

A close-up photograph of a human hand pouring water from the palm onto a small green seedling growing from a mound of dark brown soil. The background is a soft-focus green field. The title text is overlaid on the upper left portion of the image.

Severn Trent Water Business Plan 2025-30

29 September 2023



WONDERFUL ON TAP

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WE'RE SHARING WITH YOU TODAY...



A fully funded equity plan



Delivering scale RCV growth



Providing the opportunity for outperformance



Delivering what our customers want



Investing in the environment



Satisfying our regulators



We're ready to deliver now



WONDERFUL ON TAP



DELIVERING FOR OUR STAKEHOLDERS

A PLAN FOR OUR CUSTOMERS

We want to play a leading role in restoring the sector's credibility, delivering the outcomes our customers care about, while minimising the impact on bills... and our customers approve

Over 68,000 customers informed our plan

Investment will transform the environment we operate in and support long term resilience...

99%
of our RNAGS addressed

1 million
smart meters installed

1,000
water quality monitors

Net Zero
on operational emissions

Over 200MI/d
extra water available

164 tonnes
annual phosphate removal

... and we're delivering a further step change in the areas our customers care about most

16%
leakage reduction

30%
pollutions reduction

30%
reduction in CSO spills

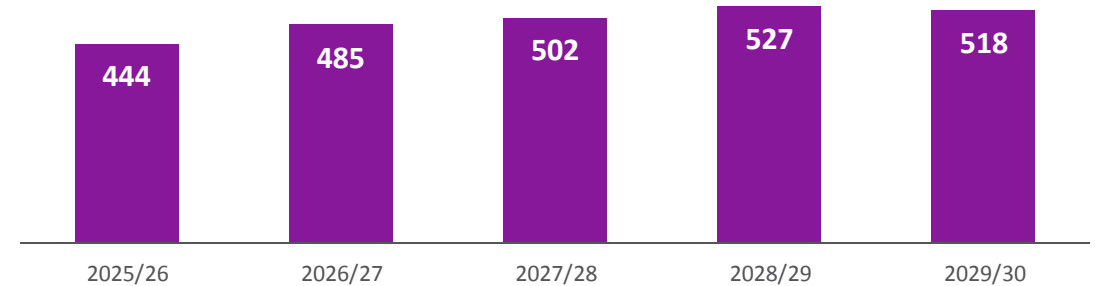
Step change
in customer service

163%
more customers' supplies covered in an emergency

Doubling
mains renewal rate

Bills will need to rise to enable investment, but we're minimising the impact by driving efficiency

Average combined household bill (£, 2022/23 prices)⁽¹⁾



- ✓ We have one of the **lowest average bills in the sector** at £419 (nominal prices)⁽²⁾
- ✓ AMP6 and AMP7 programmes **delivered efficiently to date**, and we've **challenged our base costs** against Ofwat's published cost models
- ✓ **Customers won't pay twice** – all enhancement spend is linked directly to new statutory standards, customer driven improvements or to manage future risk

76% of customers consider our plan acceptable⁽³⁾

(1) Forecast is subject to outturn inflation
(2) Source: Discoverwater.co.uk
(3) Based on a sample of 4,000 customers

A PLAN WHICH ADDRESSES OUR REGULATORS' PRIORITIES

We're submitting a plan that pushes the sector frontier, meets Ofwat's expectations on Quality and Ambition and fully addresses the three areas that Ofwat will judge plans on

1. Affordability



- ✓ Our current bill is the second lowest in England - **£29 below average**
- ✓ Bills are 1.2% of disposable income today, increasing to **1.3% by 2030**
- ✓ Our plan is underpinned by a **£550 million affordability package**
- ✓ **Doubling support to 693,000 households**, >1 in 10 customers in our region
- ✓ Customers supported will exceed those forecast to be in **water poverty** by 2030



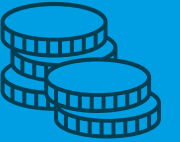
2. Deliverability



- ✓ **Accelerating £400m** into AMP7, **24/25 run-rate in line** with AMP8 need
- ✓ **230 in-house design team** embedded
- ✓ From 6 to 60 delivery partners over AMP7, **adding £1bn of capacity**
- ✓ Supply chain capacity is **120% of AMP requirement**
- ✓ New **Plug and Play model** could deliver up to **£750m** of additional capacity



3. Financeability



- ✓ Raising equity now supports submission of a **financeable plan**
- ✓ Plan targets **investment grade credit rating**
- ✓ We aim to maintain **BBB+/Baa1** for STW in line with current credit ratings
- ✓ **65% average gearing** over AMP8 based on 'early view' of WACC and no outperformance
- ✓ Plan is **financeable** on actual and notional company structure



