

INTERIM RESULTS 23/24

22 November 2023



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SEVERN
TRENT

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LIV GARFIELD

Chief Executive



HALF YEAR HIGHLIGHTS

On track for
**4* EPA
status**
for fifth year in a
row

80% of measures
expected to be
green this year

At least **£50m** in
ODI rewards this
financial year

Accelerating
£400m of
transition spend
for a fast start to
AMP8

PR24
submission our
**most
ambitious**
business plan to
date

HELEN MILES

Chief Financial Officer



HALF YEAR FINANCIAL HIGHLIGHTS



Financial performance
on track;
expect FY
adjusted EPS
growth

£477m capital
investment; on
track for £1bn
this year

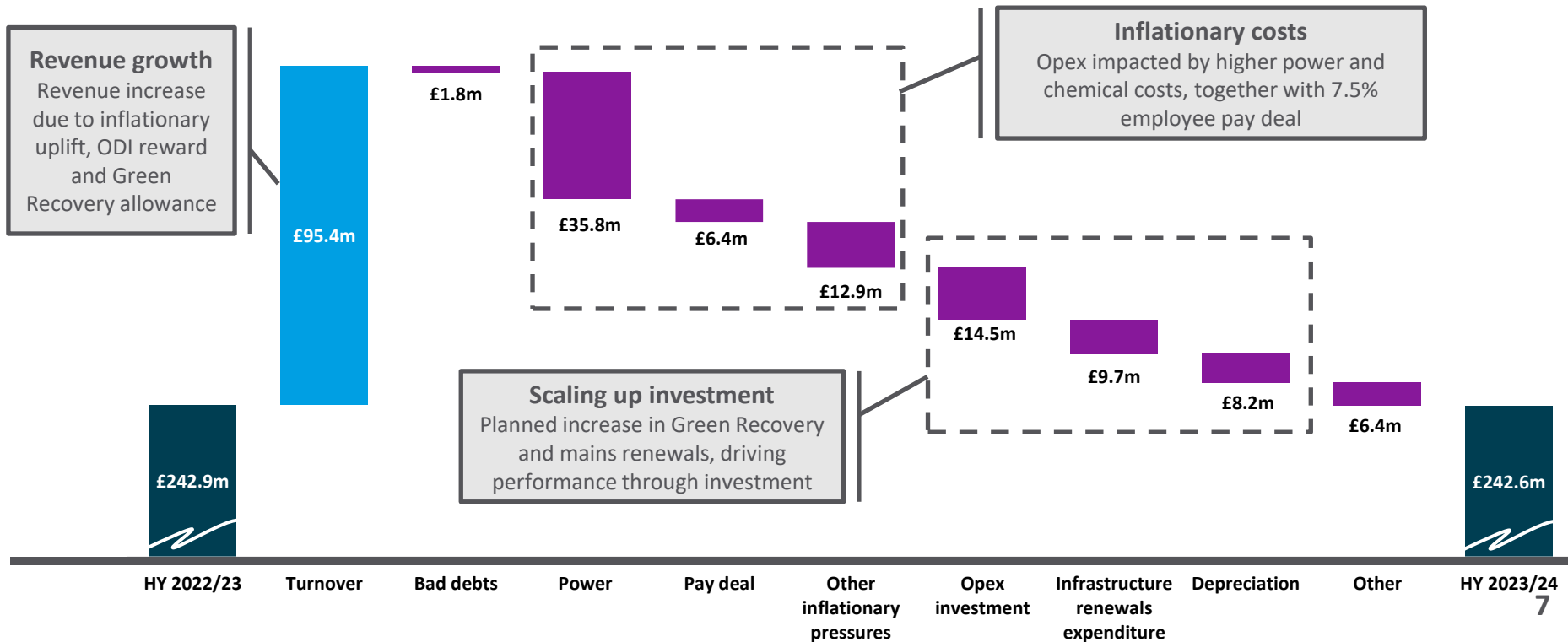
60.6%
shadow RCV
gearing at 30
September

£1bn equity
raise supporting
long term
growth

Interim dividend
of **46.74p**

REGULATED WATER AND WASTE WATER PBIT

Revenue growth offset by guided cost pressures and planned investment



BUSINESS SERVICES

Focused on sustainable long-term growth

Green Power

UK's largest producer of renewable energy from food waste, well-positioned to maximise growth opportunities

Fast-growing business – annualised run rate demonstrates 30% growth in generation capacity

