



HALF YEAR 2019/20 RESULTS

21 November 2019

WONDERFUL ON TAP



DISCLAIMERS

Cautionary statement regarding forward-looking statements

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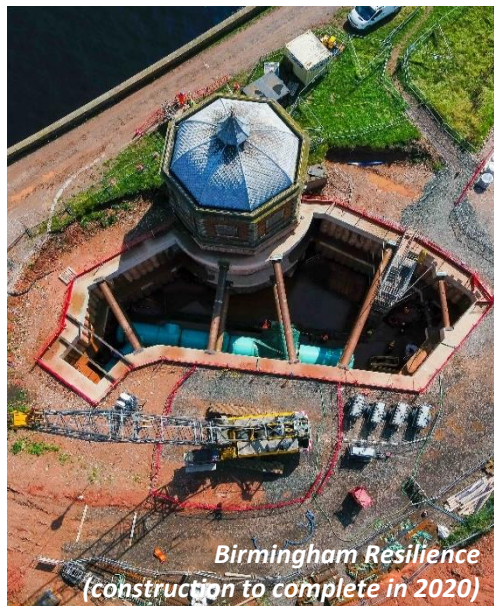
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LIV GARFIELD

Chief Executive



Finishing AMP6 in a strong position on key measures and capital schemes...



Balanced performance with consistent improvement in Water

Leakage

on track to hit target
for 8th time in 9 years

Supply interruptions

40% improvement
year-on-year

WQ complaints

25% reduction
over AMP6

Invested £374m in H1
with Birmingham
Resilience on track

Continued leadership
on Waste, improving
1,600km of river

Performance supports
at least £25m of
customer ODIs this year

...while putting long term sustainability at the heart of our operations and financing

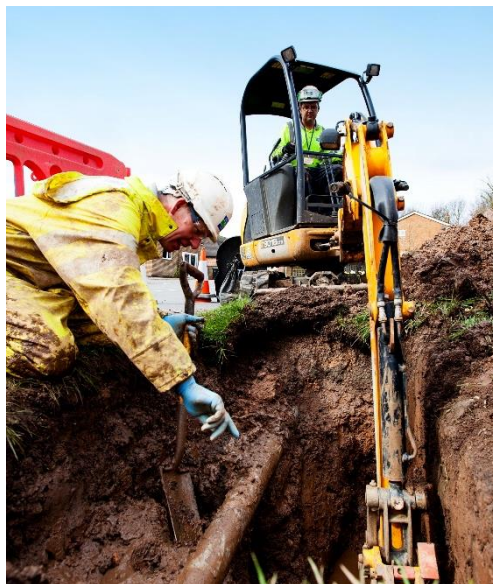
JAMES BOWLING

Chief Financial Officer



H1 2019/20 FINANCIAL HIGHLIGHTS

Group PBIT¹ of £286m – laying the foundations for AMP7 with a good set of results



Strong cost control

H1 operating costs in line with expectations;
9% real term reduction in STW operating costs in AMP6

Effective interest rate

3.7%

170 bps reduction in effective rate in AMP6, strong
position entering AMP7

Improved pension deficit

£391m

Supported by effective hedging strategy, strong asset
performance and sustainable contributions

Interim dividend

40.03p

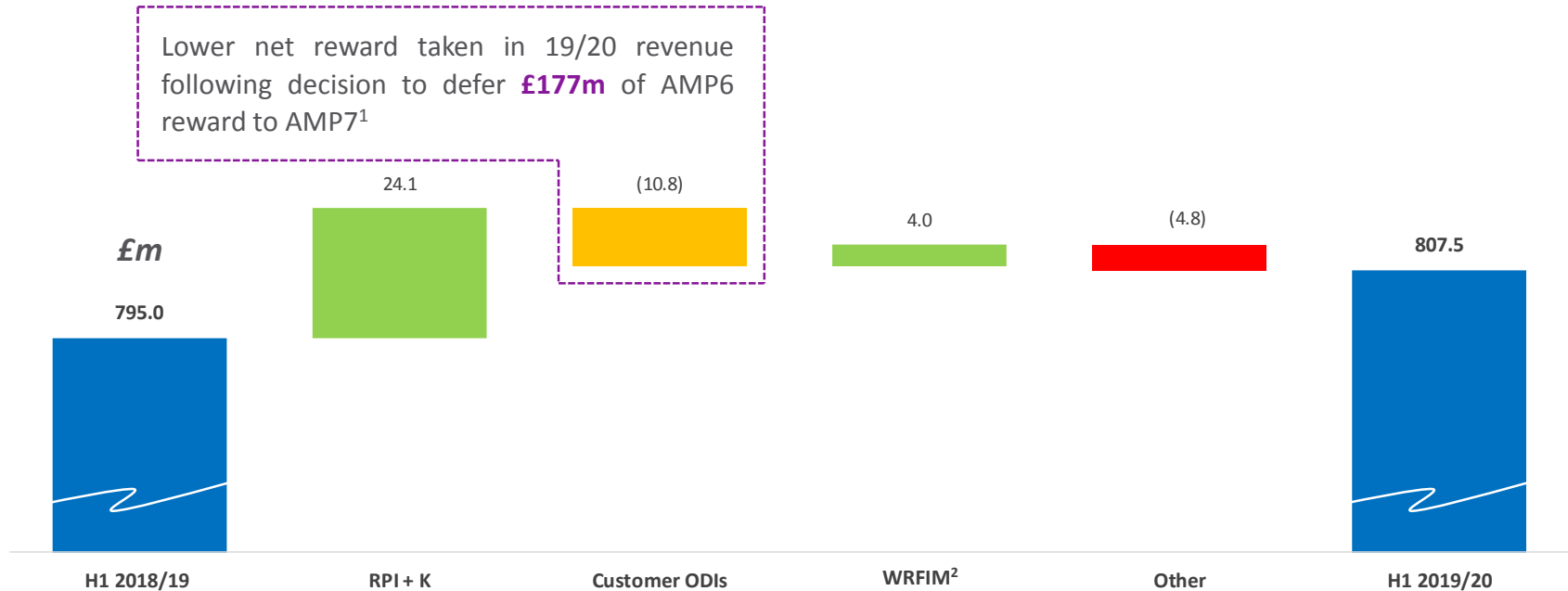
In line with dividend policy

Accredited with the Fair Tax Mark and launching a Sustainable Finance Framework to support the long term sustainability of our business