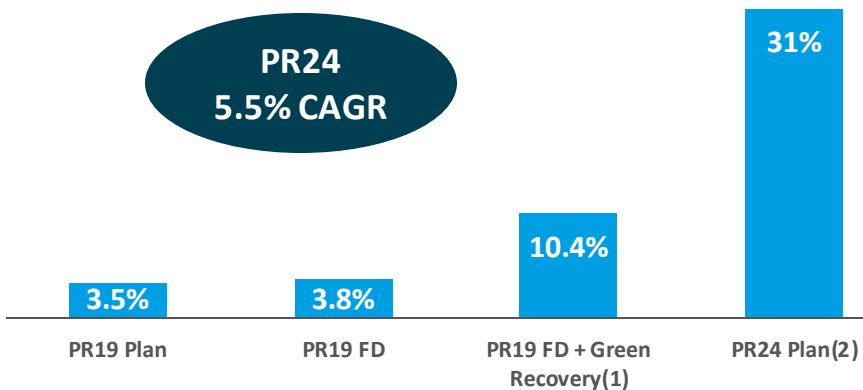
A PLAN FOR OUR SHAREHOLDERS

PR24 presents a valuable investment proposition with scale RCV growth and the opportunity to consolidate our leading position, delivering attractive returns while making us stronger for the long term

Our plan delivers scale RCV growth, with £5bn enhancement programme focused on sustainability

- ✓ A **£12.9bn totex programme**, of which **93%** relates to running costs or AMP8 statutory requirements
- ✓ Majority of enhancement spend is **investing in the environment**
- ✓ Providing a **growing platform** to deliver future returns

Real RCV Growth



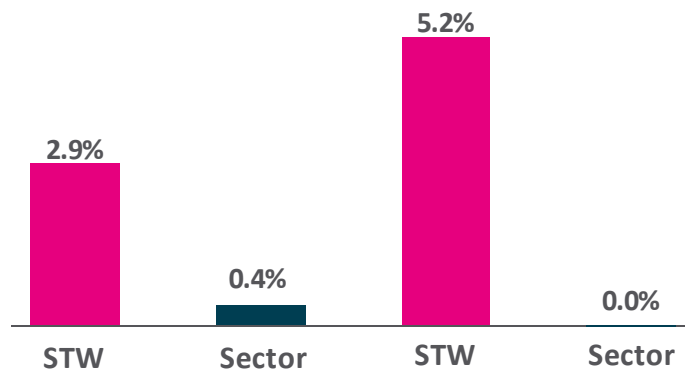
(1) Includes £566m (2017/18 prices) Green Recovery Programme, awarded in May 2021
 (2) Includes £0.4bn transition expenditure accelerated into AMP7

Consolidating our sector leader position and enabling continued attractive returns

- ✓ Consistently delivered **attractive real returns**, outperforming sector
- ✓ **Well positioned** on all three levers of outperformance
- ✓ Investment provides opportunity to **strengthen our business** and **consolidate leading position**

AMP6 cumulative RoRE outperformance⁽¹⁾

AMP7 cumulative RoRE outperformance⁽²⁾

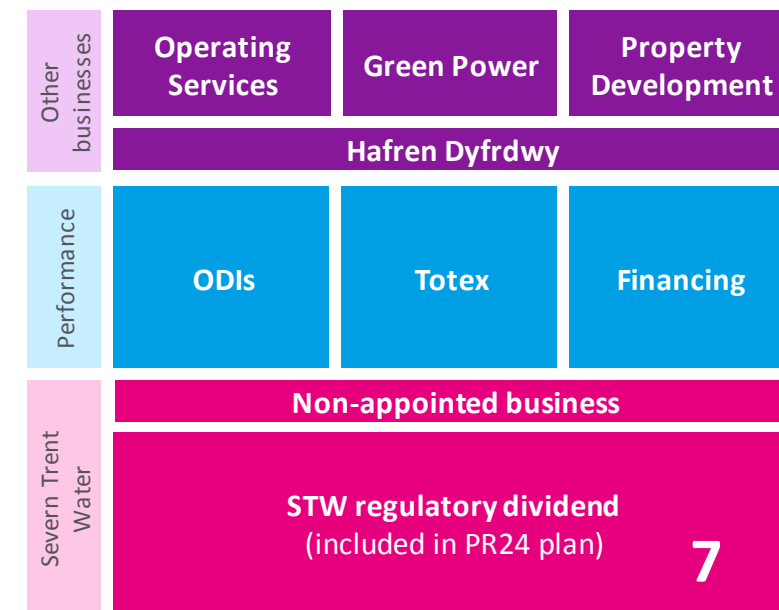


(1) Source: Ofwat Monitoring Financial Resilience Report 2019-20
 (2) Source: Company Annual Performance Reports 2022-23, table 1F

And we'll share our success with our stakeholders, including shareholders

- ✓ We know success for our shareholders means an **attractive, sustainable and progressive dividend**
- ✓ Plan includes **regulatory dividend** in line with submission guidelines and does not include **outperformance** or other parts of the **Group**