Half year earnings impacted by £3.7m one-off acquisition costs and inflation

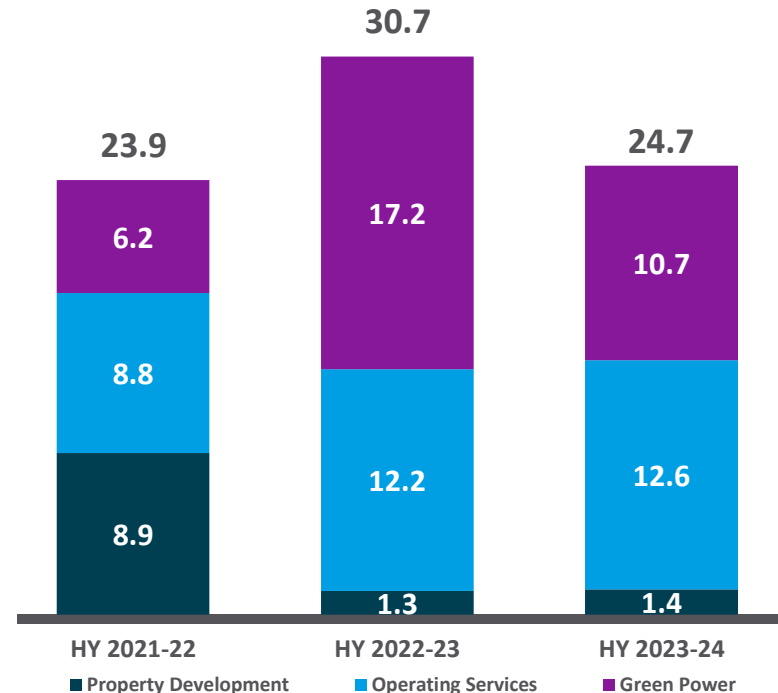
Operating Services

Earnings increased with higher sales, but lower margin contracts

Property

On track to deliver £150m PBIT by 2032, with profits of £5m-£10m for this year weighted to H2

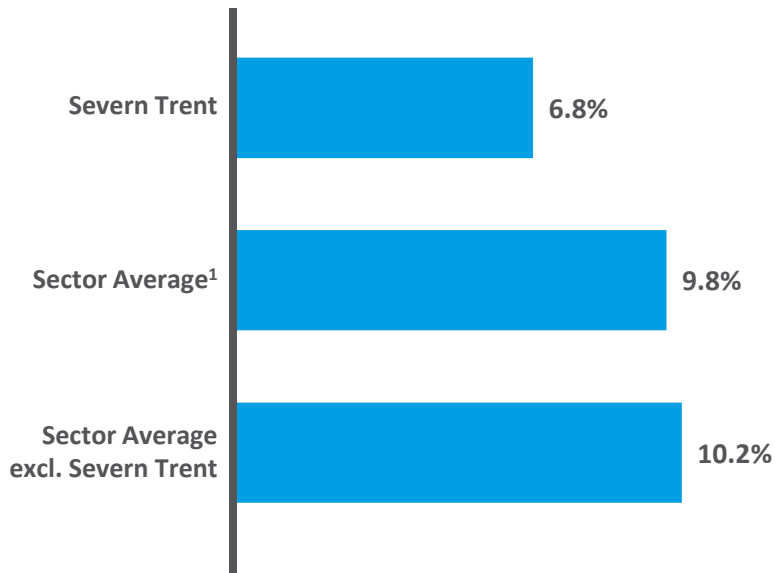
EBITDA, £m



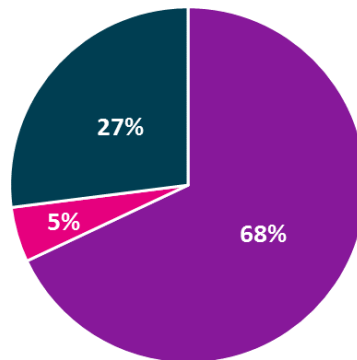
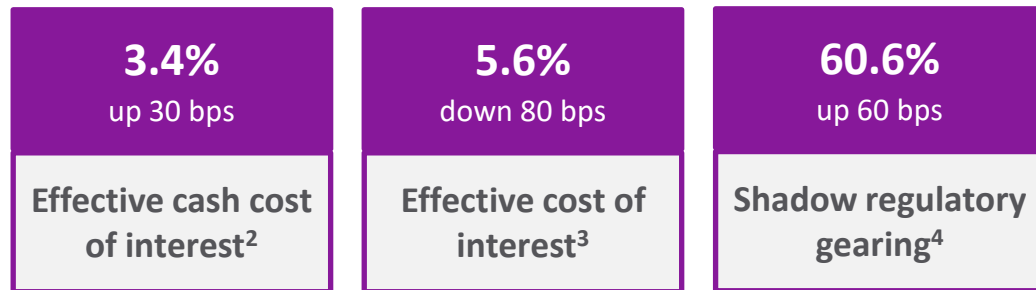
HY 2023/24 FINANCING PERFORMANCE

Financing costs reducing through lower inflation and benefits of equity raise

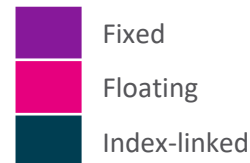
Cost of debt 3% below sector average in FY23



Strong metrics carrying forward into this half year



Group net debt⁵: £7.5 billion



1. Based on Ofwat's Monitoring Financial Resilience Report 2022-23. Weighted average presented. Straight average is 10.2%.

