

HALF YEAR 2017/18 RESULTS

23 November 2017

Upper Derwent Valley, Peak District National Park

SEVERN
TRENT

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.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest Annual Report and Accounts (which have not been updated since the date of its publication); changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

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LIV GARFIELD

Chief Executive

H1 2017/18: KEY HIGHLIGHTS

Our vision

By 2020 to be the most trusted water company:
delivering an outstanding customer experience, the best value service and environmental leadership



Carsington Water, Derbyshire

At least £50m

of FY17/18 customer ODIs⁽¹⁾ net outperformance payments,
and we now expect to hit the Waste cap⁽²⁾ for AMP6⁽³⁾

c.£100m

PBIT⁽⁴⁾ from property sales over next 10 years

A further £50m of the £770m

AMP6 totex⁽⁵⁾ efficiencies locked in

Upper quartile customer service

Ranked in the top five of 25 utility companies in the
UK Customer Service Index

1. Customer Outcome Delivery Incentives, quoted pre-tax at 2012/13 prices

2. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, leaving £115m remaining

3. AMP6 = Asset Management Plan regulatory period 2015-2020

4. PBIT = Profit Before Interest and Tax

5. Totex = total expenditure at nominal prices



JAMES BOWLING

Chief Financial Officer

H1 2017/18: FINANCIAL HIGHLIGHTS

Group turnover⁽¹⁾

£850.4m
+3.7%

Underlying PBIT^(1,2)

£287.8m
+4.4%

Financing

4.5%
Effective interest rate

Forecast customer ODI⁽³⁾ outperformance payments

At least £50m
for FY2017/18

Underlying basic EPS^(1,4)

65.9 pence
+7.7%

Half-year dividend

34.63 pence
+6.2%

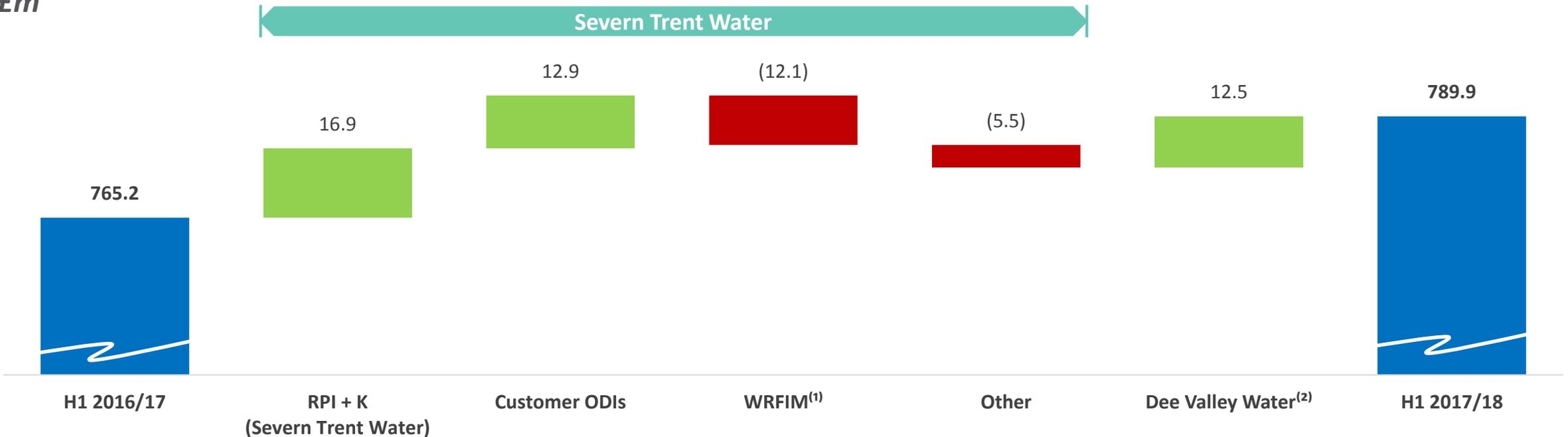
1. Comparative restated to exclude discontinued operations
2. Underlying PBIT = Profit Before Interest, Tax and exceptional items. Reported PBIT of £296.1m (2016/17: £296.7m) includes exceptional credits of £8.3m (2016/17: £21.0m)
3. Customer Outcome Delivery Incentives. Overall pre-tax outperformance payments at 2012/13 prices
4. Underlying EPS = Earnings Per Share 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 62.6p (2016/17: 78.4p)

REGULATED WATER AND WASTE WATER

**Turnover
£789.9m**

- Up 3.2% , driven by RPI-linked price increases in Severn Trent Water (£16.9m), and addition of Dee Valley (£12.5m)
- Revenue uplift from 2015/16 rewards (£12.9m) fully offsets WRFIM⁽¹⁾ (£12.1m) for the same year

£m



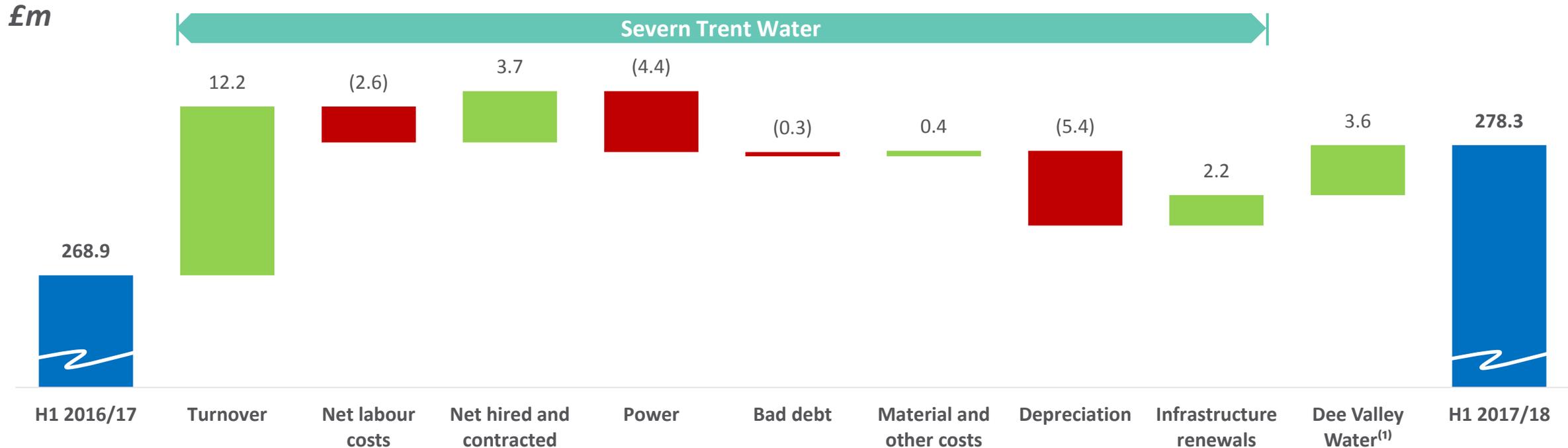
1. WRFIM = Wholesale Revenue Forecasting Incentive Mechanism