Group dividend building blocks

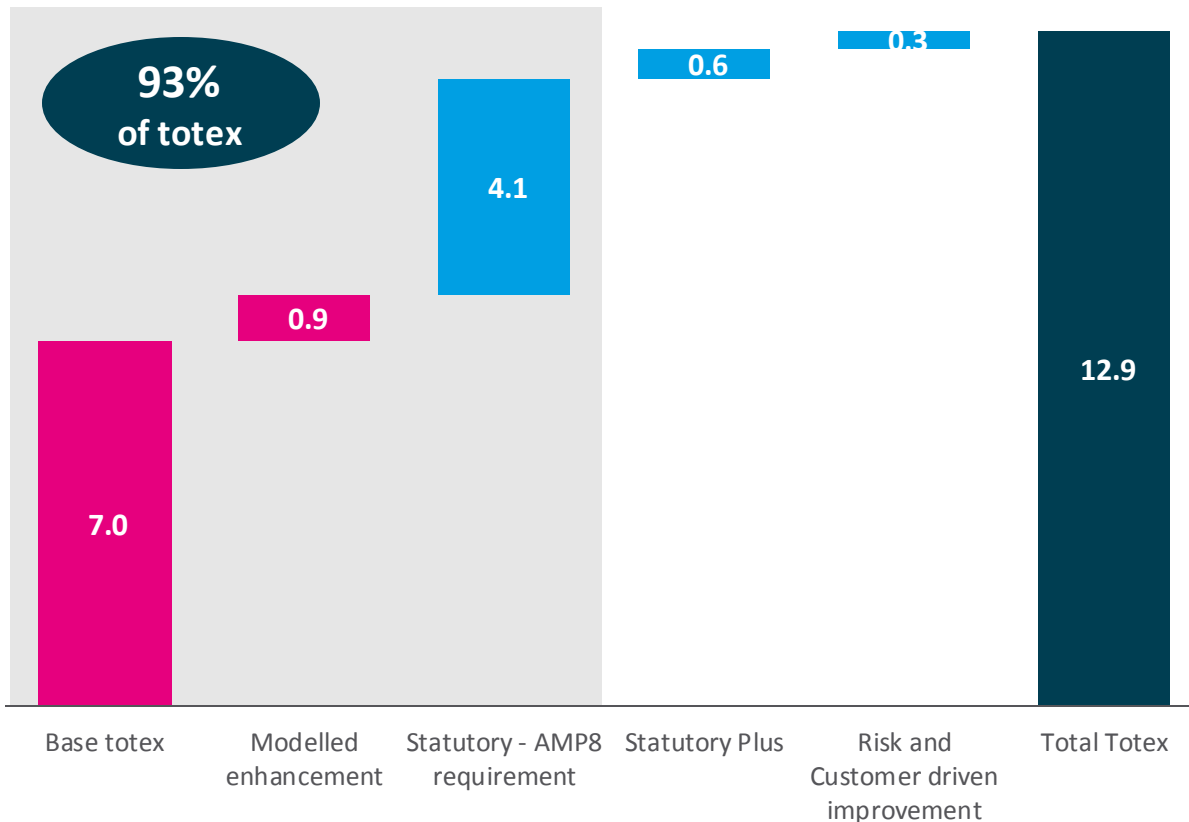




A COMPELLING PLAN

WE HAVE A HIGH DEGREE OF CONFIDENCE IN SECURING MUCH OF OUR £12.9BN TOTEX PLAN

AMP8 totex £bn (2022/23 prices)



93%

of spend relates to running costs or AMP8 statutory requirement

PR19

- we received more base costs than asked for

Totex breakdown:

- **Base and modelled enhancement (£7.9bn)** – the running costs of our business
- **Statutory – AMP8 requirement (£4.1bn)** – required to meet statutory obligations in AMP8
- **Statutory Plus investment (£0.6bn)** – statutory obligations that we want to deliver early to bring forward benefits
- **Risk and customer driven improvement (£0.3bn)** – supported by strong business cases

WHICH INCLUDES TRANSFORMATIVE INVESTMENT IN THE ENVIRONMENT



Case Study: Transforming our natural environment (£3.1bn)

WINEP will be significantly larger in AMP8

River health is the primary focus:

- ✓ Addressing 99% of RNAGS attributed to us
- ✓ Removing 164 tonnes of phosphate a year
- ✓ Installing 1,000 river monitors
- ✓ Reducing storm overflow spills by 30%

£3bn of WINEP projects confirmed by the Environment Agency ('EA')



Case Study: Meeting future water needs (£0.7bn)

Our WRMP projects a deficit of 600MI/d (a quarter of current supply) by 2050

We will reduce our deficit by over 200MI/d through:

- ✓ Improving leakage by 16%
- ✓ Doubling mains renewal rates
- ✓ Installing 1 million smart meters
- ✓ New, sustainable sources

Reflects feedback from EA on submitted dWRMP

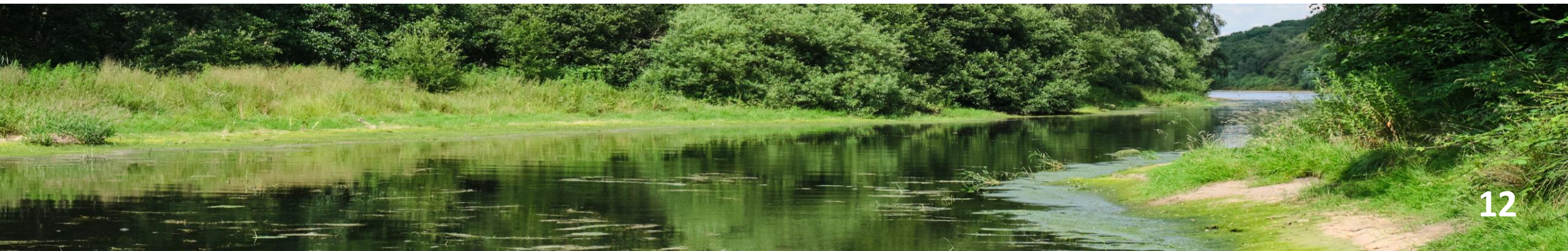


Case Study: Delivering Net Zero (£0.4bn)

We have committed to Net Zero by 2030, with a SBTi of 46% reduction in GHG by 2030/31

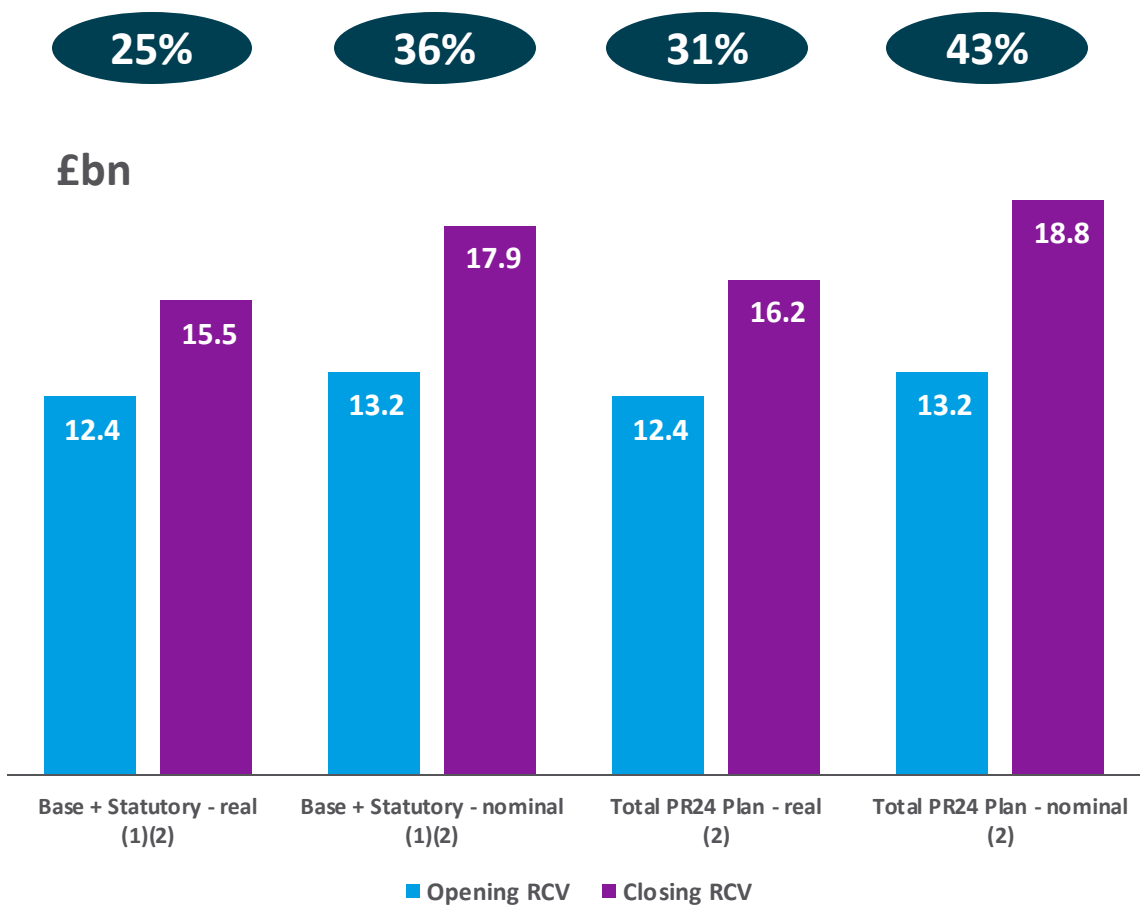
- ✓ In 2024 we will deliver the world's first carbon neutral waste water treatment works
- ✓ We'll use this blueprint to roll out interventions at over 100 sites
- ✓ Cutting emissions by 240ktCO₂e

