tax	(747.5)	(72.3)	(10.7)
(104.3) Other derivative financial instruments	(95.1)	9.2	8.8
6,353.5 Capital employed	6,998.2	644.7	10.1
996.9 Equity	1,164.1	167.2	16.8
5,356.6 Net debt	5,834.1	477.5	8.9
6,353.5	6,998.2	644.7	10.1

1. Restated for adoption of IFRS 15 – see note 1 to the financial statements in the RNS for detail.

CAPITAL EXPENDITURE (NET CASH)¹

YEAR ENDED 31 MARCH 2019

2018 £m		2019 ⁽¹⁾ £m	Variance £m	Variance %
582.4	Regulated Water and Waste Water	757.7	175.3	30.1
11.0	Business Services	12.6	1.6	14.5
(0.1)	Corporate and Other	0.9	1.0	1000.0
(2.3)	Eliminations	(1.9)	0.4	17.4
591.0	Severn Trent Group	769.3	178.3	30.2

1. Including purchases of property, plant and equipment, intangible assets, proceeds on disposal of property, plant and equipment and contributions and grants received

NET DEBT AT 31 MARCH 2019

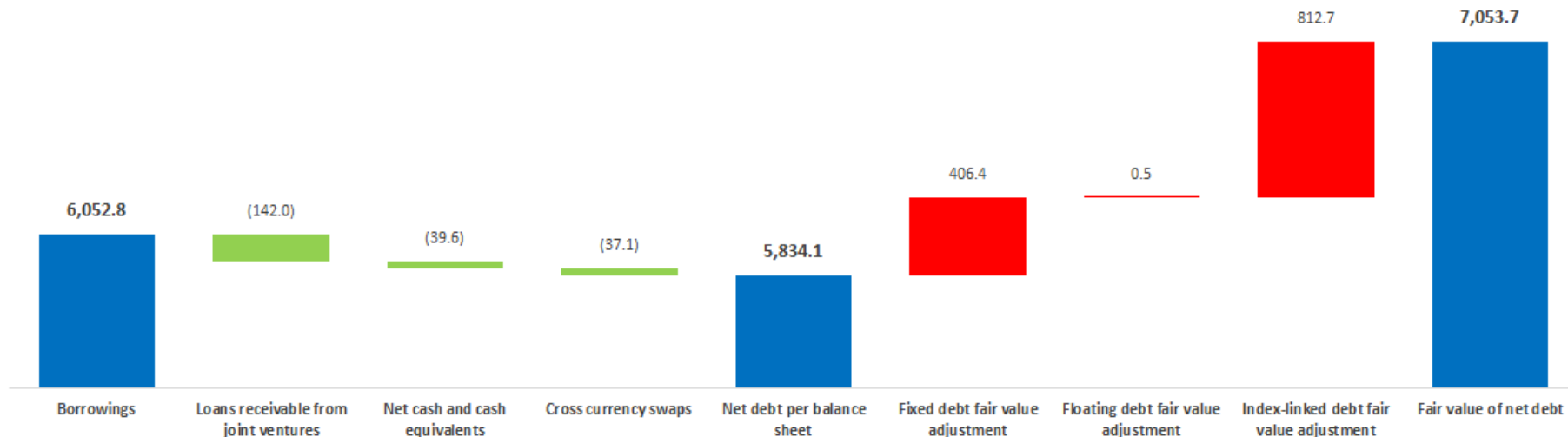
31 March 2018 £m		31 March 2019 £m	Variance £m	Variance %
38.5	Net cash and cash equivalents	39.6	1.1	2.9
(1,217.4)	Bank loans	(1,120.1)	97.3	8.0
(4,223.9)	Other loans	(4,820.5)	(596.6)	(14.1)
(113.9)	Finance leases	(112.2)	1.7	1.5
135.6	Loans receivable from joint ventures	142.0	6.4	4.7
24.5	Cross currency swaps	37.1	12.6	51.4
(5,356.6)	Net debt	(5,834.1)	(477.5)	(8.9)

Average monthly debt was £5,547.7 million (2018: £5,134.4 million)