1. Underlying Profit before Interest and Tax (PBIT).

REGULATED WATER AND WASTE WATER

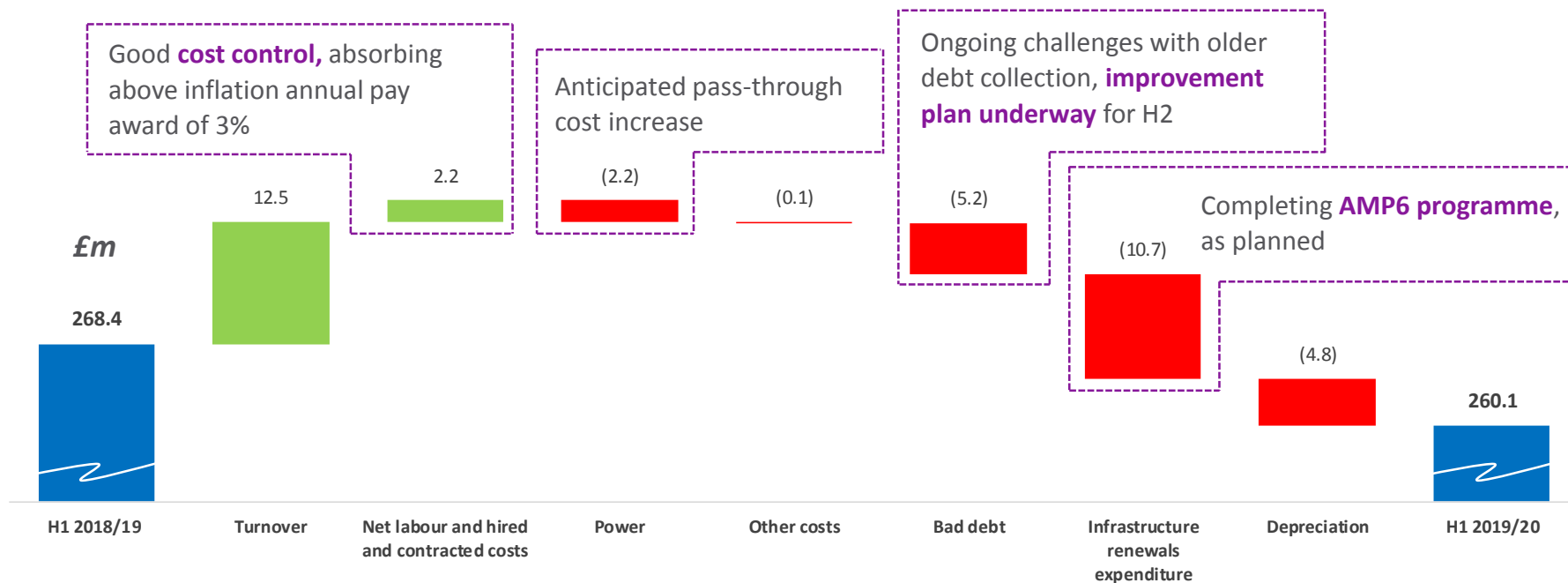
Revenue of £808m up 1.6%, as FY18 customer ODI rewards are deferred into AMP7



1. £177 million is quoted pre-tax in nominal prices, assuming customer ODIs are spread evenly across AMP7. The equivalent in 2012/13 prices is £132m. Figure includes FY19/20 guidance of at least £25 million (pre-tax, 2012/13 prices).
2. WRFIM = Wholesale Revenue Forecasting Incentive Mechanism, which trues up billing over the five year Final Determination.

REGULATED WATER AND WASTE WATER

Underlying PBIT¹ of £260m, with net tariff increases offset by infrastructure renewals



Operating Services

Efficiency across key contracts increasing **profit margin** from 7% to **over 13%** this year

Property Development

£6m of sales in H1, now **one third** through our £100m commitment
FY guidance of £5m-£10m



Energy generation

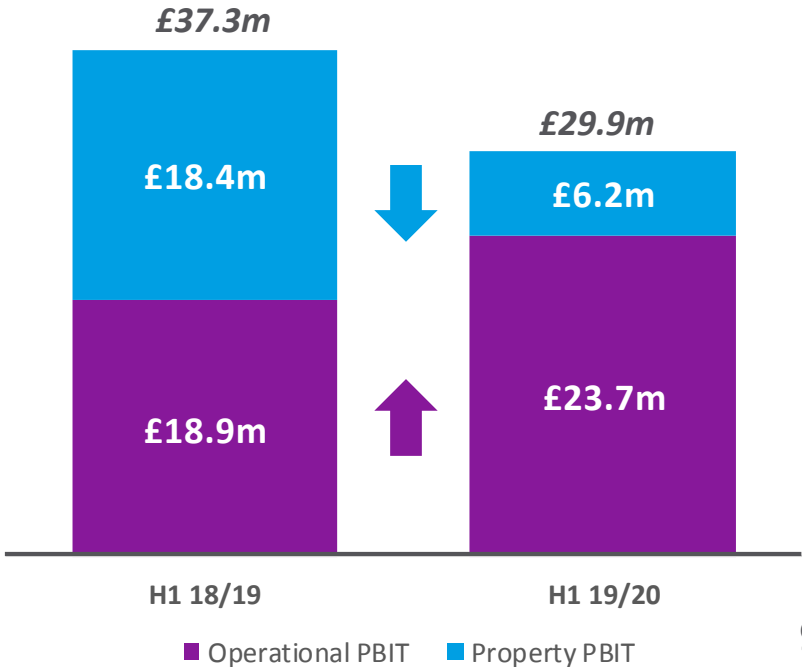
Successful integration of Agrivert contributed to generation of **242 GWh** in H1, equivalent to **51%** of our energy needs, helping to achieve our **triple carbon pledge**² by 2030

BUSINESS SERVICES

Turnover
£112m
+16%

PBIT¹
£29.9m
-20%

PBIT¹
(excl. property)
£23.7m
+25%



1. Underlying Profit before Interest and Tax (PBIT).
2. 100% renewable energy, 100% electric vehicles (assumes suitable specialist vehicles such as tankers become available), net zero carbon emissions.