2. Excludes inflation accretion on index-linked debt and net pension finance costs.

3. Includes inflation accretion on index-linked debt, but excludes net pension finance costs.

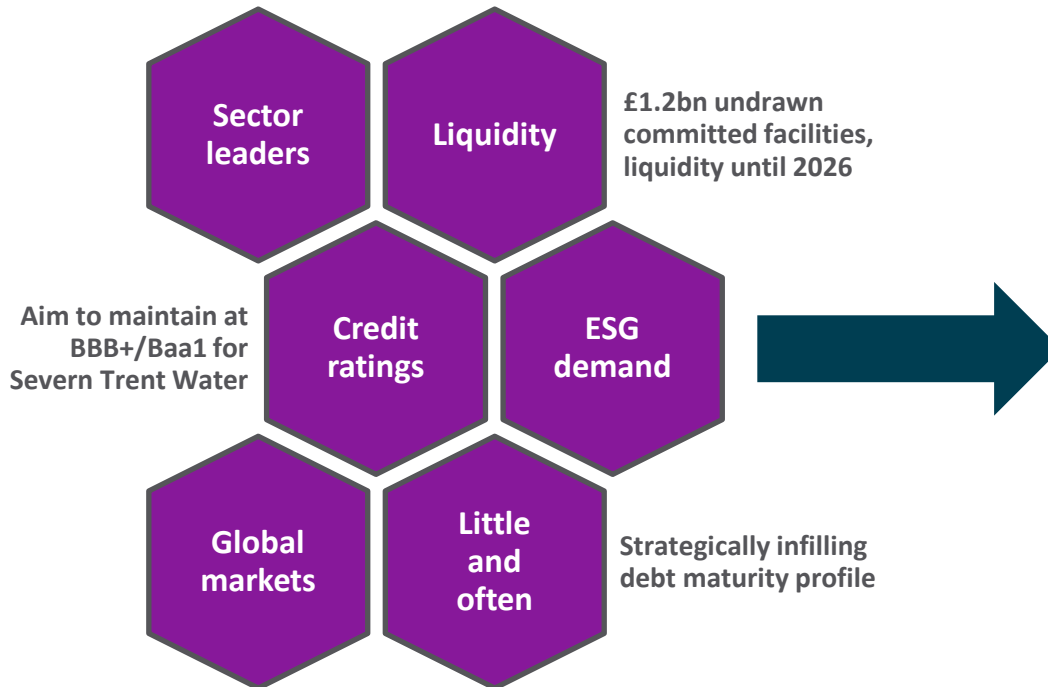
4. Excludes the impact of £1 billion equity raise for which funds were received by Severn Trent Plc after the half year end.

5. Includes cross currency swaps and loan receivable from joint venture.

FINANCING STRATEGY

Well positioned to maintain strong financing performance as we head towards AMP8

Our Financing Platform



Sustainable Finance

- £3bn raised under Sustainable Finance Framework to date
- EU Taxonomy alignment further strengthening sustainability credentials
- Alignment expected to increase further with growing environmental investment

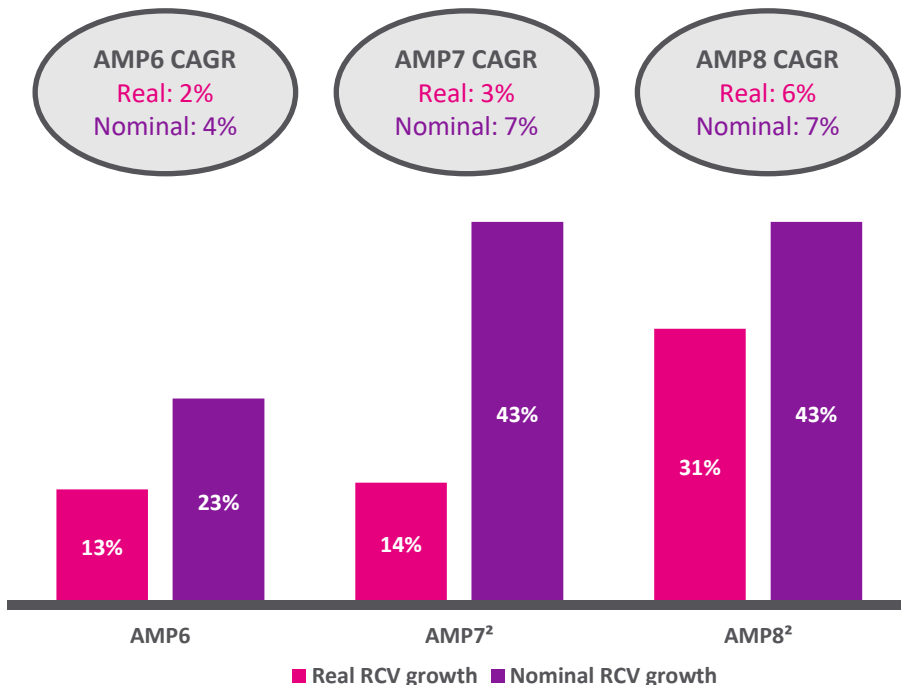
EU Taxonomy alignment

Capex	Revenue	Opex
62%	53%	53%

CREATING LONG-TERM GROWTH

Successful £1 billion equity raise to fund unprecedented long-term growth opportunity

Nominal RCV doubling between 2020 and 2030¹



Equity raise supporting sustainable growth

Supporting growth



Uniquely positioned to maximise growth opportunity in AMP8 and beyond

Enabling fast start



Over £400m of early investment heading into contract to accelerate AMP8

Optimising structure



Reducing financing costs during period of market volatility

Financeable plan



Meeting one of Ofwat's core requirements

1. Based on opening AMP7 RCV of £9.4bn and closing AMP8 RCV position presented in PR24 business plan submission of £18.8bn.

2. AMP7 RCV includes all midnight adjustments except £400m transitional expenditure which is expected to be incurred in AMP7 but relating to AMP8. Transitional expenditure is included within AMP8 RCV growth.

FY24 TECHNICAL GUIDANCE

No changes to guidance

Outlook

Earnings: We anticipate adjusted earnings per share growth in 2023/24, after adjusting for the new share issue, as a result of a reduction in interest charge. We expect a further step up in 2024/25, as lower energy costs and inflation-linked tariff increases flow through to operational earnings.

Returns: We expect to deliver a strong average Return on Regulatory Equity ('RoRE') for AMP7, driven by both operational and financial outperformance. We are confident we can continue to deliver sector-leading operational performance, including end-of-AMP ODIs expected to contribute £40-50 million on top of in-year net rewards for the last year of the AMP. Over the course of AMP7 we expect higher energy costs to impact average RoRE by around 0.7 percentage points¹, but this is expected to be offset by higher Green Power income to give a broadly neutral impact on earnings over time.