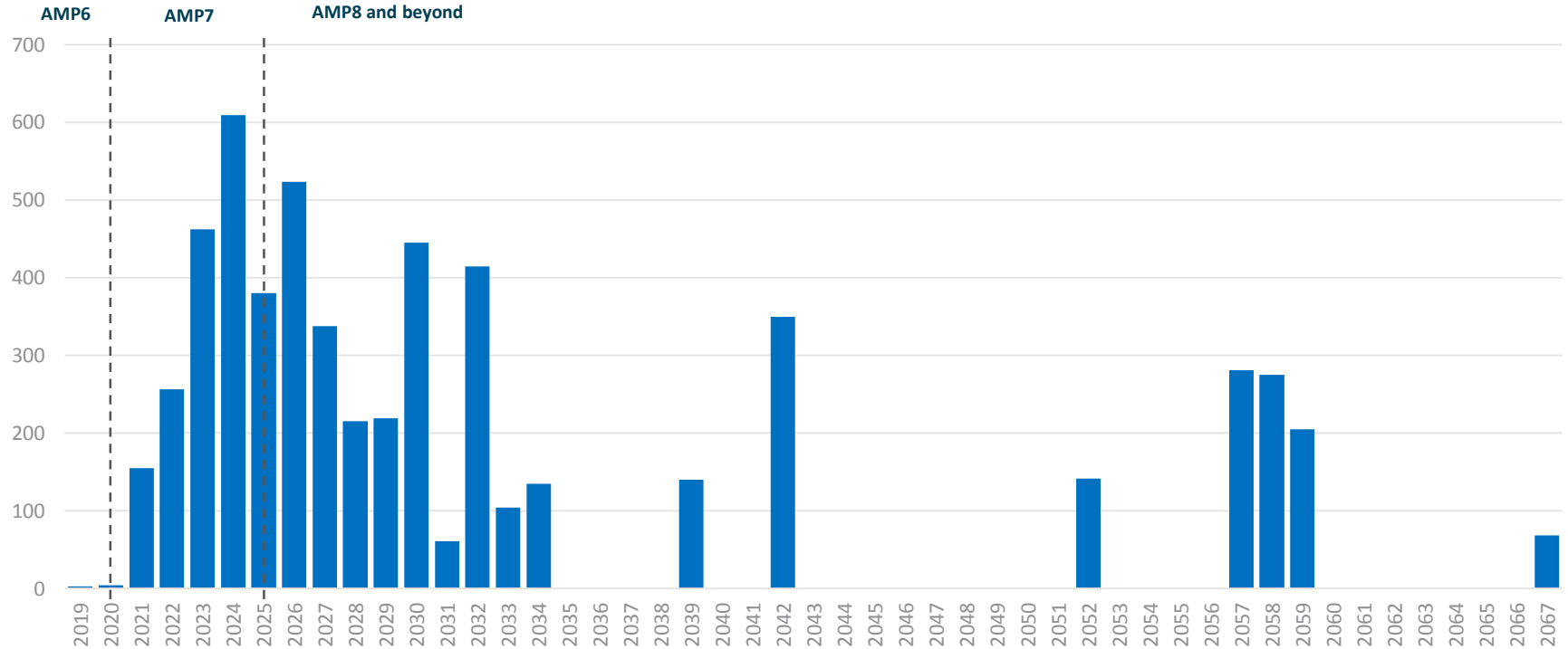
FAIR VALUE OF DEBT AT 31 MARCH 2019

2018 £m		2019 £m	Variance £m	Variance %
(1,109.8)	Floating rate debt	(1,004.2)	105.6	9.5
(3,360.6)	Fixed rate debt	(3,969.9)	(609.3)	(18.1)
(2,269.1)	Index-linked debt	(2,298.3)	(29.2)	(1.3)
(6,739.5)		(7,272.4)	(532.9)	(7.9)
38.5	Net cash and cash equivalents	39.6	1.1	2.9
135.6	Loans receivable from joint ventures and associates	142.0	6.4	4.7
24.5	Cross currency swaps	37.1	12.6	51.4
(6,540.9)	Fair value of net debt	(7,053.7)	(512.8)	(7.8)
(5,356.6)	Net debt (previous slide)	(5,834.1)	(477.5)	(8.9)
(1,184.3)	Difference	(1,219.6)	(35.3)	(3.0)

ANALYSIS OF BORROWINGS & NET DEBT AS AT 31 MARCH 2019



DEBT MATURITY AS AT 31 MARCH 2019



GEARING AND CREDIT RATINGS AS AT 31 MARCH 2019

31 March 2018 **Net Debt/RCV⁽¹⁾**

31 March 2019

60.6% Severn Trent Group ⁽²⁾

63.0%

60.8% Severn Trent Water Group ⁽³⁾

62.3%

31 March 2018			31 March 2019		
Severn Trent Water	Severn Trent Plc		Severn Trent Water	Severn Trent Plc	Outlook
A3	Baa1	Moody's	A3	Baa1	Negative
BBB+	BBB	Standard and Poor's	BBB+	BBB	Stable

1. Estimated RCV at 31 March 2019

2. Based on statutory net debt of £5,834m (2018: £5,357m)

3. Based on Severn Trent Water Group regulated net debt of £5,777m (2018: £5,375m)