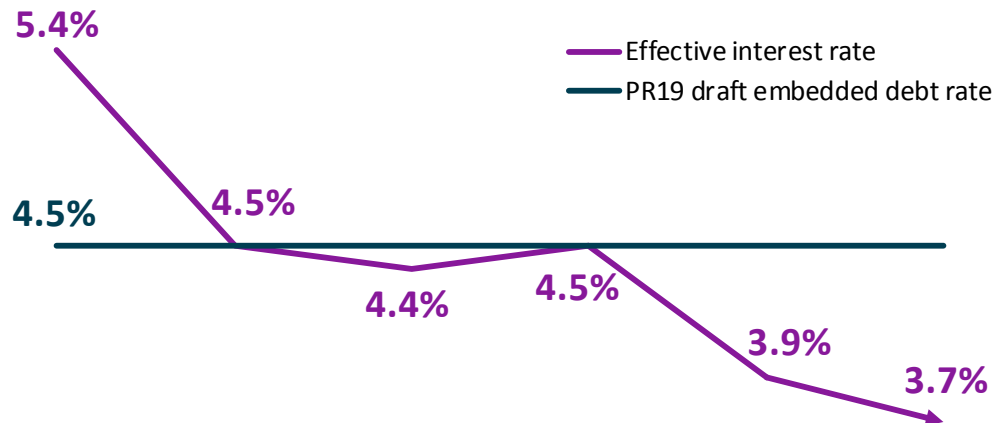
FINANCING PERFORMANCE

£93.8m

Net finance costs up marginally as impact of higher average debt is offset by lower effective interest rate

170 bps

Reduction in effective interest rate¹ in AMP6



£93.1m

£18.0m

£6.9m

£68.2m

£93.8m

£17.0m

£5.4m

£71.4m

RPI rolled up

Net pension finance cost

Cash interest²

H1 18/19

H1 19/20

10

1. Before net pension finance costs but including capitalised interest.
2. Net of capitalised interest.

A SUSTAINABLE FINANCING STRATEGY

De-risked and diversified portfolio...

Gearing¹ of
61.1%

CPI now **31%** of
index-linked
debt at **£475m**

Gross Debt - £6,168m

15%

Floating

60%

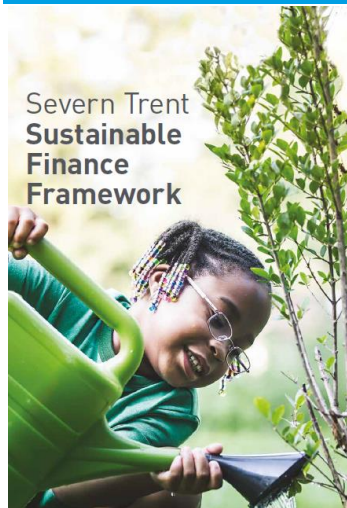
Fixed

25%

Index-Linked

...through an agile treasury strategy

Linking our financing to delivery of our sustainable commitments



Business case proposal



Assessment of eligibility for sustainable portfolio



Formal assessment by the
Sustainable Finance Committee



External assurance and reporting

Flexible framework can incorporate:

Committed
Facilities

Sustainable
Bonds

Private
Placements

Leases

Clear AMP7 strategy defined, with £3bn of debt to raise

GROUP CASH FLOW

H1 2019/20:

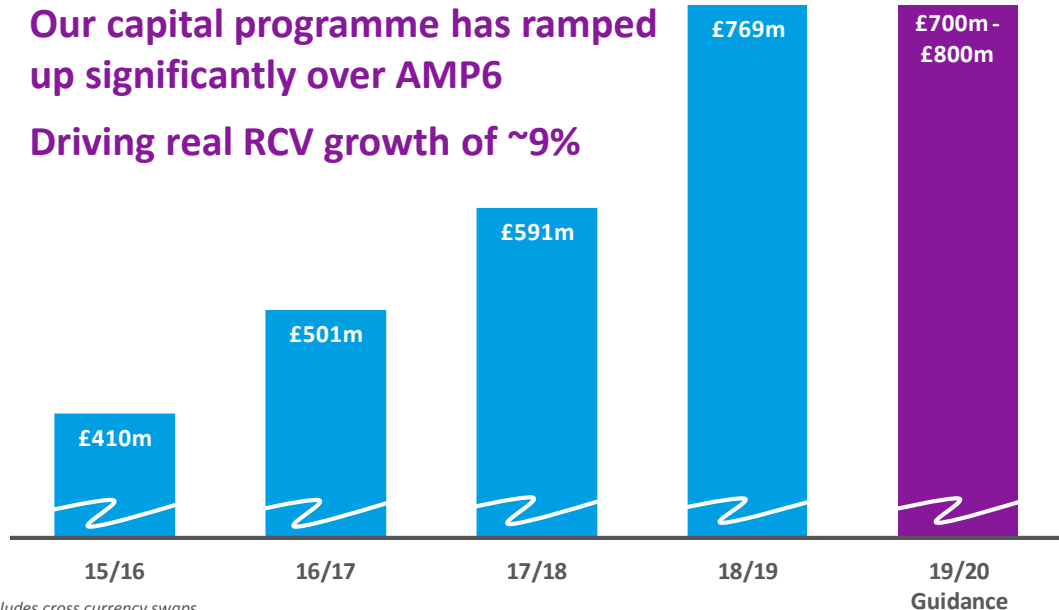
Cash from operations
£497m
up 1.5%

Capital expenditure
£374m
up 10%

Interest, dividends
& tax paid
£229m

Net Debt¹
£5,957m

- Our capital programme has ramped up significantly over AMP6
- Driving real RCV growth of ~9%