2. This is all of the turnover of Dee Valley Water for H1 2017/18, as we did not own the company until February 2017

REGULATED WATER AND WASTE WATER

Underlying PBIT
£278.3m

- Up 3.5% driven by higher turnover, good cost control and addition of Dee Valley
- Severn Trent Water power costs up 11% from higher pass through costs, as guided, but partially mitigated by a c.1% reduction in consumption
- Depreciation costs up due to growth in capital assets



1. This is all of the Underlying PBIT of Dee Valley Water for H1 2017/18, as we did not own the company until February 2017. Please see the Regulated Water and Waste Water section of the CFO report for details

BUSINESS SERVICES

Turnover: £70.2m

- 9.3% increase from growth in both Operating Services and Renewable Energy

£m



Underlying PBIT: £16.4m

- Up 22.4% reflecting revenue growth and improving margins

£m



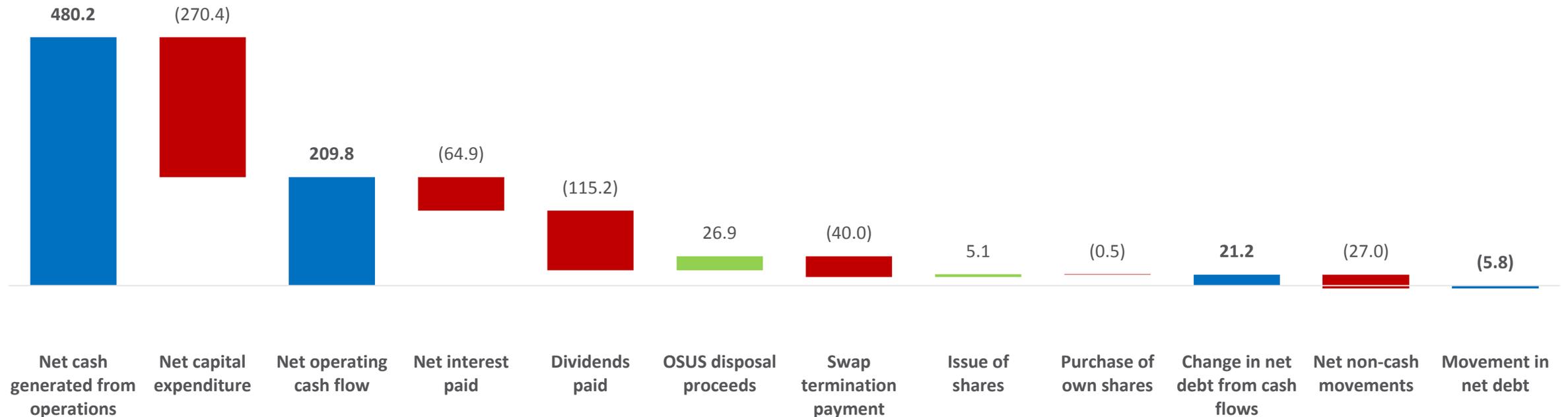
1. Excludes our Operating Services activities in the USA and Italy, which have been reclassified as discontinued operations, as detailed in the RNS announcement dated 19 July 2017 – “Trading update for the period 1 April to 19 July 2017”

GROUP CASH FLOW AND NET DEBT

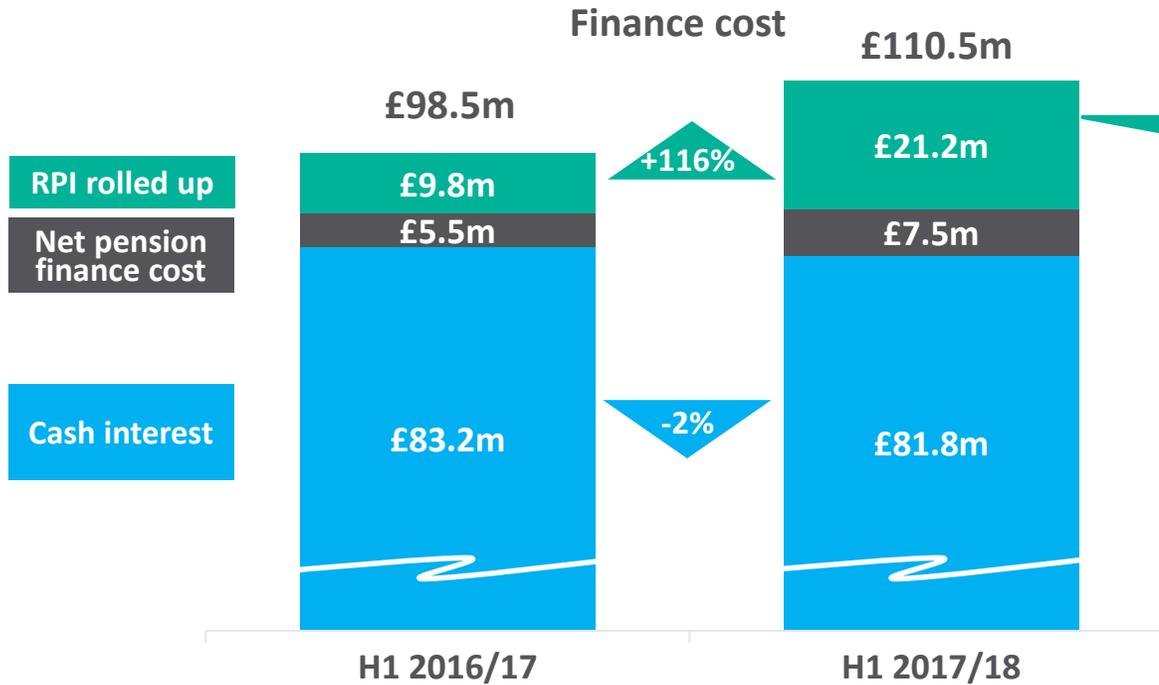
Net debt flat

- Underlying cash flow strong, supporting increased capital programmes and growing dividends

£m



FINANCING PERFORMANCE



RPI Inflation⁽¹⁾

- Higher RPI increased debt roll up by £11.4m in H1 2016/17
- c.£12m⁽²⁾ p.a. higher finance cost per percentage point RPI increase
- The benefits to revenue and RCV growth more than offset the higher interest cost

Every 1% increase in RPI benefits:

Revenue
c.£15m p.a.
RCV
c.£90m at year end

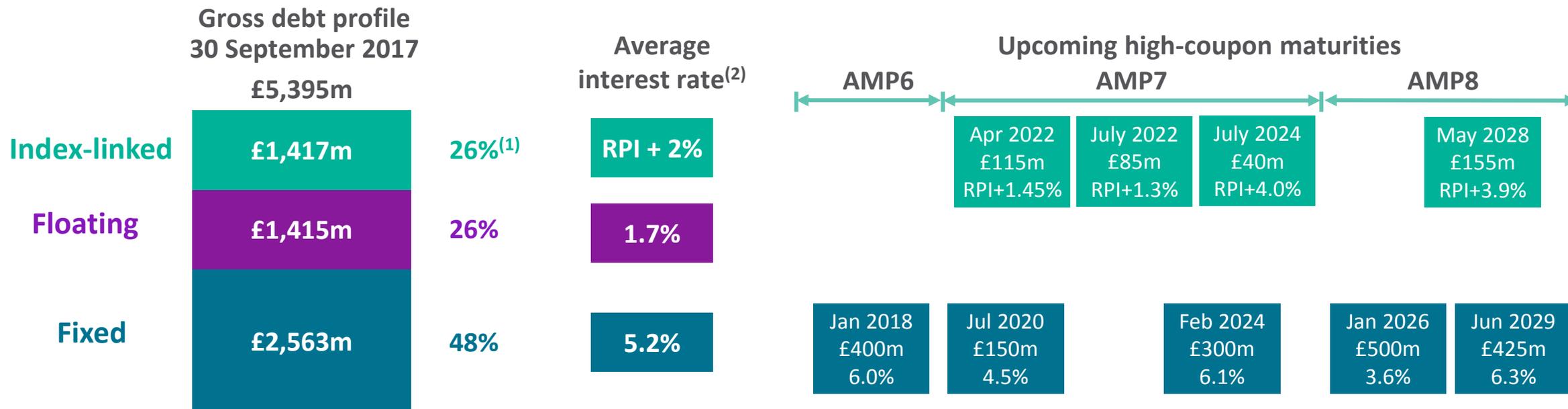
- ### Key H1 17/18 activities
- £250m four year sterling bond issued
 - Executed our first forward-dated RPI:CPI swap
 - Terminated swaps of £150m on favourable terms

Effective interest rate
4.5%
up 0.3 percentage points on H1 2016/17
Effective cash interest cost ⁽³⁾
3.6%
down 0.2 percentage points on H1 2016/17

1. Average inflation applied to index linked debt H1 2017/18: 3.7% (H1 2016/17: 1.7%)
 2. After deducting capitalised interest at historic averages
 3. Effective cash interest cost (before net pension finance costs and RPI rolled up)

A BALANCED DEBT PORTFOLIO

Remaining ready to adapt to market conditions



£5,088m Net debt^(3, 4, 5)

59.2% Net debt/RCV⁽⁶⁾

Plus further new debt to fund totex programmes

1. Includes Dee Valley index-linked debt of £86m
 2. Assuming 6 month LIBOR as at 20 November 2017
 3. Includes cross currency swaps but excludes the pension deficit

4. Regulated net debt £5,145m (31 March 2017: £5,027m)
 5. 31 March 2017: £5,082m
 6. Estimated Regulatory Capital Value (RCV) at 30 September 2017 for Severn Trent Water and Dee Valley

FY2017/18 TECHNICAL GUIDANCE

Purple = new or revised guidance since FY 2016/17

Regulated Water and Waste Water ⁽¹⁾	Year end guidance	FY16/17 restated ⁽²⁾	Year on Year
Turnover	£1.57 billion to £1.60 billion	£1.53bn	▲
Opex	Higher year on year due to the inclusion of Dee Valley's costs and upward pressure from two sector-wide changes to business rates and energy pass-through costs	£581m	▲
IRE	£135 million to £155 million	£136m	▲
Customer ODIs ⁽³⁾	Net outperformance payment of at least £50 million	£48m	▲
Wholesale totex	£1.20 billion to £1.30 billion (42.1% of 17/18 wholesale totex will be added to RCV)	£1.06bn	▲
Business Services			
Turnover	Higher year on year	£128m	▲
PBIT	Higher year on year	£32m	▲
Group			
Interest charge	Higher year on year due to Dee Valley and impact of higher inflation (c.2%) on RPI linked debt	£205m	▲
Tax rate	Effective current tax rate between 12% and 14% due to lower tax rate and higher capital allowances from higher capex	16.6%	▼
Group capex	£620 million to £700 million	£501m	▲
Dividend	Annual dividend growth of at least RPI+4% until March 2020. 2017/18 dividend set at 86.55p ⁽⁴⁾	81.50p	▲
Longer term			
Customer ODIs	Expect to hit the Waste cap for AMP6⁽⁵⁾		
Property PBIT	c.£100 million over next 10 years at between £5 million to £15 million each year		

1. Regulated Water and Waste Water will include a full year of Dee Valley in 2017/18

2. Restated to reflect sale of Operating Services activities in the USA and Italy, which have been reclassified as discontinued operations, as detailed in the RNS announcement dated 19 July 2017 – "Trading update for the period 1 April to 19 July 2017"

3. Customer Outcome Delivery Incentives (ODIs), quoted pre-tax at 2012/13 prices

4. 2017/18 dividend growth is based on November 2016 RPI of 2.2% plus 4%

5. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, leaving £115m remaining



LIV GARFIELD

Chief Executive

OUR STRATEGY

Our vision is to be the most trusted water company by 2020: delivering an outstanding customer experience, the best value service and environmental leadership

Embed
customers at
the heart of all
we do

Drive operational
excellence and
continuous
innovation

Invest responsibly
for sustainable
growth

Change the
market for the
better

Create an
awesome place
to work

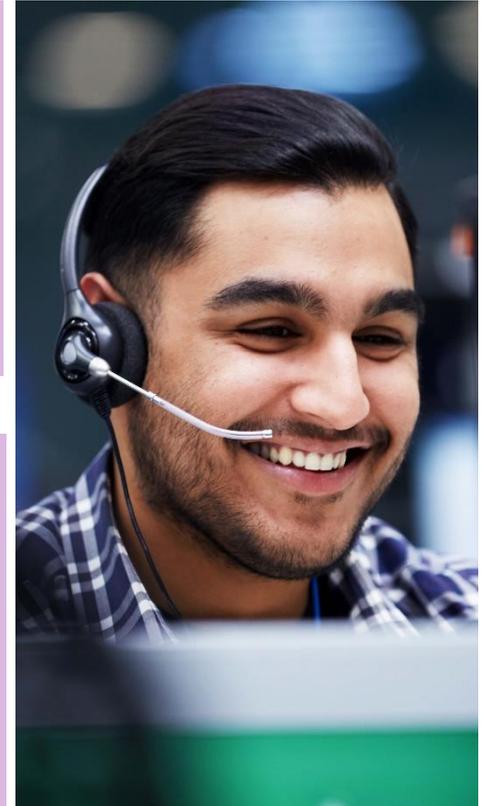
EMBEDDING CUSTOMERS AT THE HEART OF ALL WE DO