Putting us on track with UK Government targets



DELIVERING A FINANCEABLE STEP CHANGE IN GROWTH

Scale RCV growth anticipated on base + statutory alone



While maintaining robust financial resilience

- ✓ Financeability enabled through equity, maximising growth opportunity
- ✓ Maintaining gearing levels below sector average and in line with STW historical
- ✓ Our plan targets investment grade credit ratings and the company aims to maintain BBB+/Baa1 for Severn Trent Water, in line with current ratings

AMP8 average ⁽¹⁾		PR24 Plan ⁽²⁾	Sensitivities (exclusive)	
			WACC +40bps ⁽³⁾	Outperformance +50bps ⁽⁴⁾
Gearing	Ofwat	65%	64%	64%
Adj. ICR	Moodys	1.4	1.6	1.6
FFO / debt	S&P	9.7%	9.9%	10.3%
PMICR	Fitch	1.5	1.7	1.6

(1) Gearing and credit metrics are presented at the Severn Trent Water appointee level, excluding non-appointed activity, Hafren Dyfrdwy and Business Services

(2) Our plan uses Ofwat’s ‘early view’ of the WACCof and assumes no out or underperformance for AMP8

(3) Based on Ofwat’s methodology, we estimate that the WACC could increase by around 40bps based on recent market data

(4) Assumes 50bps of outperformance each year of AMP8

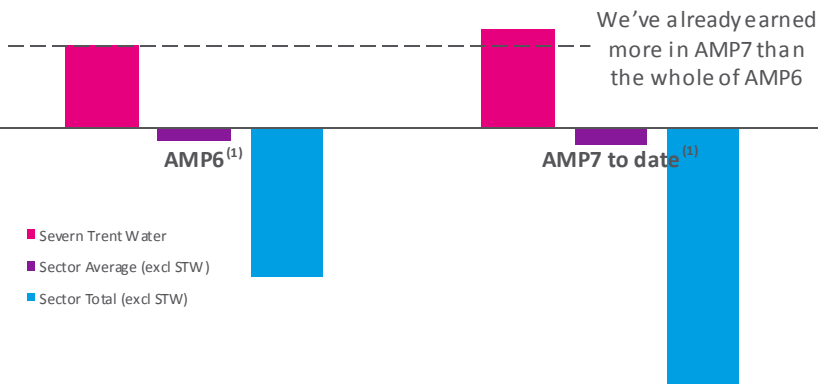
(1) Includes base totex (£7.0bn), modelled enhancement spend (£0.9bn) and Statutory – AMP8 requirements (£4.1bn).

(2) Opening RCV includes £1.0bn of midnight adjustments, excluding £0.4bn transition expenditure which relates to AMP8 and is included in AMP8 closing.

WE HAVE A TRACK RECORD OF RORE OUTPERFORMANCE

ODIs

We have generated significant returns on ODIs and confident we can continue into AMP8



(1) Figures presented net of tax, in 2012-13 prices for AMP6, 2017-18 prices for AMP7. Data for AMP6, 2020-21 and 2021-22 sourced from Ofwat published reports, 2022-23 data sourced from Company Annual Performance Reports, table 3H.

- ✓ 80% of our measures green and the only company with 4* EPA status, positioning us well for common measures
- ✓ Developed shadow reporting for AMP8 ODIs
- ✓ We're confident we can push the frontier forward on measures that matter most to customers
- ✓ ODIs are potentially worth more in AMP8 than AMP7 with incentive rates higher on most existing measures

Totex

We've managed our totex efficiently through inflationary environment, enabling us to do more

AMP6 totex **within 1%** of allowance and delivering efficiently in AMP7

Opex flat in real terms in 2022/23 excl. energy

Growing non-regulated business **generating value**

Value engineering and **advanced procurement** driving capex efficiencies

Enabling

Get River Positive Pledges

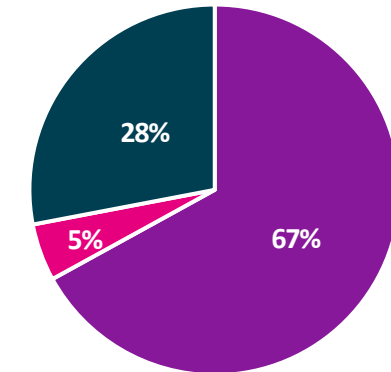
10-year Societal Strategy

Expanded affordability support

World's first carbon neutral works

Financing

Our strategic treasury management has delivered outperformance in each of the last seven years