1. Includes cross currency swaps.



PENSIONS

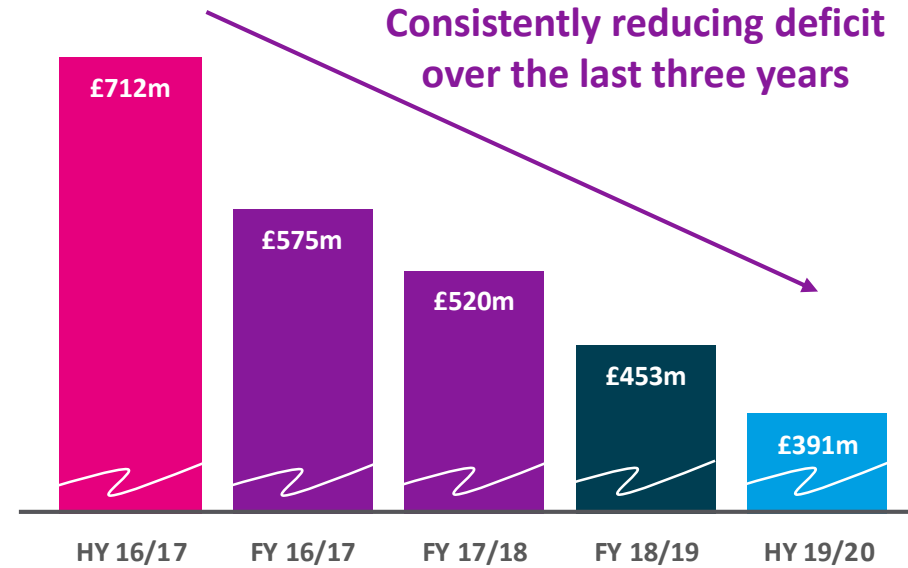
Successful management in a challenging environment

Strong **asset performance**, effective **hedging** strategy and **sustainable** cash contributions

Settlement agreed with the Trustee for average contributions of **£60m** p.a.

Future contributions **broadly in line** with **PR19** draft determination

Contributions cease should the scheme move into surplus



GROUP SUMMARY

**Good H1
performance**

PBIT¹ £286.3m; EPS² 68.8p

In line with expectations, full year guidance unchanged

**A successful
AMP6**

STW operating costs down 9%³

Effective interest rate down 170bps

**Strong AMP7
platform**

STW & HD gearing 61.1%⁴

Sustainable Finance Framework



Groundwork in place for a successful AMP7

1. Underlying Profit before interest and tax (PBIT).
2. Underlying Earnings per Share (EPS) before amortisation of acquired intangible assets, net gains/losses on financial instruments, current tax on financial instruments and deferred tax. Reported basic EPS from continuing operations of 61.7p (2018/19: 69.8p).
3. Severn Trent Water Limited operating costs (excluding IRE and depreciation) down 9% on a real basis, flat in nominal terms.
4. Severn Trent Water Group (Severn Trent Water and Hafren Dyfrdwy combined) Net Debt/Regulatory Capital Value.

LIV GARFIELD

Chief Executive





REFLECTING ON AMP6

The lowest bills and most trusted water company in England¹

Improving service for customers

Over AMP6 we expect **at least**²

↓50%

External sewer flooding

↓6%

Leakage

↓25%

Internal sewer flooding

↓25%

WQ complaints

RoRE outperformance across all levers

Cumulative RoRE of

9.1%

over first 4 years of AMP6

Deferring at least

£177m

of customer ODI revenue

£460m

of totex outperformance

Effective interest rate down

170bps

Investing for the long term

Investing over

£6bn

Self-generating

51%

of our energy needs

Improving

1,600km

of our rivers

Driving real RCV growth of

~9%

Contributing to society

Annually helping over

50,000

customers pay their bill

Top 3

Hampton-Alexander review

Awarded

Green Economy

Mark by the LSE

Top 3

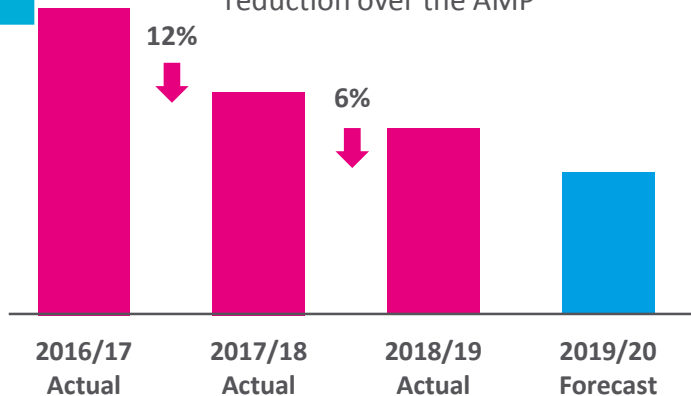
in Social Mobility Index

16

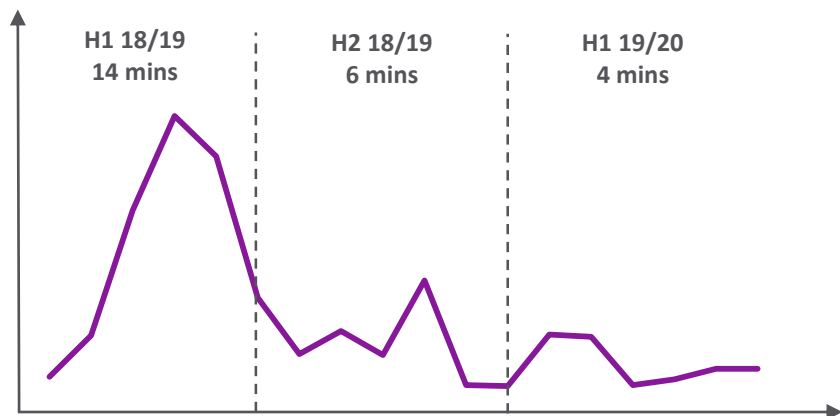
1. Future Thinking survey names Severn Trent as the most trusted water and waste water company in England, on average over two years;