Best Value & Affordability

- Lowest average bills again this year at £341; £32 less than the next cheapest bill in England and Wales
- Customer ODI outperformance payment to be smoothed into future years, limiting the impact on bills to less than 1p extra per day
- Beating our target for vulnerable customers – now helping over 50,000

Customer Experience

- Upper quartile result on UK Customer Service Index – ranked in top 5 of 25 utility companies
- 10% reduction in customer complaints⁽¹⁾ in 2017/18 year-to-date
- SIM⁽²⁾ – 10th overall in 2016/17 – more work to be done



1. Includes all written complaints, which is one of the key measures used by the Consumer Council for Water (CCW)

2. SIM = Service Incentive Mechanism

PROPERTY/LAND SALES



c.£100m PBIT to be delivered over next 10 years

Key activities

- New experienced team to manage our land portfolio
- Surplus land identified for disposal or development potential
- Timing of profits will be uneven, but expected to be between £5 million and £15 million each year

Benefits to all stakeholders

Customers

A proportion of profits will be shared by an end of AMP RCV⁽²⁾ adjustment⁽³⁾, reducing future bills

Communities

Helping address housing shortage and population growth challenges, creating new jobs in our region

Investors

Building a sustained profit stream, using land made available through our investment in sludge anaerobic digestion

1. PBIT = Profit Before Interest and Tax

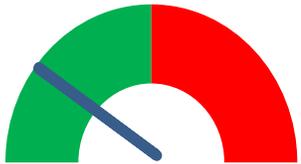
2. RCV = Regulatory Capital Value

3. Average customer share forecast to be c.40%

OPERATIONAL EXCELLENCE

CUSTOMER ODIs: GOOD H1 2017/18 RESULTS

Internal Sewer Flooding



Category 3 Pollutions



Supply Interruptions



External Sewer Flooding



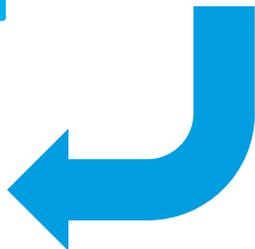
Leakage



Water Quality Complaints



- Has historically been a challenging area for us
- New approach and investment has led to a **12%** year-on-year reduction in complaints
- Still behind our FD⁽¹⁾ target but direction of travel is encouraging



Revised FY17/18 customer ODI guidance

- Net outperformance payments of at least £50 million⁽²⁾

Hitting the cap on Waste

- Due to strong performance in the first three years, we now expect to hit the customer ODI cap of 2% of regulated equity⁽³⁾
- Our performance on Water measures is mixed

We're working hard to improve this AMP and set ourselves up for success in AMP7

1. FD = Final Determination

2. Customer Outcome Delivery Incentives (ODIs) quoted pre-tax at 2012/13 prices

3. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we had earned £75m from our Waste customer ODIs, leaving £115m remaining

DEE VALLEY INTEGRATION ON TRACK



Ty Mawr reservoir, near Wrexham

Identifying, implementing and maintaining best practice

Water quality performance

- Severn Trent adopting Dee Valley mains cleaning techniques
- Enhanced level of mains cleaning and ahead of schedule

Service Incentive Mechanism⁽¹⁾

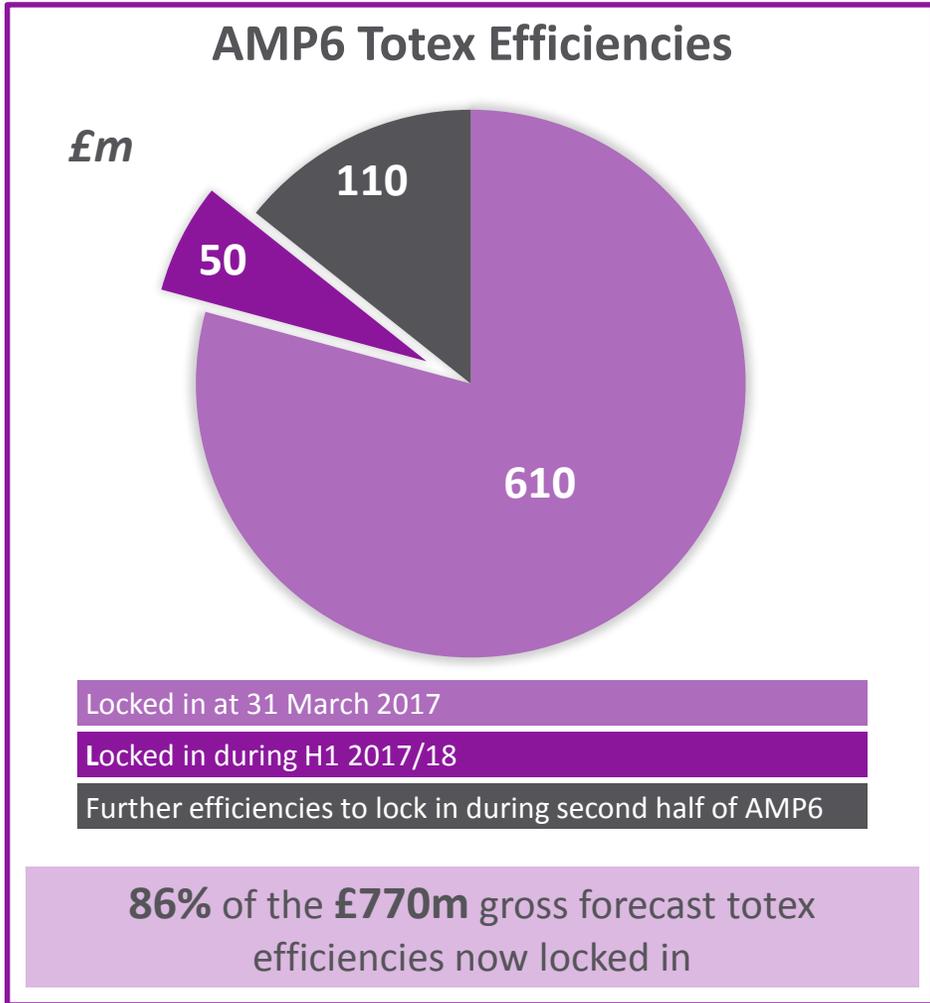
- Dee Valley: 1st place on SIM billing in 2016/17 and 4th place overall (out of 17 water companies)
- Applying know-how to the wider Severn Trent business