RCV²: Group RCV expected to grow by 43% over AMP7, benefitting from our large investment programme, and including recent inflation forecasts. That equates to a nominal CAGR of over 7% in AMP7.

1. Based on performance to date, hedged position for 2023/24 and latest energy forecasts for 2024/25

2. RCV: Regulatory Capital Value. RCV is measured excluding transitional spend. Nominal RCV assumes forecast CPIH of 3.8% for 2023/24, and 1.8% for 2024/25 and forecast RPI of 5.5% for 2023/24 and 2.6% for 2024/25 as per Oxford Economics October 2023 forecast

Technical Guidance

Regulated Water and Waste Water			2022/23	Year-on-year
Turnover	£2.15 billion to £2.20 billion.		£2.00bn	▲
Other operating costs	Higher year-on-year, reflecting an increase in power costs, pay inflation and a step up in Green Recovery expenditure.		£889m	▲
Infrastructure renewals expenditure ('IRE')	Marginally higher year-on-year due to HS2 activity, which is broadly offset in turnover.		£238m	▲
ODIs ¹	Continued outperformance on increasingly stretching targets, delivering a net reward of at least £50 million.		£53m	↔
Business Services				
EBITDA (excl. Property)	Lower year-on-year due to the impact of the lower energy prices on revenue in Severn Trent Green Power.		£64m	▼
Property profit	£5 million to £10 million.		£2m	▲
Group				
Interest charge	Lower year-on-year based on latest inflation ² and interest rate forecasts.		£363m	▼
Adjusted effective current tax rate ³	Nil due to accelerated capital allowances on our capital investment programme.		0.0%	↔
Capital investment	Continued step up in our investment programme delivering capital expenditure of around £1 billion.		£737m	▲
Dividend ⁴	2023/24 dividend of 116.84 pence, in line with our policy of annual growth by CPIH.		106.82p	▲

1. Customer Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices. We assume a 25% rate of corporation tax to be in place when ODIs are taken into revenue.

2. Based on Oxford Economics October inflation forecast.

3. Total effective tax rate is expected to be c.27%. This includes both current and deferred tax charges.

4. 2023/24 dividend growth rate based on November 2022 CPIH of 9.38%.

LIV GARFIELD

Chief Executive



MAINTAINING OPERATIONAL EXCELLENCE

Continue to deliver strong AMP7 performance while building for further success in AMP8

On track to hit **80%** of measures this year, delivering at least **£50 million** in ODI rewards

Leakage

On track to hit target for 12 out of 13 years; now at lowest-ever levels

Persistent Low Pressure

Forecasting best ever performance, c. 20% year-on-year improvement

Mains Repair

Forecasting over 5% improvement year-on-year

Water Quality Contacts

Seventh consecutive year of improvement

Sewer Collapses

Forecasting green for a fourth consecutive year

Blockages

Over 30% reduction since the end of AMP6

But not losing focus on the remaining **20%**

Supply Interruptions

External Sewer Flooding

Forecasting around UQ on 72% of measures for AMP8

Storm Overflows

- Investing early to deliver benefits sooner
- Frontier forecast for end of AMP8, with Zero Spills Hub already in operation

Per Capita Consumption

- On track to hit end-of-AMP target of 3.5% reduction
- Investments in Smart Metering and Kraken CRM system to get ahead of AMP8 target



Embedding culture of success through our new ODI Centre of Excellence

CARING FOR OUR ENVIRONMENT

Sector-leading record on environmental measures, but ambitious to go further

EPA 4 Star

Dedicated programmes with executive oversight to maintain EPA's top rating

Biodiversity

Upgraded ambition to improve 10,000 hectares of land by 2025

River Pledges

Around 5,000 riverside inspections, helping to establish new habitats for native species

Green Recovery

All schemes on track with c. £200m of capital investment forecasted this year

Case Study: Farming for Water

- **Unique catchment management approach**, engaging with farmers to adopt more sustainable practices
- Worked with **over 5,000** farmers to date and providing over 1,500 grants in service of protecting river health and protecting drinking water quality
- **98%** of farmers would recommend working with us
- **23** catchment schemes completed so far, and on track to meet our target of 48 this AMP
- Supporting guidance of **additional £40-50m** end-of-AMP ODIs on top of in-year performance in FY25



INVESTING IN OUR NETWORK

Managing our programme efficiently and effectively to deliver true enhancement

Delivering our highest year of investment ever

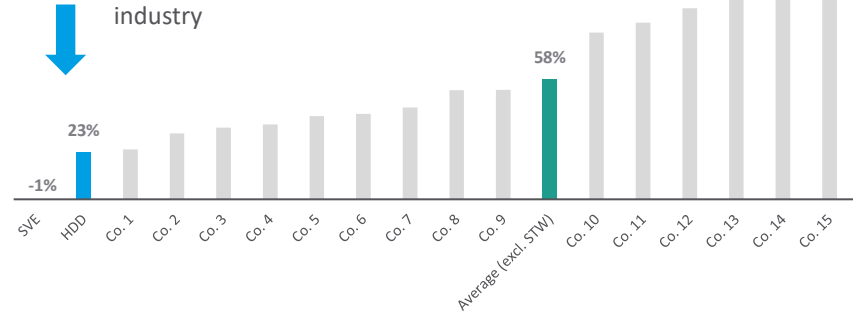
- Closing out AMP7 strongly
- Scaling up to deliver our Green Recovery projects
- Accelerating £400m of AMP8 spend into the next 18 months
- Already operating at the capital run-rate needed for AMP8