2. Based on latest forecasts.

Water quality complaints: delivering a 25% reduction over the AMP



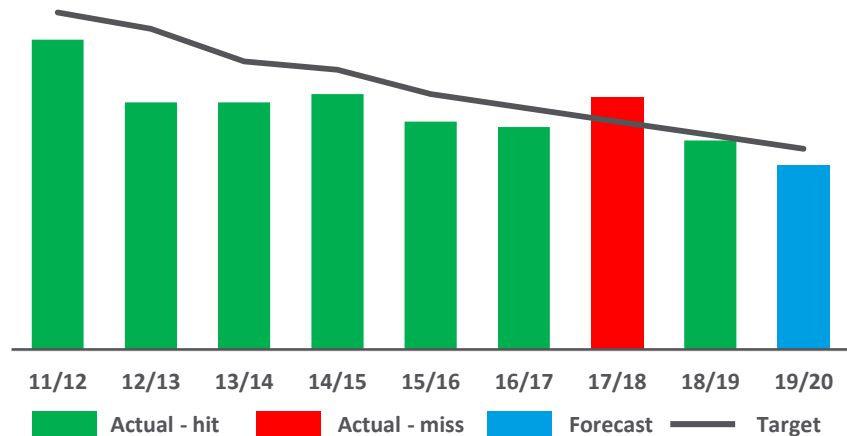
Supply interruptions: on track for 40% reduction year-on-year with 4 mins in H1 but winter still to come



STRONG PERFORMANCE IN WATER

Well positioned on key measures as we head into AMP7

Leakage: expect to hit target for 8 in 9 years to deliver 6% AMP reduction – the second largest in the sector



SPOTLIGHT: SUPPLY INTERRUPTIONS

Insourcing specialist teams driving a second consecutive 40% reduction

Team of experts to reduce the time and cost to fix complex and high-impact bursts



Trunk Main Repair team

- £1m invested in specialist tools and vehicles
- Repairing leaks before they interrupt supply
- Cost per job more than halved

Prevent

Restore

Repair

Rapid response team, focused on reconnecting customers during a supply interruption

Network Response team

- Centralised equipment, ready to go 24/7
- Invested £9m – estimated 2 year payback with opex savings and penalty avoidance
- Response time reduced by almost 50%





OPERATIONAL EXCELLENCE

A fast start to AMP6 on Waste

We earned our position as a leader on Waste early in the AMP through:

Upfront investment on key measures

Targeted interventions on 'hot spots'

Incentivisation for our people and supply chain



£190m

Waste
customer ODIs

Hitting the
outperformance
cap on Waste

8%
below
allowance

AMP7 base totex
plan below Ofwat
allowance

Expect a strong finish on Water

We have taken some bold decisions to improve our Water performance in the second half of the AMP:

Insourcing core skills

Smart investment

Innovative technology

Targeted interventions



Interventions on Water typically **take longer to impact** performance but we are now seeing **consistent improvement** across key measures

Positioning us well for a more rounded performance in AMP7



ENVIRONMENTAL LEADERSHIP

Investing to improve the environment we interact with every day

Recycling water back into the environment in a healthier state than when we abstracted it:

Water Framework Directive

- Improved the quality of **over 1,600km of rivers** in our patch
- Reducing **chemical content** and lessening our impact on **river flows**
- At least **£350m of totex** to improve **2,100km** of rivers in AMP7

Sustainable Sewage Treatment

- Sustainable solutions to **growth pressures** from population and industry
- Must be **innovative** to qualify for the programme
- Efficiency helps keep **customers' bills low** while earning **customer ODIs**



Case study: 'BioMag'

Iron ore used to process more water and produce a better quality effluent with existing assets

BIRMINGHAM RESILIENCE



Enhanced resilience for 1.2 million customers in Birmingham

Our largest ever engineering project

£300m
investment

130MI/d
new supply

26km
new pipe

**New water
treatment works**

Enabling us to maintain the 119km gravity-fed **Elan Valley Aqueduct**

The project required an extensive programme of customer and community engagement

- Approach informed by **1,000+ customers**
- Successfully completed **two trial runs**
- Distributed **6,000 children's books** and toured a **theatre production** to engage local community

110,000

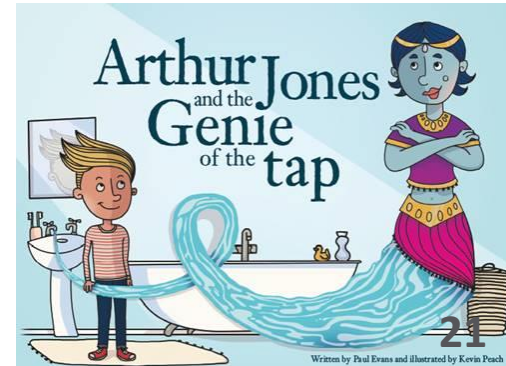
texts sent

200,000

facebook
contacts

ZERO

water quality
complaints





AWESOME PLACE TO WORK

Creating the right culture makes us successful now and in the future

We care about our colleagues

- Nearly **2,000** people trained in **mental health**
- Offering a **24/7 GP service** to everyone
- **Sharing in success** with top to bottom alignment of **bonus** scheme
- **95%** of colleagues trained in identifying and reporting **modern slavery**



Our people are engaged

- Employee engagement score of **8.1** puts us in the **top 5% of global utilities** and 13% above the average of UK utilities
- **70%** of colleagues investing in the future of our business through **Sharesave**



We are embedding inclusivity

- **Top 3** employer in **Social Mobility** Index
- **25%** of our 2019 Grads from **BAME** backgrounds
- Internships for people with **learning disabilities**
- **Top 3** in the **Hampton-Alexander** review



AMP7 BUILDING BLOCKS

Performance across AMP6 and fast-track preparation positions us well for AMP7...