Leveraging purchase efficiencies

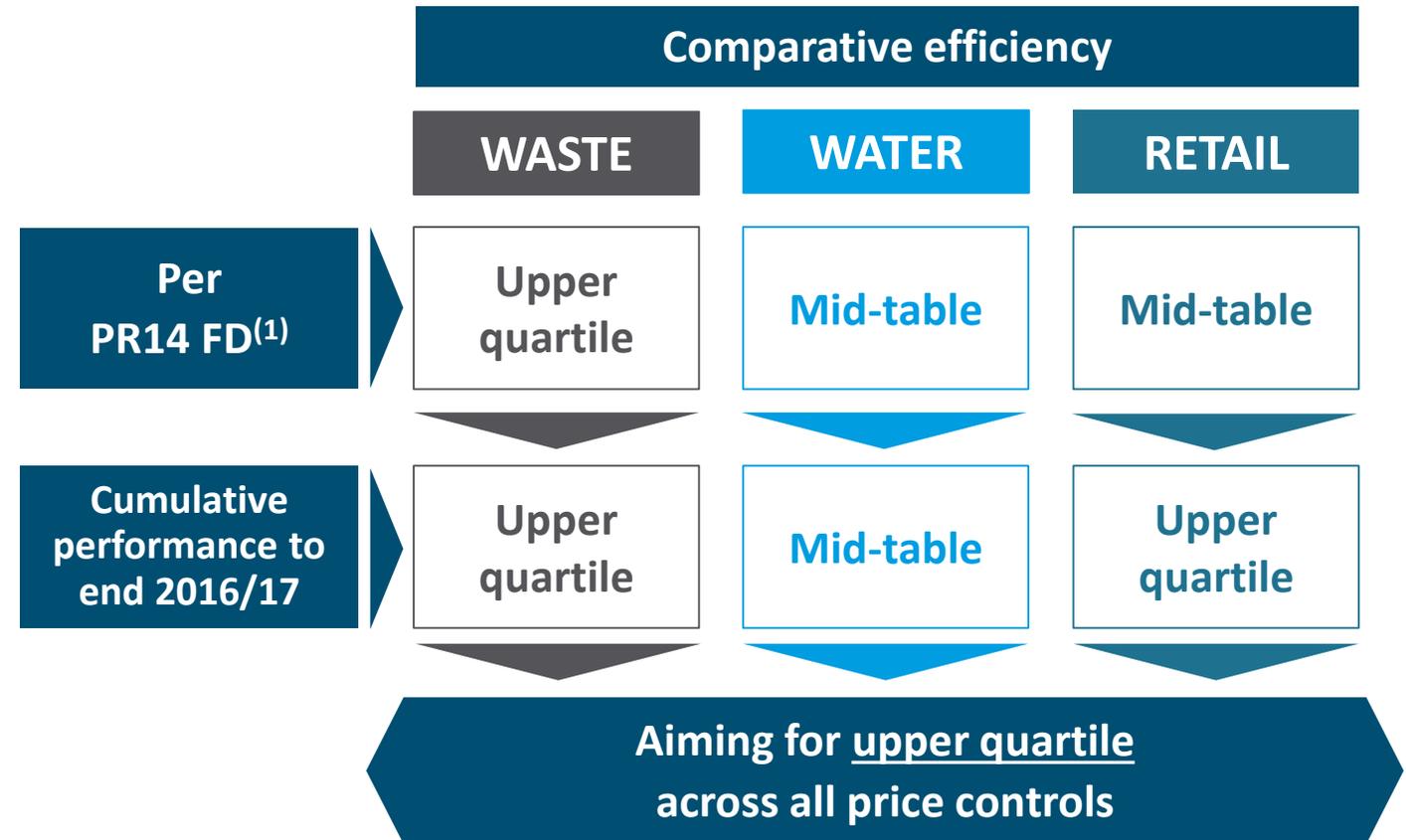
- Using the procurement strength and expertise of Severn Trent to good effect in Dee Valley
- Electricity contracts – double-digit percentage savings per annum

1. SIM = Service Incentive Mechanism

INVESTING RESPONSIBLY AMP6 TOTEX EFFICIENCIES



1. FD = Final Determination



CHANGING THE MARKET FOR THE BETTER

PR19 EARLY PROGRESS



Customer engagement

- Co-creating the plan with our customers
- Doing more than ever to understand their needs

Performance culture

- Drive to outperform now embedded in business
- Customer ODI track record and momentum

Embracing the regulatory model

- Early movers in non-household retail market
- Setting up for success in Bioresources

Resilience

- Operational: extreme conditions, asset failure, improved security
- People: managing succession and promoting talent
- Financial: broadly aligned to Ofwat's notional structure

Innovation

- Preparing for the RPI:CPI transition
- Reviewing other sectors for new and innovative ways of working

PR19 SPOTLIGHT

CUSTOMER ENGAGEMENT

- Taking a more holistic view for PR19
- Doing more than ever to understand our customers' wants and needs



Water Forum

Sharing our plans every step of the way

Customer insights

Being innovative in our approach to understanding our customers' priorities

Co-creating the plan with our customers

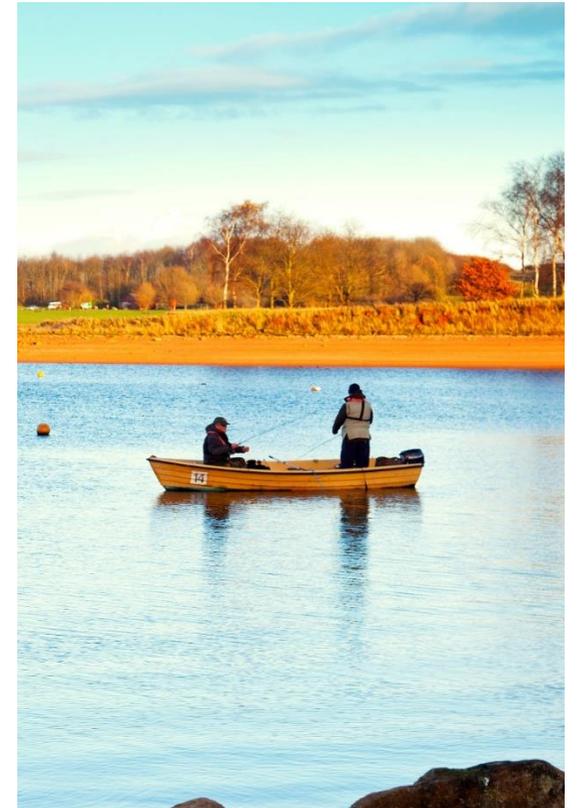
Identifying the right balance of risk and value between customers and investors