4.1%⁽³⁾
cumulative financing outperformance in AMP7

1.5%⁽⁴⁾
cumulative financing outperformance in AMP6

18bps
outperformed the iboxx on average in AMP7

Cost of debt
among the lowest in the sector

£1.2bn facilities
Provides flexibility when needed

ESG credentials
Strengthened by our plan, driving demand

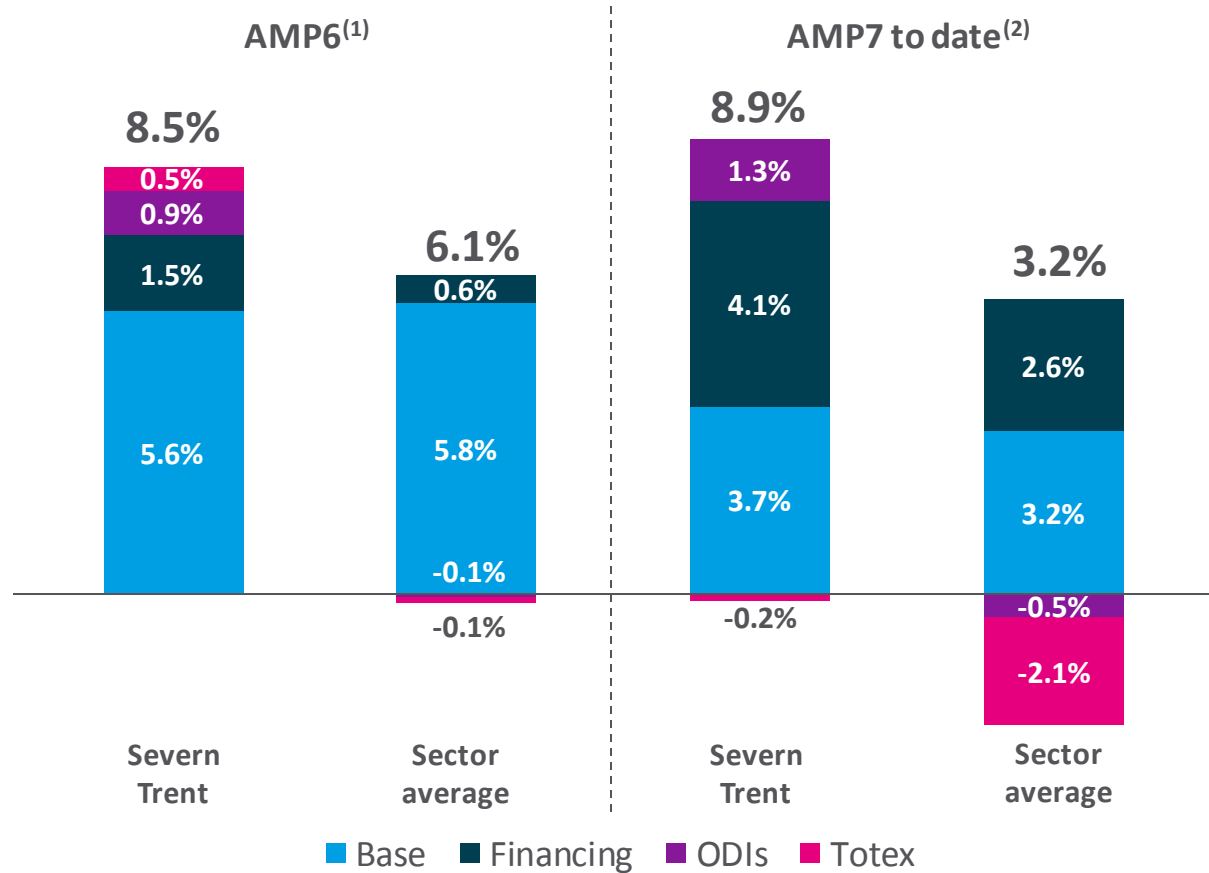
(2) At 31 March 2023 (3) Source: Annual Performance Report 2022-23, table 1F
(4) Source: Ofwat Monitoring Financial Resilience Report 2019-20

RESULTING IN ATTRACTIVE RETURNS FOR SHAREHOLDERS

Return on Regulated Equity ('RoRE')

AMP6⁽¹⁾

AMP7 to date⁽²⁾



We have delivered **upper quartile RoRE** since the beginning of AMP6



We are the **sector leader on AMP7** cumulative RoRE with 8.9% real returns – **5% above the base return**



Which we've shared with investors through a **growing, inflation-linked dividend**



We're confident we can **continue our strong track record**, supported by:

- A large investment programme generating **more opportunities** to drive performance and efficiency
- **Enhanced incentivisation**, providing greater rewards when earned through strong performance
- Our **performance-driven culture**, supported by engaged teams, ready to deliver