**Strong operational improvement
across Water and Waste**

**UQ financing at 3.7%; launched
Sustainable Finance Framework**

**£177m of customer ODI revenue
to be recognised in AMP7**

**AMP6 cost control puts us on
the right totex glide path**



**Supply chain appointed and
design team insourced**

**Two thirds of £100m property
profit commitment to come**

**Focused non-reg business
with growing EBITDA**

**Performance driven culture
and an engaged workforce**

...underpinned by a strong and experienced management team

CAPITAL MARKETS DAY

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

4 MARCH 2020

Q&A

APPENDIX

FY20 TECHNICAL GUIDANCE

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.	£(5)m	▲
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 £7 million net penalty for customer ODIs (Customer Outcome Delivery Incentives, quoted pre-tax in 19/20 prices) relating to 2017/18 with the balance of that year's net reward deferred to AMP7.

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

3. Excludes AMP6 SIM customer ODI outcome.

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

UNDERLYING EBITDA¹

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018		2019	Variance	Variance
£m		£m	£m	%
428.0	Regulated Water and Waste Water	424.5	(3.5)	(0.8)
51.5	Business Services	48.3	(3.2)	(6.2)
(6.8)	Corporate and other	(3.6)	3.2	47.1
0.3	Eliminations	(0.1)	(0.4)	(133.3)
473.0	Severn Trent Group	469.1	(3.9)	(0.8)

1. Earnings from continuing operations before interest, tax, depreciation, amortisation and amortisation of acquired intangible assets.

BUSINESS SERVICES UNDERLYING EBITDA¹

SIX MONTHS ENDED 30 SEPTEMBER 2019

	Regulated £m	Non Regulated £m	Total £m
Operating Services	–	4.7	4.7
Energy	(1.1)	9.9	8.8
Bioresources	25.1	–	25.1
Property Development	3.2	3.0	6.2
Other	1.8	1.7	3.5
Underlying EBITDA	29.0	19.3	48.3
Depreciation	(12.5)	(5.7)	(18.2)
Amortisation ²	–	(0.2)	(0.2)
Underlying PBIT	16.5	13.4	29.9

1. Earnings before interest, tax, depreciation, amortisation and amortisation of acquired intangible assets.

2. Excluding amortisation of acquired intangible assets.

DEPRECIATION¹

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018		2019	Variance	Variance
£m		£m	£m	%
159.6	Regulated Water and Waste Water	164.4	4.8	3.0
14.4	Business Services	18.4	4.0	27.8
–	Corporate and other	–	–	–
(0.1)	Eliminations	–	0.1	100.0
173.9	Severn Trent Group	182.8	8.9	5.1

1. Including amortisation of intangible assets, before amortisation of acquired intangible assets.

POWER

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018				2019		
Segmental analysis £m	Self generation £m	Group £m		Segmental analysis £m	Self generation £m	Group £m
Turnover						
31.0	(8.6)	22.4	Business Services	45.7	(8.2)	37.5
Cost						
(49.2)	8.2	(41.0)	Regulated Water and Waste Water	(51.4)	8.1	(43.3)
(3.0)	0.4	(2.6)	Business Services	(2.0)	0.1	(1.9)
		(43.6)	Severn Trent Group			(45.2)

NET FINANCE COSTS

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018			2019			
Income statement charge £m	Capitalised interest £m	Gross interest incurred £m		Income statement charge £m	Capitalised interest £m	Gross interest incurred £m
68.2	15.7	83.9	Cash interest (including accruals)	71.4	21.1	92.5
6.9	–	6.9	Net pension finance cost	5.4	–	5.4
18.0	–	18.0	Inflation uplift on index-linked debt	17.0	–	17.0
93.1	15.7	108.8		93.8	21.1	114.9

UNDERLYING EARNINGS PER SHARE

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018	2019	Variance	Variance
£m	£m	£m	%
299.1 Underlying profit before interest and tax	286.3	(12.8)	(4.3)
(93.1) Net finance costs	(93.8)	(0.7)	(0.8)
206.0 Underlying profit before tax	192.5	(13.5)	(6.6)
(25.0) Tax at the underlying effective rate of 10.3% (2018: 12.1%)	(19.9)	5.1	20.4
– Current tax in respect of prior years	0.4	0.4	100.0
(0.9) Share of net loss of joint ventures	(9.3)	(8.4)	(933.3)
180.1 Earnings for the purpose of underlying basic and diluted earnings per share	163.7	(16.4)	(9.1)
236.4 Weighted average number of ordinary shares for basic earnings per share	237.8	1.4	0.6
76.2 Underlying basic EPS from continuing operations	68.8	(7.4)	(9.7)

GROUP BALANCE SHEET

AT 30 SEPTEMBER 2019

31 March 2019 £m		30 September 2019 £m	Variance £m	Variance %
9,300.7	Property, plant and equipment, right-of-use assets, intangible assets and goodwill	9,590.7	290.0	3.1
37.0	Investments in joint ventures	27.7	(9.3)	(25.1)
109.7	Working capital	46.1	(63.6)	(58.0)
(1,093.0)	Deferred income	(1,141.8)	(48.8)	(4.5)
(452.9)	Net retirement benefit obligations	(390.6)	62.3	13.8
(51.4)	Provisions	(45.4)	6.0	11.7
(9.3)	Current tax	(0.2)	9.1	97.8
(747.5)	Deferred tax	(776.1)	(28.6)	(3.8)
(95.1)	Other derivative financial instruments	(123.8)	(28.7)	(30.2)
6,998.2	Capital employed	7,186.6	188.4	2.7
1,164.1	Equity	1,229.8	65.7	5.6
5,834.1	Net debt	5,956.8	122.7	2.1
6,998.2		7,186.6	188.4	2.7