Vulnerable customers

Using in depth interviews, expert feedback and best practice from other sectors

Social media insights

Analysing over 7 million conversations across social media platforms



PR19 SPOTLIGHT COMPETITIVE MARKETS

Setting up for success in Bioresources

Bioresource trial in Staffordshire

- Determining the most effective operational model for Bioresource assets
- Promising results: opex improvements, increased energy generation and better asset performance

New Bioresources business created

- To be managed under Business Services division from 2018/19
- Dedicated team established, focused on value
- Ready to take early advantage of competitive opportunities



CREATING AN AWESOME PLACE TO WORK

40% of our staff signed up to our **volunteering programme**. 40km of our region's riverbanks cleared up so far

The only water company in the first ever **Social Mobility Index**

330 employees trained as **mental health first aiders**



Developing a **talent pipeline** through leadership training, our 170 apprentices and 73 graduates

New scheme launched to encourage developers to build more **water efficient homes**

CSR⁽¹⁾ focus:

- FTSE 4 Good
- Carbon Trust
- Carbon Disclosure Project

Our people are our most valuable assets

1. CSR = Corporate Social Responsibility

IN SUMMARY: H1 2017/18

Delivered a strong first half to AMP6...

**Hitting our waste cap⁽¹⁾
on customer ODIs**

and at least £50m net outperformance
payments from customer ODIs
forecast for 2017/18

£660m (86%)

of £770m forecast AMP6 efficiencies
now locked in

£288m⁽²⁾

underlying PBIT, up 4.4%
on H1 2016/17

65.9 pence⁽²⁾

underlying EPS,
growth of 7.7%

34.63 pence

half-year dividend, up 6.2%

PR19

preparation well advanced

...with good momentum for the period ahead

1. For AMP6, our customer ODI outperformance payments for Waste are capped at £190m (pre-tax at 2012/13 prices). To the end of 2016/17, we'd earned £75m from our Waste customer ODIs, leaving £115m remaining

2. Comparative restated to exclude discontinued operations



Liv Garfield
Chief Executive



Sarah Bentley
Chief Customer Officer



Martin Kane
Chief Engineer



Neil Morrison
Director, Human Resources



Helen Miles
Group Commercial Director



James Bowling
Chief Financial Officer



Emma FitzGerald
*Managing Director,
Wholesale Operations*



Andy Smith
*Managing Director,
Business Services*



Bronagh Kennedy
*Group General Counsel
and Company Secretary*

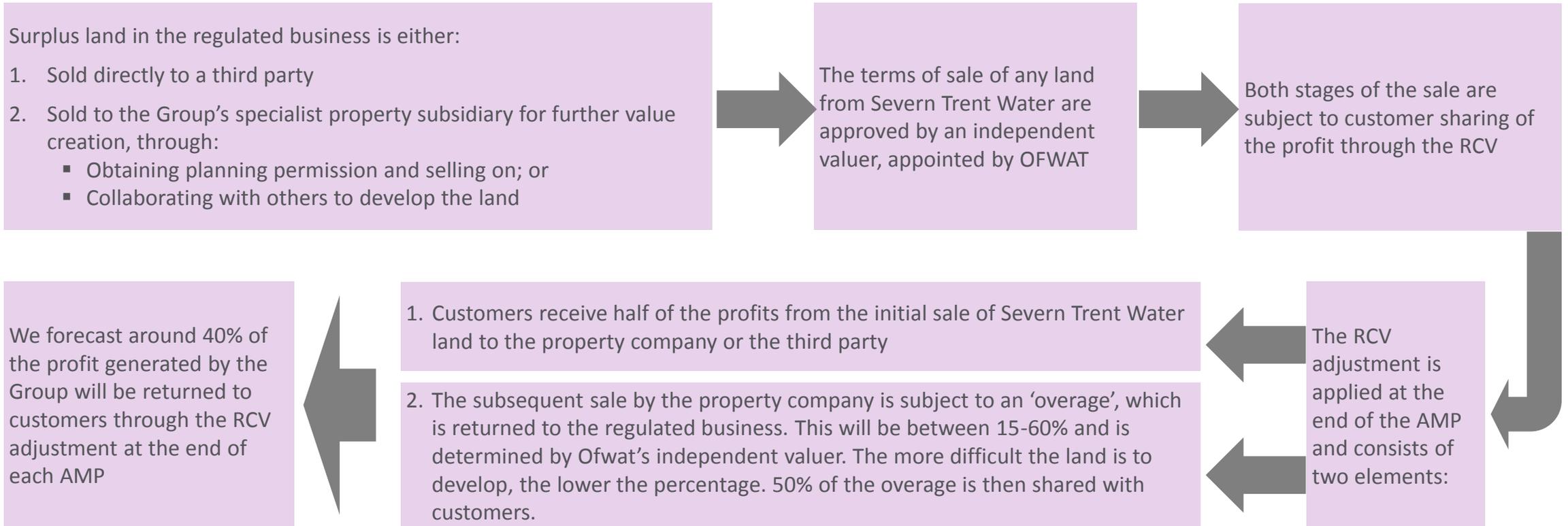


Tony Ballance
*Director, Strategy &
Regulation*

APPENDIX

PROPERTY SALES CUSTOMER SHARING MECHANISM

- Under our licence conditions, we share regulated property disposal proceeds with Severn Trent customers
- There is a well-established mechanism to do this



PR19 TIMETABLE

2017	
December	Ofwat to publish final PR19 methodology and provide initial view of WACC
2018	
September	Companies submit business plans to Ofwat
2019	
January	Initial assessment of business plans published
March/April	Draft determinations (exceptional and fast track plans)
April	Companies submit revisions to business plans (significant scrutiny and slow track)
July	Draft determinations (slow track and significant scrutiny)
December	Final determinations

UNDERLYING EBITDA⁽¹⁾

SIX MONTHS ENDED 30 SEPTEMBER 2017

2016 ⁽²⁾ (restated) £m		2017 £m	Variance £m	Variance %
422.1	Regulated Water and Waste Water	439.8	17.7	4.2
16.9	Business Services	20.3	3.4	20.1
(4.6)	Corporate and Other	(6.6)	(2.0)	(43.5)
(2.0)	Eliminations	(0.3)	1.7	85.0
432.4	Severn Trent Group	453.2	20.8	4.8

1. Profit from continuing operations before interest, tax, depreciation and amortisation and exceptional items
2. Comparative restated to exclude discontinued operations