(1) Source: Ofwat Monitoring Financial Resilience Report 2019-20

(2) Source: Company Annual Performance Reports 2022-23, table 1F

AND WE'RE READY TO DELIVER OUR PLAN NOW

We have an experienced and established management team



Our business is engaged and ready for the challenge

Our people are the most engaged they've ever been

We consistently score above 8 out of 10 in our annual engagement survey

2022/23	8.4
2021/22	8.2
2020/21	8.3

Our scores place us in the top 5% of global utilities



We have committed to continuing to invest in our people and skills



Training Academy opened in 2021 – last year 22,700 learners passed through its doors

We've developed and retained new talent – since 2014 we've hired 590 apprentices, 82% are still with us

We onboarded 263 Graduates and Apprentices last year

We have insourced critical skills to drive performance further

Water Network Response team – our 'blue light' service protecting customers

Design engineers – enabling us to deliver the best solutions for us

Trunk Mains Repair team – strengthening our network

Reactive waste teams – designed to drive faster responses and better service

SOURCE OF FUNDING

Raising capital to responsibly fund our growth through AMP8

Equity Placing

- **Non pre-emptive equity placing to raise £1.0bn, including:**
 - A £500m investment from QIA
 - A retail offering to retail investors in the UK through PrimaryBid

Rationale

- **Provides the equity portion of the AMP8 funding plan**
- Ensures gearing remains at target investment grade levels whilst funding the step-up in sustainability-led investment
- Gives regulators and equity and debt providers clarity as to Severn Trent's ability to fund the investment through AMP8

Timeline

- **Launch and pricing on 29 September**
- Settlement on 3 October
- Deployment of capital over remaining years of AMP7 and AMP8

SUMMARY

£12.9bn
totex including
significant
investment in the
environment

31%
real RCV growth

**Sector leading
RoRE**
well placed to
continue

Financially
resilient plan, to
target
BBB+/Baa1

**76% of
customers**
surveyed find our
plan acceptable

- ✓ **Affordable**
- ✓ **Deliverable**
- ✓ **Financeable**



APPENDIX

OUR PLAN FURTHER SUPPORTS OUR LEADING ESG CREDENTIALS

We are a sustainability-led organisation

Some of our key commitments:

- ✓ **Get River Positive pledges** – pushing the sector forward on river health
- ✓ **Great Big Nature Boost** – improving Biodiversity on 10,000Ha of land by 2025
- ✓ **Triple Carbon Pledge** – operational Net Zero, 100% renewable energy and 100% electric vehicles (where available) by 2030
- ✓ **Societal Strategy** – helping to support 100,000 people out of poverty by 2032

Read more in our [Sustainability Report](#)

Recognised by regulators and leading indices



Environment
Agency

4* EPA Status



Met 100% of
Environment ODIs



AA rating



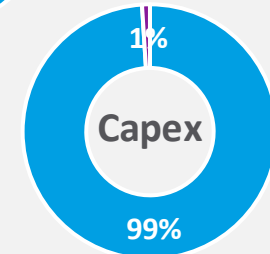
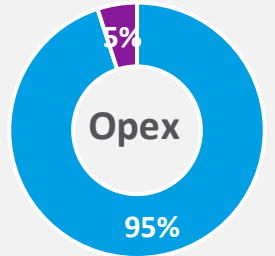
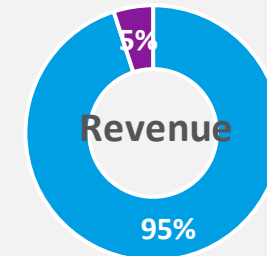
A- rating



14.3 – top 4% of
global utilities

We voluntarily disclose under the EU taxonomy

Over **95%** of our key financial metrics are **eligible** under EU taxonomy and we'll make our **first alignment disclosures** this year



See our full disclosure in our [Annual Report and Accounts](#) (pg 64) and find our PAI data, and much more, in our [ESG databook](#)

THE SEVERN TRENT PLC GROUP

Operating Services	Green Power	Property Development
Hafren Dyfrdwy		
Severn Trent Water – non appointed business		
Severn Trent Water – appointed business		

- The PR24 plan referred to in this document relates to the Severn Trent Water appointed business
- Financial Statements for the Appointee business can be found in tables 1A, 1B, 1C and 1D of our [Annual Performance Report](#), including a reconciliation to Severn Trent Water Group statutory position
- Segmental analysis of the Severn Trent Plc Group can be found in note 5 of our the [Severn Trent Plc Annual Report and Accounts](#)

PR24 in figures

£12.9bn

Totex
(2022/23 prices)

93%

running costs
and AMP8
statutory spend

BBB+/Baa1

STW targeted
credit rating

31%

RCV Growth
(2022/23 prices)

£518

2030 average
annual household
bill (2022/23
prices)