PENSION MOVEMENTS AT 30 SEPTEMBER 2019

	31 March 2017 ¹ £m	31 March 2018 £m	31 March 2019 £m	30 September 2019 £m	Total £m
Opening net pension deficit	(711.7)	(574.6)	(519.8)	(452.9)	
Cash contributions	33.2	35.3	35.0	0.3	103.8
Return on plan assets	65.4	60.7	156.9	341.9	624.9
Changes in discount rate and other assumptions	172.0	28.5	(77.0)	(241.8)	(118.3)
Changes to obligations from scheme experience	(84.8)	1.9	39.0	(2.0)	(45.9)
GMP equalisation costs	–	–	(9.6)	–	(9.6)
Acquisition of Dee Valley Water	9.8	–	–	–	9.8
Finance and other costs	(58.5)	(71.6)	(77.4)	(36.1)	(243.6)
Closing net pension deficit	(574.6)	(519.8)	(452.9)	(390.6)	

1. Opening net deficit position as at 1 October 2016. Pension deficit movements shown are for the six-month period to 31 March 2017.

CAPITAL EXPENDITURE (NET CASH)¹

SIX MONTHS ENDED 30 SEPTEMBER 2019

2018		2019	Variance	Variance
£m		£m	£m	%
333.1	Regulated Water and Waste Water	369.2	36.1	10.8
4.2	Business Services	4.7	0.5	11.9
2.8	Corporate and other	0.2	(2.6)	(92.9)
340.1	Severn Trent Group	374.1	34.0	10.0

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 30 SEPTEMBER 2019

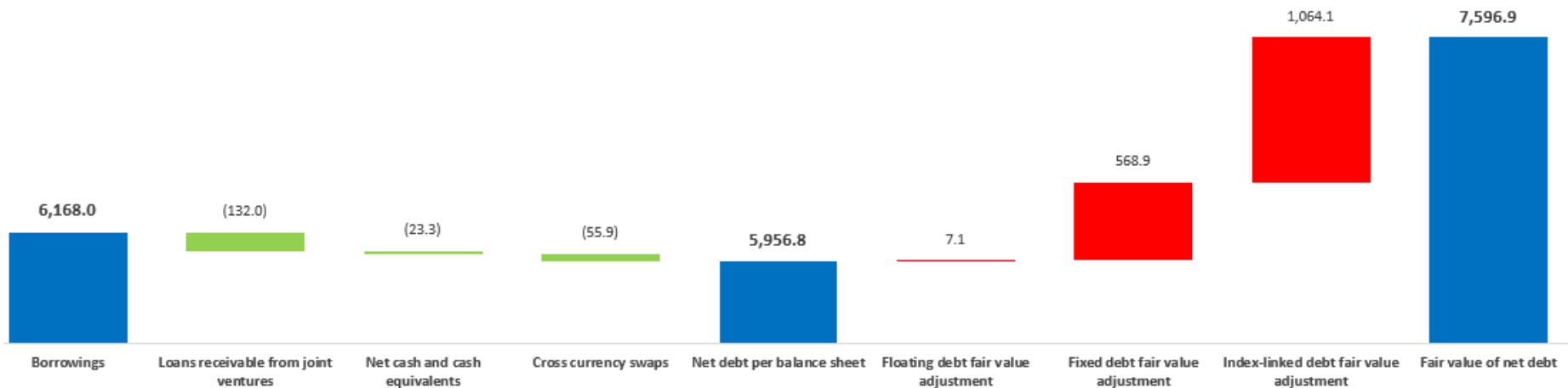
31 March 2019 £m		30 September 2019 £m	Variance £m	Variance %
(1,120.1)	Bank loans	(1,196.6)	(76.5)	(6.8)
(4,820.5)	Other loans	(4,842.7)	(22.2)	(0.5)
(112.2)	Finances leases/lease liabilities	(128.7)	(16.5)	(14.7)
39.6	Net cash and cash equivalents	23.3	(16.3)	(41.2)
37.1	Cross currency swaps	55.9	18.8	50.7
142.0	Loans receivable from joint ventures	132.0	(10.0)	(7.0)
(5,834.1)	Net debt	(5,956.8)	(122.7)	(2.1)