Smooth capex profile into AMP8

Capex step-up: FY25 to AMP8 average

Severn Trent and HD have the smoothest transition in the industry



- Supply chain **locked-in** and ready to deliver
- Utilising **digital twins** to make smarter decisions on our network
- Our innovative **Plug and Play** approach shortening delivery timeframes by up to 30%

PLANNING FOR AMP8

Unprecedented growth underpinned by robust delivery plan

£12.9bn totex, stepping up investment

31% real RCV growth¹

Sector-leading ambitions on CSOs and sewer flooding

Net Zero by 2030

76% customer acceptability of plan



Deliverable

Already operating on AMP8 capital run-rate, and supply chain locked-in

Financeable

Equity raise strengthens balance sheet, allows us to start spending immediately

Affordable

£550m affordability package to support around 1 in 6 customers in our region

1. Includes £400m of transitional expenditure relating to AMP8 but expected to be delivered in years 4 and 5 of AMP7.

SETTING UP FOR SUCCESS

Fostering a culture that can deliver the opportunities ahead

Right People

- Insourced model is a source of differentiation, providing agility and flexibility
- 368 colleagues insourced into our waste networks team to drive performance on service and ODIs

Right Skills

- Our Severn Trent Academy, which opened in 2021, has delivered over 500,000 training hours
- Over 1,000 colleagues promoted or progressed to a broader role in the business in the past year

Right Approach

- Motivated workforce with highest ever engagement score of 8.6/10, within the top 3% of utilities globally
- CEO-led roadshow centred around optimising the next 18 months, delivered to over 3,000 colleagues so far



SUMMARY

Operational Excellence

80% of measures on track; setting up for success on AMP8 measures

Capital Investment

Investing c. £1 billion this year; right run-rate for AMP8, supporting deliverability