65%

average gearing

30%

reduction in
pollutions

5.5%

Real CAGR

76%

customer
acceptability

30%

reduction in
storm overflow
spills

16%

reduction in
leakage

STW REGULATED CAPITAL VALUE

Regulated Capital Value	Price base	Opening (£m)	Closing (£m)	Growth (%)	CAGR (%)
AMP8 RCV growth with transition expenditure included in opening RCV	Nominal FYA	13,510	18,567	37%	6.6%
	Real FYA	12,387	15,697	27%	4.9%
	Nominal FYE	13,597	18,753	38%	6.6%
	Real FYE	12,766	16,177	27%	4.9%
AMP8 RCV growth with transition expenditure excluded from opening RCV	Nominal FYA	13,072	18,567	42%	7.3%
	Real FYA	11,986	15,697	31%	5.5%
	Nominal FYE	13,157	18,753	43%	7.3%
	Real FYE	12,353	16,177	31%	5.5%

Figures are presented for the Severn Trent Water Appointee business and do not include: Severn Trent Water Non-Appointed business, Hafren Dyfrdwy, our Business Services division comprising Operating Services, Green Power and Property Development, or Corporate and Other.

STW SUMMARY INCOME STATEMENT

£m, nominal	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue	2,466	2,731	2,883	3,099	3,124
Operating Profit	864	1,040	1,095	1,189	1,095
Profit for the year	405	582	552	579	441
Regulatory dividend ⁽¹⁾	209	217	228	241	248
⁽¹⁾ Indicative regulatory dividend is equivalent to 4% of regulated equity in line with submission guidelines					

Figures are presented for the Severn Trent Water Appointee business and do not include: Severn Trent Water Non-Appointed business, Hafren Dyfrdwy, our Business Services division comprising Operating Services, Green Power and Property Development, or Corporate and Other.

STW TOTEX PROFILE

£m, 2022/23 prices	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Base operating expenditure	899	925	953	978	992	4,746
Base capital expenditure	320	339	329	341	292	1,621
Enhancement operating expenditure	69	78	86	89	109	432
Enhancement capital expenditure	933	1,055	1,311	1,276	850	5,425
Retail costs	126	129	132	136	141	664
Total expenditure	2,347	2,525	2,810	2,820	2,384	12,887

Figures are presented for the Severn Trent Water Appointee business and do not include: Severn Trent Water Non-Appointed business, Hafren Dyfrdwy, our Business Services division comprising Operating Services, Green Power and Property Development, or Corporate and Other.

STW GEARING / CREDIT METRICS

Actual company structure (excluding non-appointed)	2025/26	2026/27	2027/28	2028/29	2029/30	AMP8 Average	WACC + 40bps	50bps Outperformance
Ratio of debt to RCV (Ofwat)	63.4%	64.4%	65.5%	66.2%	66.6%	65.2%	64.4%	64.4%
ICR adjusted for charges (Moody's)	1.8	1.6	1.4	1.3	1.1	1.4	1.6	1.6
FFO / debt (S&P)	10.2%	10.2%	9.6%	9.7%	8.6%	9.7%	9.9%	10.3%
Post-maintenance interest cover (Fitch)	1.4	1.6	1.6	1.6	1.4	1.5	1.7	1.6

Figures are presented for the Severn Trent Water Appointee business and do not include: Severn Trent Water Non-Appointed business, Hafren Dyfrdwy, our Business Services division comprising Operating Services, Green Power and Property Development, or Corporate and Other.

OTHER INFORMATION

Bill profile (£, 2022/23 prices)	2025/26	2026/27	2027/28	2028/29	2029/30
Average combined household bill ⁽¹⁾	444	485	502	527	518
Average combined household bill (reprofiled) ⁽²⁾	438	481	508	533	518
⁽¹⁾ The bill profile is calculated in line with the methodology used to calculate actual bills and on a like-for-like basis with our existing reporting. This bill profile is the basis for the financial modelling presented in our plan and the associated outputs. The bill profile presented in table RR14 is calculated using a different methodology and is not reflective of the bill profile used in modelling the plan or the bill that would be calculated on an 'actual' basis.					
⁽²⁾ We have also presented in our plan a proposed adjusted bill profile which assumes a small change to the post financeability revenue adjustment relating to AMP7 ODIs with more revenue recovered in years 3 and 4 and less in years 1 and 2.					

Inflation assumptions (%)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
RPI: November year on year %	7.2%	4.0%	n.a.				
RPI: Financial year average indices year on year %	8.8%	4.6%					
RPI: Financial year end indices year on year %	6.5%	3.4%					
CPIH: November year on year %	4.8%	2.6%	1.1%	1.3%	1.9%	2.0%	2.0%
CPIH: Financial year average indices year on year %	5.9%	2.9%	1.1%	1.3%	1.9%	2.0%	2.0%
CPIH: Financial year end indices year on year %	4.1%	2.3%	1.0%	1.7%	1.9%	2.0%	2.0%