1. Average monthly debt was £5,902.9 million (2018: £5,547.7 million).

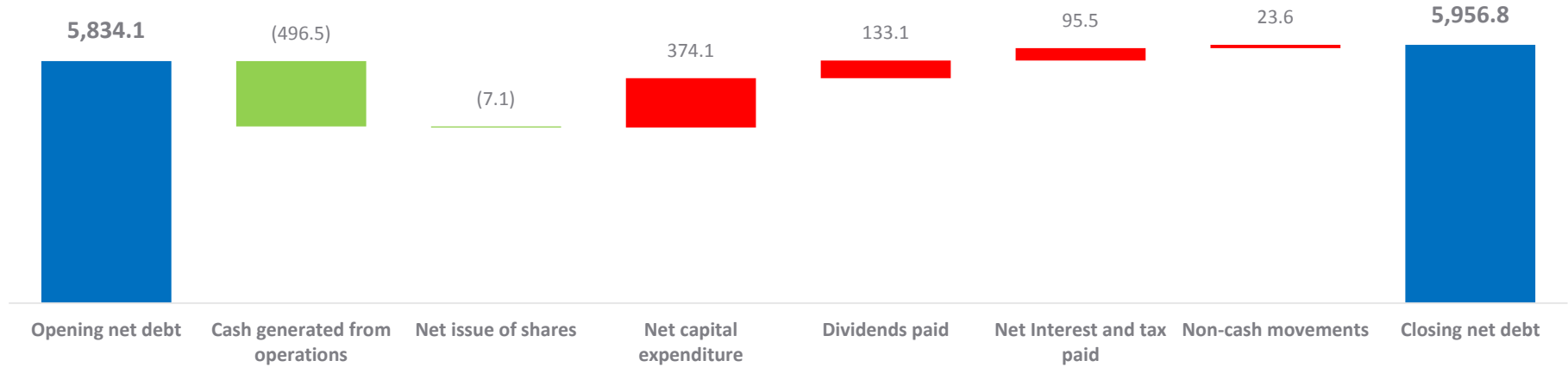
FAIR VALUE OF DEBT AT 30 SEPTEMBER 2019

31 March 2019 £m		30 September 2019 £m	Variance £m	Variance %
(1,004.2)	Floating rate debt	(1,087.4)	(83.2)	(8.3)
(3,969.9)	Fixed rate debt	(4,154.7)	(184.8)	(4.7)
(2,298.3)	Index-linked debt	(2,566.0)	(267.7)	(11.6)
(7,272.4)		(7,808.1)	(535.7)	(7.4)
39.6	Net cash and cash equivalents	23.3	(16.3)	(41.2)
142.0	Loans receivable from joint ventures	132.0	(10.0)	(7.0)
37.1	Cross currency swaps	55.9	18.8	50.7
(7,053.7)	Fair value of net debt	(7,596.9)	(543.2)	(7.7)
(5,834.1)	Net debt (previous slide)	(5,956.8)	(122.7)	(2.1)
(1,219.6)	Difference	(1,640.1)	(420.5)	(34.5)

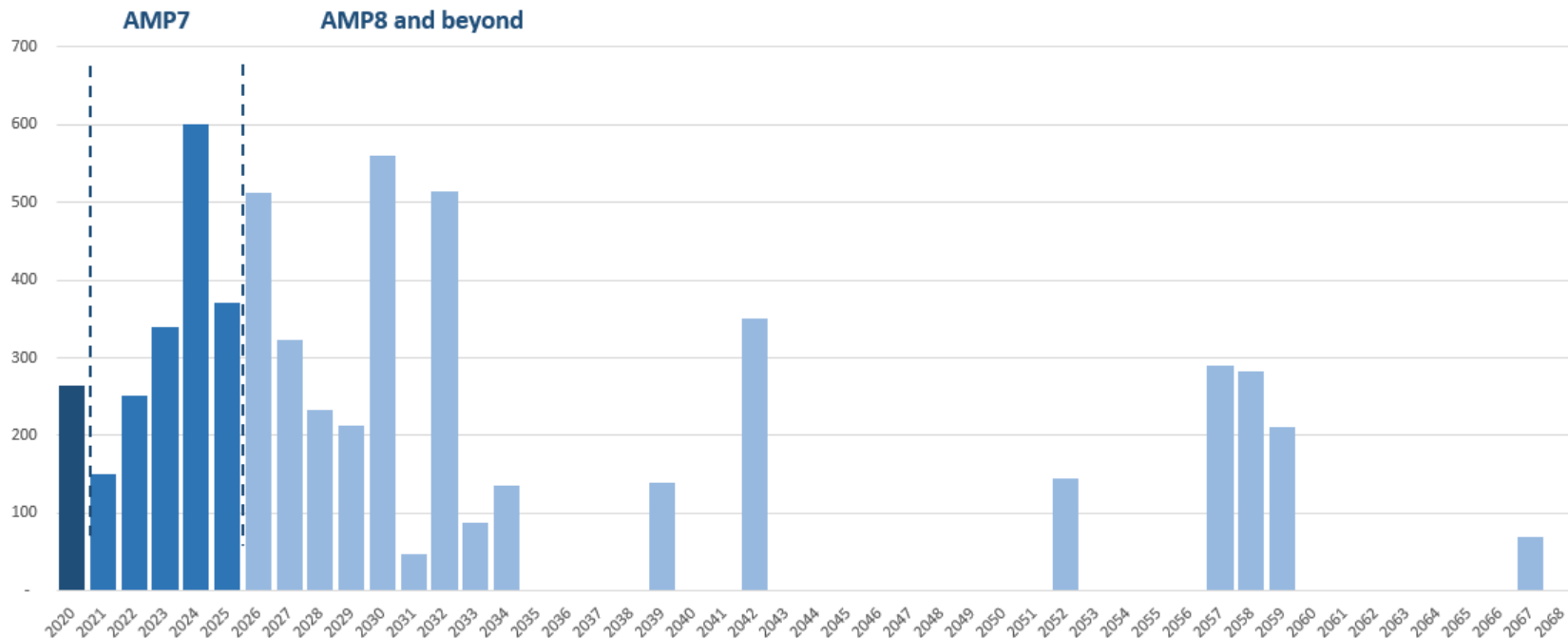
ANALYSIS OF BORROWINGS & NET DEBT AT 30 SEPTEMBER 2019



NET DEBT & CASH FLOW AT 30 SEPTEMBER 2019



DEBT MATURITY AS AT 30 SEPTEMBER 2019



GEARING AND CREDIT RATINGS

AS AT 30 SEPTEMBER 2019

30 September 2018	31 March 2019	Net debt/RCV ¹	30 September 2019
59.6%	63.0%	Severn Trent Group ²	63.1%
59.0%	62.3%	Severn Trent Water Group ³	61.1%

31 March 2019			30 September 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 30 September 2019.

2. Based on statutory net debt of £5,957m (31 March 2019: £5,834m).

3. Based on Severn Trent Water Group regulated net debt of £5,720m (31 March 2019: £5,777m) .