Strong Balance Sheet

Capital structure optimised for long-term growth

Supporting Customers

Delivering improvements in service and supporting 1 in 6 customers by 2030

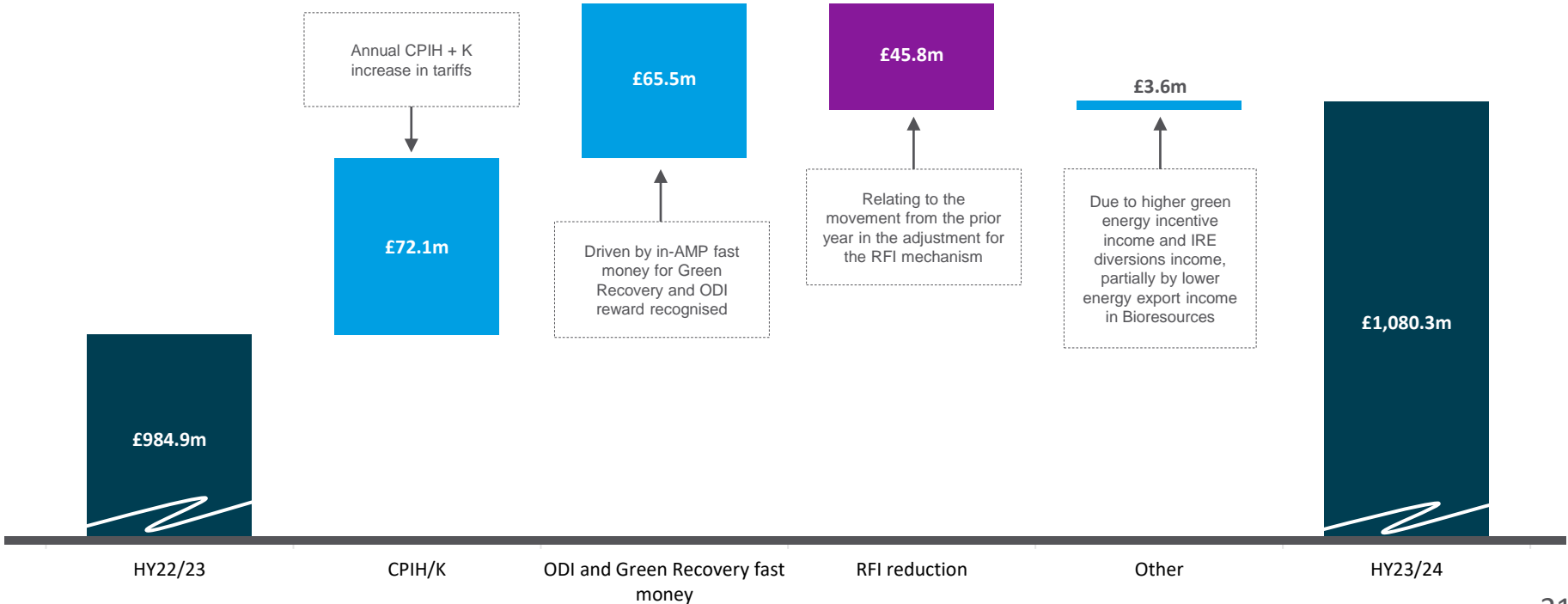
Investing in People

Our people are engaged; insourcing and investing in skills for the future



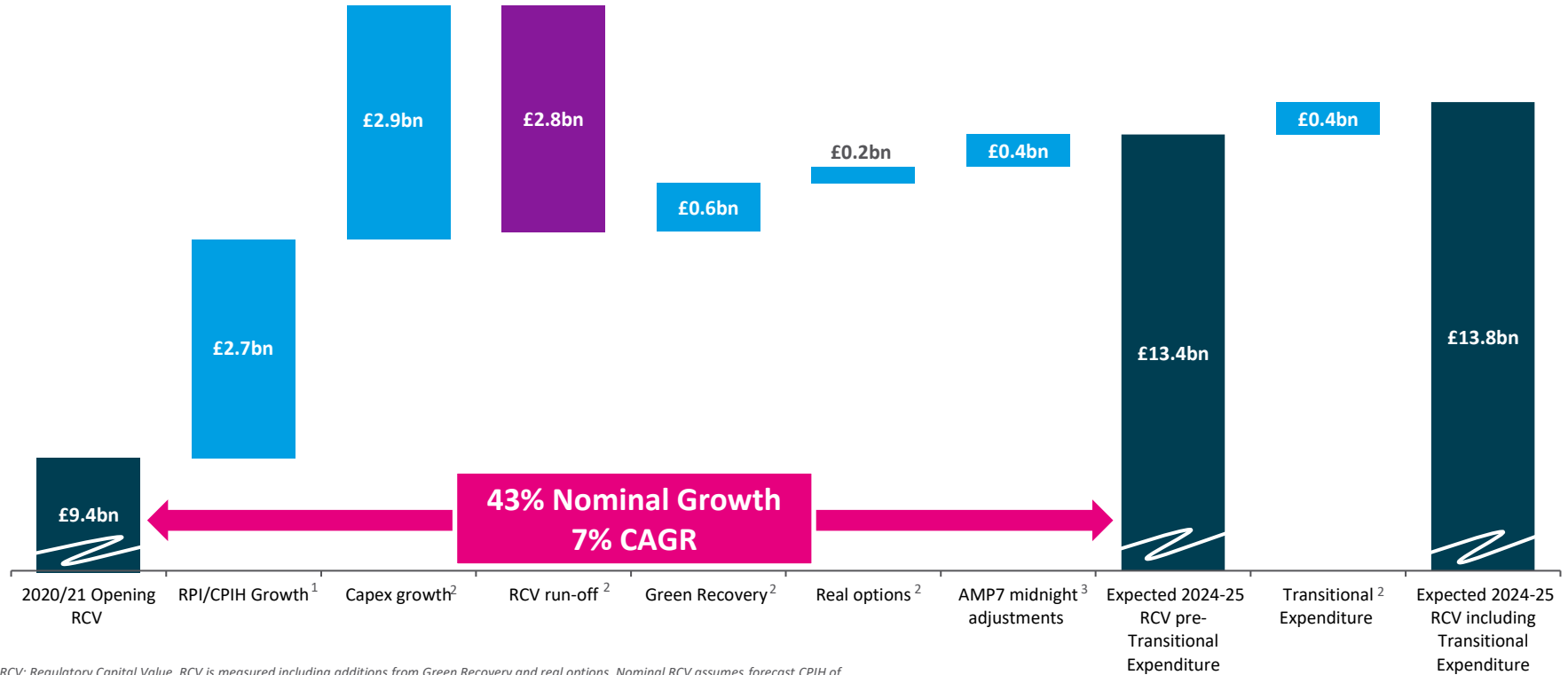
APPENDIX

REGULATED WATER AND WASTE WATER REVENUE



REGULATORY CAPITAL VALUE

AMP7 RCV expected to grow by 43% to £13.4bn by 2025



1. RCV: Regulatory Capital Value. RCV is measured including additions from Green Recovery and real options. Nominal RCV assumes forecast CPIH of 3.8% for 2023/24 and 1.8% for 2024/25, forecast RPI of 5.5% for 2023/24 and 2.6% for 2024/25 as per Oxford Economics October 2023 forecast.

2. Quoted in nominal prices.

3. Includes RPI-CPIH wedge adjustment of £0.3bn and other adjustments totalling £0.1bn. Quoted in nominal prices.

EBITDA¹

H1 2022 £m		H1 2023 £m	Variance £m	Variance %
442.3	Regulated Water and Waste Water	450.2	7.9	1.8
30.7	Business Services	24.7	(6.0)	(19.5)
(3.3)	Corporate and other	(3.9)	(0.6)	(18.2)
469.7	Severn Trent Group	471.0	1.3	0.3

1. Earnings before interest, tax, depreciation and amortisation.

BUSINESS SERVICES EBITDA¹

	Regulated £m	Non- Regulated £m	Total £m
Operating Services and Other	1.7	10.9	12.6
Green Power	0.1	10.6	10.7
Property Development	1.4	–	1.4
EBITDA	3.2	21.5	24.7
Depreciation and amortisation	(0.1)	(8.0)	(8.1)
PBIT	3.1	13.5	16.6

1. Earnings before interest, tax, depreciation, amortisation.

SEGMENTAL PBIT

H1 2022		H1 2023	Variance	Variance
£m		£m	£m	%
242.9	Regulated Water and Waste Water	242.6	(0.3)	(0.1)
22.7	Business Services	16.6	(6.1)	(26.9)
(3.9)	Corporate and other	(4.0)	(0.1)	(2.6)
–	Consolidation adjustments	(0.1)	(0.1)	(100)
261.7	Severn Trent Group	255.1	(6.6)	(2.5)

DEPRECIATION¹

H1 2022 £m		H1 2023 £m	Variance £m	Variance %
199.4	Regulated Water and Waste Water	207.6	8.2	4.1
8.0	Business Services	8.1	0.1	1.3
0.6	Corporate and other	0.2	(0.4)	(66.7)
208.0	Severn Trent Group	215.9	7.9	3.8