UNDERLYING EARNINGS PER SHARE SIX MONTHS ENDED 30 SEPTEMBER 2017

2016 ⁽¹⁾ (restated) £m		2017 £m	Variance £m	Variance %
275.7	Underlying profit before interest and tax	287.8	12.1	4.4
(98.5)	Net finance costs	(110.5)	(12.0)	(12.2)
177.2	Underlying profit before tax	177.3	0.1	0.1
(31.8)	Tax at the underlying effective rate of 13.1% (2016: 17.9%)	(23.3)	8.5	26.7
(0.9)	Share of net profit/(loss) of joint ventures	1.4	2.3	255.6
144.5	Earnings for the purpose of underlying basic and diluted earnings per share	155.4	10.9	7.5
236.1	Weighted average number of ordinary shares for basic earnings per share	235.7	(0.4)	(0.2)
61.2	Underlying basic EPS from continuing operations	65.9	4.7	7.7

1. Comparative restated to exclude discontinued operations

GROUP BALANCE SHEET AT 30 SEPTEMBER 2017

31 March 2017 £m		30 September 2017 £m	Variance £m	Variance %
8,278.3	Property, plant and equipment; intangible assets and goodwill	8,412.5	134.2	1.6
37.4	Joint ventures, associates and other investments	38.6	1.2	3.2
41.7	Working capital	(16.5)	(58.2)	(139.6)
(965.8)	Deferred income	(1,009.4)	(43.6)	(4.5)
(574.6)	Net retirement benefit obligations	(567.3)	7.3	1.3
(33.8)	Provisions	(45.3)	(11.5)	(34.0)
6,783.2	Capital employed	6,812.6	29.4	0.4
923.3	Equity	965.9	42.6	4.6
5,082.4	Net debt	5,088.2	5.8	0.1
161.1	Other derivative financial instruments	104.4	(56.7)	(35.2)
(7.3)	Current tax	8.6	15.9	217.8
623.7	Deferred tax	645.5	21.8	3.5
6,783.2		6,812.6	29.4	0.4

DEPRECIATION⁽¹⁾

SIX MONTHS ENDED 30 SEPTEMBER 2017

2016 ⁽²⁾ (restated) £m		2017 £m	Variance £m	Variance %
153.2	Regulated Water and Waste Water	161.5	8.3	5.4
3.5	Business Services	3.9	0.4	11.4
0.1	Corporate and Other	–	(0.1)	(100.0)
(0.1)	Eliminations	–	0.1	100.0
156.7	Severn Trent Group	165.4	8.7	5.6

1. Including amortisation of intangible assets

2. Comparative restated to exclude discontinued operations

CAPITAL EXPENDITURE (NET CASH)⁽¹⁾

SIX MONTHS ENDED 30 SEPTEMBER 2017

2016 £m		2017 £m	Variance £m	Variance %
193.3	Regulated Water and Waste Water	260.0	66.7	34.5
39.8	Business Services	10.8	(29.0)	(72.9)
1.7	Corporate and Other	–	(1.7)	(100.0)
–	Eliminations	(0.4)	(0.4)	–
234.8	Severn Trent Group	270.4	35.6	15.2

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

POWER

SIX MONTHS ENDED 30 SEPTEMBER 2017

				2016			2017		
Segmental analysis £m	Self generation £m	Group £m		Segmental analysis £m	Self generation £m	Group £m			
Turnover									
26.6	(7.4)	19.2	Business Services	29.7	(8.8)	20.9			
Costs									
(39.7)	–	(39.7)	Regulated Water and Waste Water	(45.2)	–	(45.2)			
(1.5)	7.4	5.9	Business Services	(0.4)	8.8	8.4			
						(33.8)	Severn Trent Group	(36.8)	

NET FINANCE COSTS

SIX MONTHS ENDED 30 SEPTEMBER 2017

Income statement charge 2016 ⁽¹⁾ £m	Capitalised interest 2016 ⁽¹⁾ £m	Gross interest incurred 2016 ⁽¹⁾ £m		Income statement charge 2017 £m	Capitalised interest 2017 £m	Gross interest incurred 2017 £m
83.2	7.5	90.7	"Cash" interest (including accruals)	81.8	8.9	90.7
5.5	–	5.5	Net pension interest costs	7.5	–	7.5
9.8	0.9	10.7	RPI interest	21.2	2.4	23.6
98.5	8.4	106.9		110.5	11.3	121.8

