

Q3 TRADING UPDATE AND AMP7 DIVIDEND

28 January 2020



WONDERFUL ON TAP





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HEADLINES

Q3 Trading Update

No material changes to performance or outlook since HY 2019/20

Final Determination

We have accepted the Severn Trent Water Final Determination for the next five years

AMP7 dividend policy

2019/20 dividend to transition into AMP7 with growth of at least CPIH



Q3 TRADING UPDATE

Update for the period 1 October 2019 to 28 January 2020

No material change to performance or outlook since the interim results announcement

Customer ODIs

- Continue to guide to **at least £25 million** net outperformance payment
- Delivering consistent **improvement across Water** measures including leakage, supply interruptions and water quality complaints
- On track to deliver significant **end of AMP environmental schemes** – unlocked through uncapping
- **Water Framework Directive** is progressing well and will have improved 1,600km of river quality in our region by the end of AMP6
- Benefit will be partly offset by **tougher targets** on some of our operational Waste measures, agreed as part of uncapping



STW Final Determination

We have accepted our Final Determination for the next five years



WONDERFUL ON TAP



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:

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



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

1% of profit community dividend








2,100km of river quality improvements

Helping **200,000** customers a year pay their bill by 2025



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%**

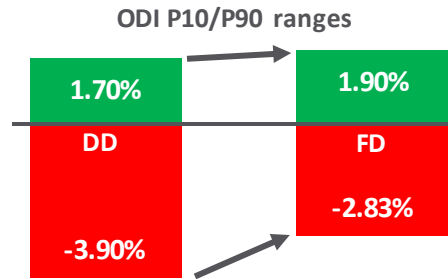
Revenue re-profiled, moving more into the early years

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

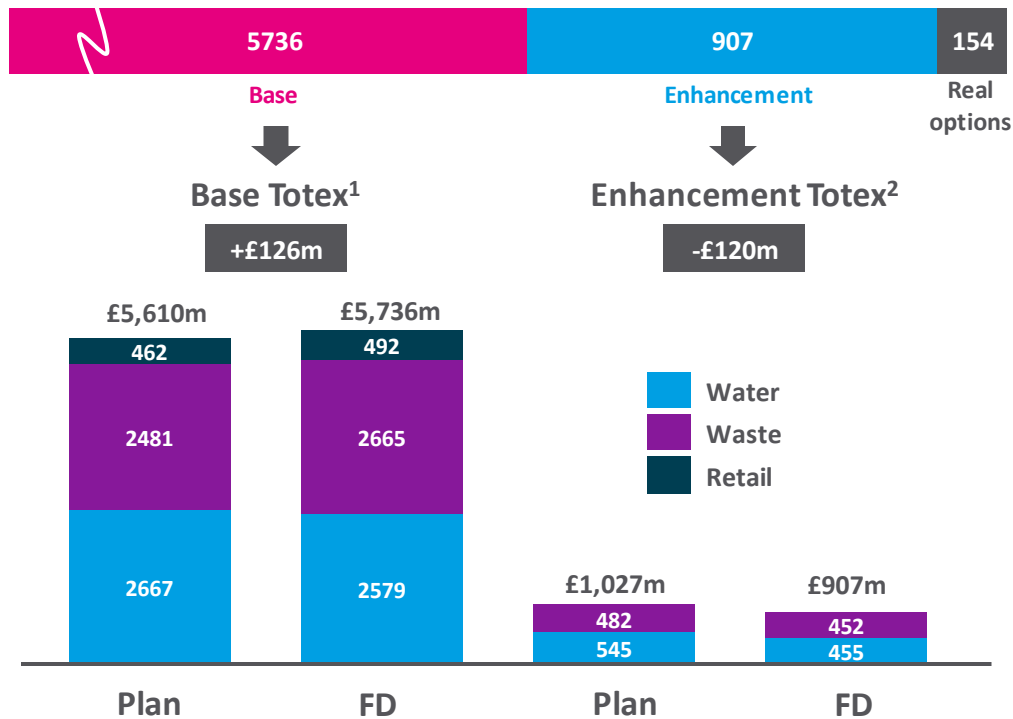
35 financial

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



STW and HD are two of the 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

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
Outperformance	AMP 7 Customer ODIs	Totex efficiencies	UQ Financing
Included in Final Determination	Fast track premium (10bps on RoRE¹ across AMP7)		
	£177m² AMP6 customer ODI carryover		
	Base regulatory dividend of 4%³		

**2019/20 dividend
will transition into
AMP7 whole**

**Growth of at least
CPIH throughout
AMP7**

**Expected 2020/21
dividend:
101.58p⁴**

1. Return on Regulated Equity

2. Based on technical guidance of >£25m of ODI reward in Y5 of AMP 6; 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

CAPITAL MARKETS DAY

Join us at Severn Trent Centre as
we share our plans to create a
sustainable future

RSVP: investorrelations@severntrent.co.uk

4 MARCH 2020

Q&A

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