1. Including amortisation of intangible assets and depreciation of right-of-use assets.

NET FINANCE COSTS

Income statement charge £m	H1 2022			Income statement charge £m	H1 2023	
	Capitalised interest £m	Gross interest incurred £m			Capitalised interest £m	Gross interest incurred £m
77.9	23.5	101.4	Cash interest (including accruals)	90.3	31.1	121.4
1.6	–	1.6	Net pension finance cost	6.6	–	6.6
107.4	–	107.4	Inflation uplift on index-linked debt	82.3	–	82.3
186.9	23.5	210.4		179.2	31.1	210.3

ADJUSTED EARNINGS PER SHARE

H1 2022 £m		H1 2023 £m	Variance £m	Variance %
261.7	Profit before interest and tax	255.1	(6.6)	(2.5)
(186.9)	Net finance costs	(179.2)	7.7	(4.1)
0.2	Share of current year profit/loss of joint venture	(1.1)	(1.3)	(650.0)
75.0	Adjusted profit before tax	74.8	(0.2)	(0.3)
–	Tax at the adjusted effective rate of 0.0%	–	–	–
75.0	Earnings for the purpose of adjusted basic and diluted earnings per share	74.8	(0.2)	(0.3)
250.6	Weighted average number of ordinary shares for basic earnings per share	251.8	1.2	0.5
29.9	Adjusted basic EPS (pence)	29.7		

GROUP BALANCE SHEET

31 March 2023 £m		30 September 2023 £m	Variance £m	Variance %
11,124.8	Property, plant and equipment, right-of-use assets, intangible assets and goodwill	11,542.5	417.7	3.8
16.5	Investment in joint venture	15.4	(1.1)	(6.7)
81.6	Working capital	(110.1)	(191.7)	(234.9)
(1,482.2)	Deferred income	(1,417.3)	64.9	4.4
(279.4)	Net retirement benefit obligations	(329.9)	(50.5)	(18.1)
(84.5)	Provisions	(81.9)	2.6	3.1
9.9	Current tax	9.9	–	–
(1,293.5)	Deferred tax	(1,313.5)	(20.0)	(1.5)
37.9	Other derivative financial instruments	66.6	28.7	75.7
8,131.1	Capital employed	8,381.7	250.6	3.1
970.6	Equity	861.3	(109.3)	(11.3)
7,160.5	Net debt	7,520.4	359.9	5.0
8,131.1		8,381.7	250.6	3.1

CAPITAL EXPENDITURE (NET CASH)¹

H1 2022 £m	H1 2023 £m	Variance £m	Variance %
274.2 Regulated Water and Waste Water	469.6	195.4	71.3
6.1 Business Services	7.4	1.3	21.3
280.3 Severn Trent Group	477.0	196.7	70.2

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

31 March 2023 £m		30 September 2023 £m	Variance £m	Variance %
(713.0)	Bank loans	(649.0)	64.0	9.0
(6,474.2)	Other loans	(7,067.1)	(592.2)	(9.2)
(110.9)	Lease liabilities	(114.4)	(3.5)	(3.2)
28.7	Net cash and cash equivalents	216.7	188.0	655.1
33.6	Cross currency swaps	19.3	(14.3)	(42.6)
75.3	Loans receivable from joint ventures	74.1	(1.2)	(1.6)
(7,160.5)	Net debt	(7,520.4)		

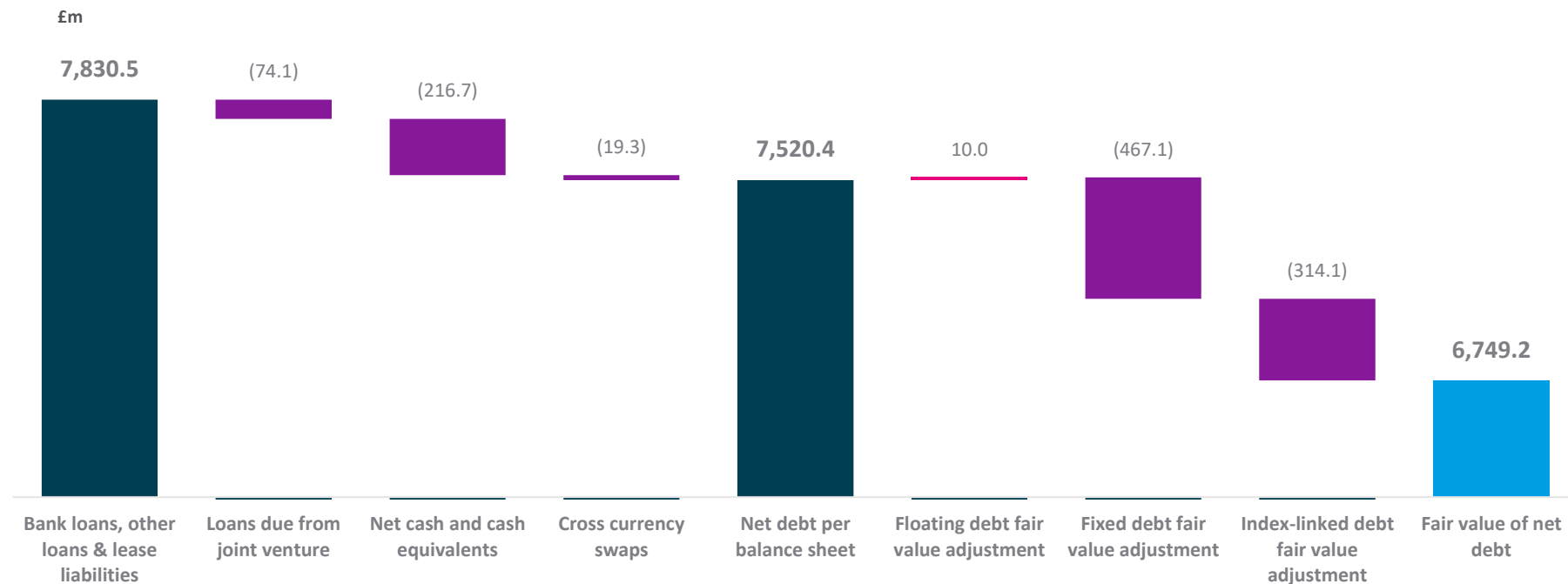
1. Average monthly debt was £7,235.5 million (year ended 31 March 2023: £6,720.6 million).