1. Comparative restated to exclude discontinued operations

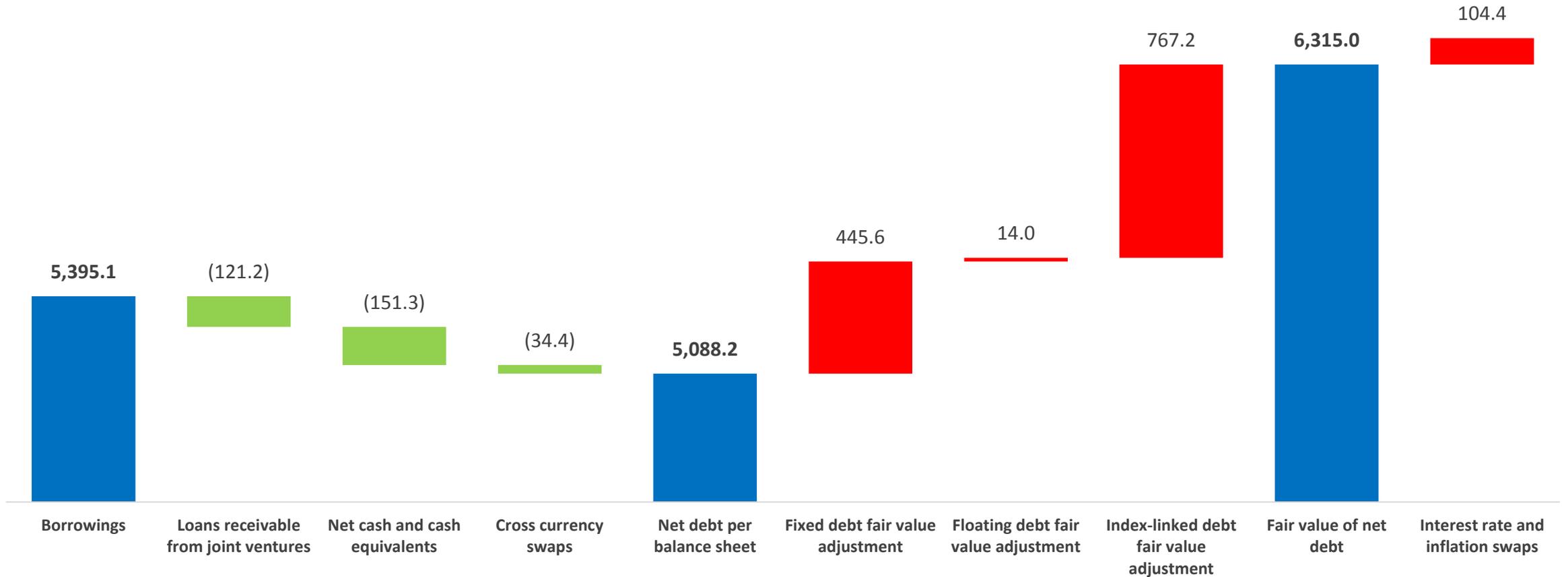
NET DEBT AT 30 SEPTEMBER 2017

31 March 2017 £m		30 September 2017 £m	Variance £m	Variance %
(44.6)	Net cash and cash equivalents	(151.3)	(106.7)	(239.2)
1,073.3	Bank loans	926.2	(147.1)	(13.7)
4,090.0	Other loans	4,353.5	263.5	6.4
115.7	Finance leases	115.4	(0.3)	(0.3)
(108.6)	Loans receivable from joint ventures	(121.2)	(12.6)	(11.6)
(43.4)	Cross currency swaps	(34.4)	9.0	20.7
5,082.4	Net debt	5,088.2	5.8	0.1

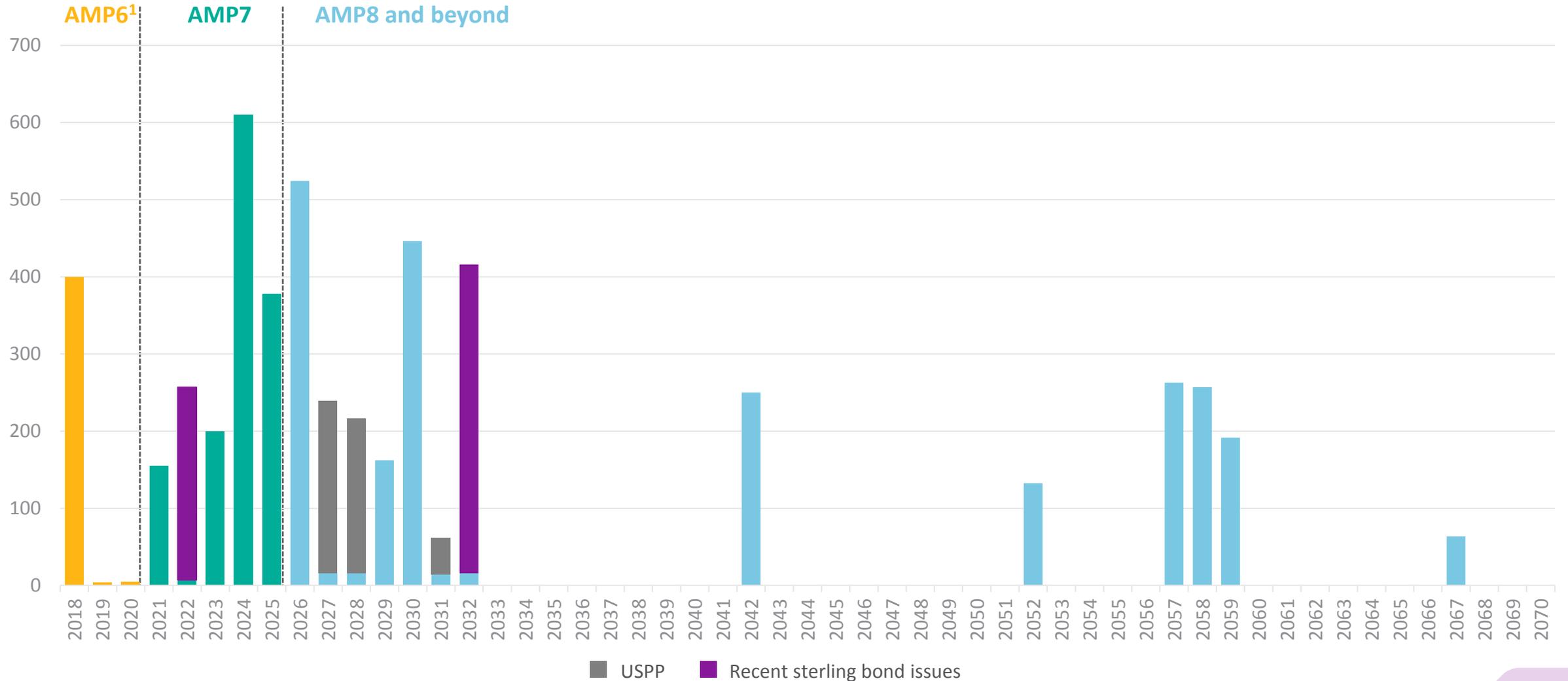
FAIR VALUE OF DEBT AT 30 SEPTEMBER 2017

31 March 2017 £m		30 September 2017 £m	Variance £m	Variance %
1,095.3	Bank loans	944.2	(151.1)	(13.8)
5,497.2	Other loans	5,553.9	56.7	1.0
130.5	Finance leases	123.8	(6.7)	(5.1)
6,723.0		6,621.9	(101.1)	(1.5)
(44.6)	Net cash and cash equivalents	(151.3)	(106.7)	(239.2)
(108.6)	Loans receivable from joint ventures and associates	(121.2)	(12.6)	(11.6)
(43.4)	Cross currency swaps	(34.4)	9.0	20.7
6,526.4	Fair value of debt	6,315.0	(211.4)	(3.2)
5,082.4	Net debt (previous slide)	5,088.2	5.8	0.1
1,444.0	Difference	1,226.8	(217.2)	(15.0)

ANALYSIS OF BORROWINGS, NET DEBT AND SWAPS AT 30 SEPTEMBER 2017



DEBT MATURITY AT 30 SEPTEMBER 2017



1. AMP6 maturities: £400m January 2018

GEARING & CREDIT RATINGS AT 30 SEPTEMBER 2017

GEARING

30 September 2016	31 March 2017	Net Debt/RCV ⁽¹⁾	30 September 2017
59.4%	61.6%	Severn Trent Group	59.2%
57.4%	61.0%	Severn Trent Water Group	59.8%

CREDIT RATINGS

31 March 2017			30 September 2017	
Severn Trent Water	Severn Trent Plc		Severn Trent Water	Severn Trent Plc
A3	Baa1	Moody's	A3	Baa1
BBB+	BBB-	Standard and Poor's	BBB+	BBB

Outlook for both Moody's and Standard and Poor's is stable

1. Estimated RCV at 30 September 2017

SEVERN

TRENT