FAIR VALUE OF DEBT ¹

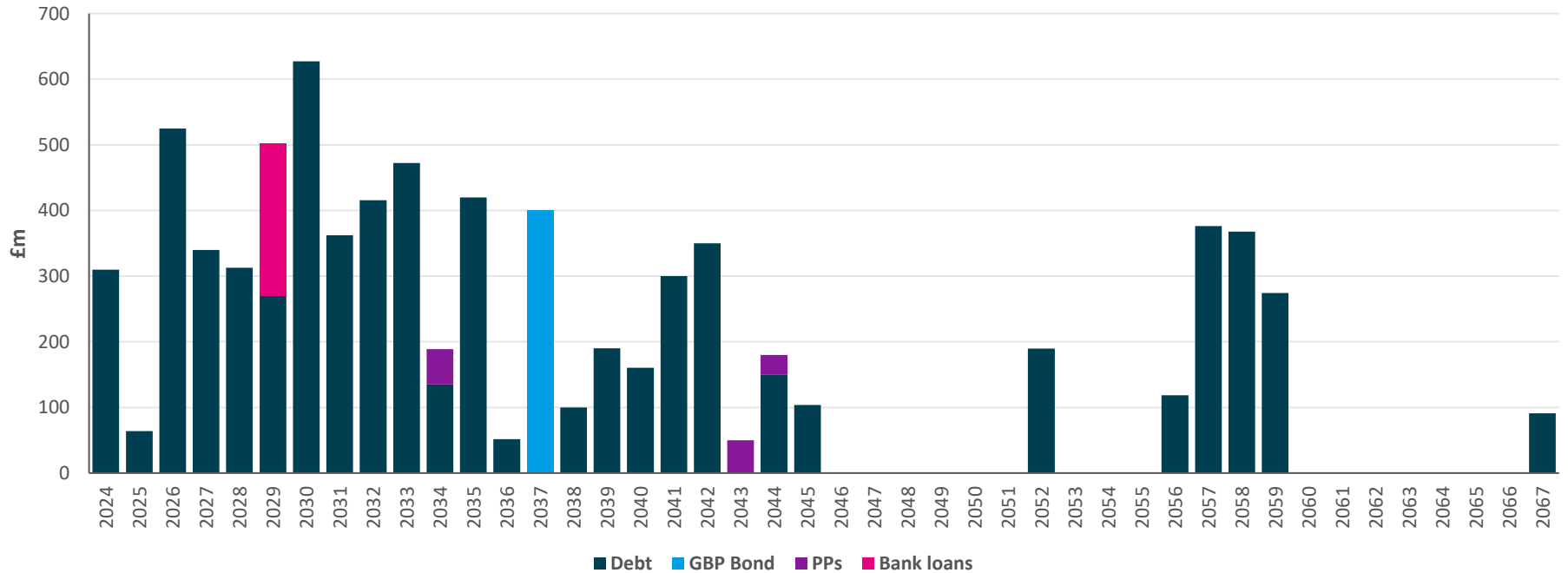
31 March 2023 £m		30 September 2023 £m	Variance £m	Variance %
(708.9)	Floating rate debt	(711.0)	(2.1)	(0.3)
(4,287.9)	Fixed rate debt	(4,554.3)	(266.4)	(6.2)
(1,935.1)	Index-linked debt	(1,794.0)	141.1	7.3
(6,931.9)		(7,059.3)	(127.4)	(1.8)
28.7	Net cash and cash equivalents	216.7	188.0	655.1
75.3	Loans due from joint venture	74.1	(1.2)	(1.6)
33.6	Cross currency swaps	19.3	(14.3)	(42.6)
(6,794.3)	Fair value of net debt	(6,749.2)		
(7,160.5)	Net debt (previous slide)	(7,520.4)		
366.2	Difference	771.2		

1. The floating, fixed and index-linked debt classification above is shown before the impact of interest rate swaps or cross currency swaps.

ANALYSIS OF BORROWINGS & NET DEBT



DEBT MATURITY



GEARING AND CREDIT RATINGS

30 September 2022	31 March 2023	Net debt/RCV ¹	30 September 2023
61.2%	62.1%	Severn Trent Plc Group ²	62.9%
58.1%	60.0%	Regulatory Gearing ³	60.6%

31 March 2023			30 September 2023		
Severn Trent Water	Severn Trent Plc		Severn Trent Water	Severn Trent Plc	Outlook
Baa1	Baa2	Moody's	Baa1	Baa2	Stable
BBB+	BBB	Standard and Poor's	BBB+	BBB	Stable
BBB+	BBB	Fitch	BBB+	BBB	Stable

1. Shadow RCV, which includes expenditure on our Green Recovery programme.

2. Based on statutory net debt of £7,520m (31 March 2023: £7,156m).

3. Based on Severn Trent Water Group regulated net debt of £7,184m (31 March 2023: £6,859m) and HD regulated net debt of £59m (31 March 2023: £56m).