

# Investor News

Issue 4

August 2021

## Lean Green Recovery Machine

May was a busy month for Severn Trent, featuring not only our year-end results but also the fantastic news Ofwat had awarded us £565m<sup>1</sup> as part of the Green Recovery scheme which is designed to help the country bounce back after COVID.

We were successful with funding for all six of our proposals and took two-thirds of the new money available for schemes under the programme, which will also have

a positive impact on our real RCV growth, increasing it to around 10% this AMP.

All six projects will help create something in the region of 2,500 direct jobs, as well as offering benefits to us operationally.

So, we wanted to take a little time to pick through the detail of each of them and to explain why they make sense to us as a business.



<sup>1</sup> - 2017/18 prices, equivalent to c.£624 million in nominal prices

**Trialling innovative nature-based flood solutions** – our plans cover 30 catchments in and around Mansfield and are based on creating, among other things, 51km of permeable pavements, 4,400 rain gardens and 1,600 small bioswales which, together, will not only help protect 90,000 people from flooding they'll also help reduce the amount of rainwater getting into our sewers. That means less sewer flooding, which is also good for our customers, and means improved river quality by reducing the use of storm overflows.

**Creating bathing quality stretches of the River Leam and Teme** – while cleaning up two stretches of rivers will prove a boon to those customers who are wild swimmers, it will also give us a cleaner raw material and the opportunity to work with farmers to reduce run-off of chemical fertilisers from their land. Our plan is to learn lessons that can be used elsewhere in the patch (and to share them with other water companies), with bathing areas in Ludlow and Leamington due to open in summer 2025.

**Decarbonising treatment and increasing water supplies by enough to supply a city the size of Derby** – we'll be using an abstraction licence from the now demolished Rugeley power station to create 'new' water resources which will have natural pre-treatment to reduce chemical usage before being moved to the newly expanded treatment works at Church Wilne and Melbourne. This increase in capacity will have a positive net carbon impact as we'll be using different ways of treating the water, reducing chemical and energy use, as well as creating further offsetting through the use of green energy and biodiversity enhancements at the abstraction point. Predominantly though, the scheme will provide increased resilience for us, and our customers, during hot, dry summers.

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WONDERFUL ON TAP

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TRENT

### Removing old, leaky lead pipes in up to 26,000 customers' homes

– the trial will focus on two areas (Coventry and Bomere Heath in Shropshire) and, as well as the obvious advantages of replacing older pipes that are far more likely to leak, the scheme also gives us the opportunity to trial three different delivery models. If the project proves successful, and is rolled out at scale, it could have a major positive impact on both public health and our leakage figures.

### Accelerating improvements to 500km of our region's rivers

– the scheme aims to deliver Water Framework Directive environmental improvements early, while also allowing us to make fast-paced improvements on sewer overflows. Just as importantly, it will give us more information on how our overflows perform through the year, together with offering us possible solutions to tackling river pollution. Once again, this will help us improve the quality of our raw material, so helping reduce the costs of treating water.

### Installing smart meters to help customers save water

– installing 157,000 smart meters in Coventry and Warwickshire will help us reduce demand on our system. Customers will become more aware of how much water they're using, and we'll be able to target high users during periods of maximum demand which should result in fewer interruptions for our customers and a more targeted response to individual issues.

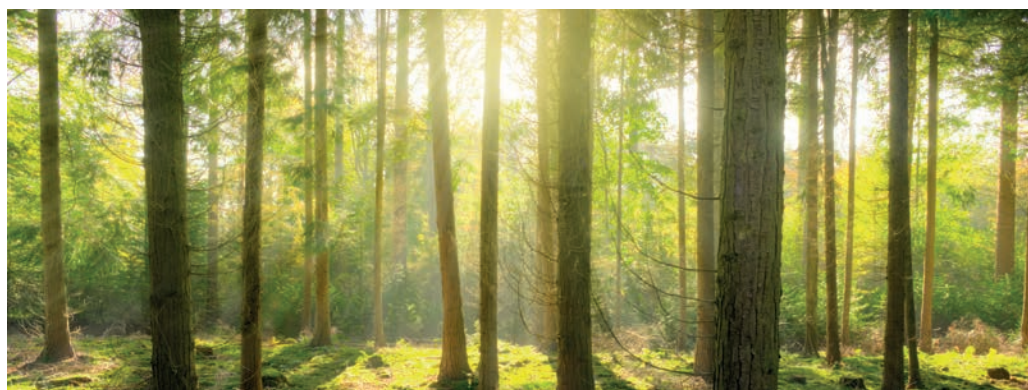
Each of the projects not only offers benefits to us operationally, and to our customers, they also provide innovative solutions to current industry problems (and opportunities) and are scalable in the future should the opportunity arise, possibly even during the PR24 process.

We'll be keeping you up to date with how things are going as work continues.



### Capital Markets Day

Don't forget our Capital Markets Day takes place at Draycote Water in Warwickshire on September 24. Make sure you've got your place booked to hear about some of our key challenges and opportunities in the coming years by following this [link](#). Topics to be covered include the future of Outcome Delivery Incentives, the opportunities for RCV growth offered by the Green Recovery, and more detail about our journey to net zero (with more on that on page 5).



### Green Recovery equity raise

We announced our non-pre-emptive placing through the issue of new ordinary shares to raise £250 million for our Green Recovery schemes just before year-end.

We believe the projects support the wider national agenda on climate change and the need for greater water supply security. They also support our long-term growth while representing a significant investment opportunity over the next four years, supplementing the work we already undertake, providing employment, increasing resilience, and improving the natural environment.

The placing was successful, and well oversubscribed, allowing us to place more than 10 million new ordinary shares by the end of the day at a price of 2,400p.

We'd like to thank everyone who showed their support and participated in the pricing, and we look forward to working with you going forward.



## Live on . . . PR 24 and Ofwat's plans

It's been almost a year since I last had the chance to highlight some of our key challenges for you, and what a 12 months it's been. We've had the good news about the Green Recovery you've already read about and a record year on our customer ODI commitments.

So, it might seem strange that I'm going to look forward to PR24, given just how much of this AMP we have left to navigate. But Ofwat has already published its initial views on its [framework for PR24](#), and so I wanted to fill you in about what they're saying and about our initial thoughts.

The good news is, taken as a whole, the consultation looks positive for the sector in many areas, with the regulatory model here to stay. We absolutely agree with Ofwat's emphasis on embedding the PR24 plan as part of a long-term strategy, and you won't be surprised to learn we're well up for the proposal to streamline the whole price review process for companies with a

strong track record of delivering for their customers.

There are also some helpful mentions of future cost pressures on capital maintenance expenditure, with possible options for funding, and, given our Green Recovery success, we absolutely welcome the potential for major projects to be agreed at any time rather than just at price reviews. That offers far greater flexibility than currently, as well as opening the possibility for greater innovation, either as a test bed or at scale.

While there isn't yet much detail on net zero and nature-based solutions, that lack of detail gives us the opportunity to contribute to the debate, and we'll certainly be sharing a few ideas with Ofwat.

Given our success with customer ODIs, it's interesting for us that Ofwat is looking to slim down the number of bespoke incentives – although they remain committed to the principle – so we'll need to look at how that plays out as we've



definitely taken the opportunity ODIs have given us to improve our customer service consistently over the years in return for reward.

So that's it, for now anyway. It's something we'll be talking about for some time to come, and you can keep up to date on what's due to be released when by visiting [this section](#) of the Ofwat website.



## Diversity and Inclusion embedded Kickstart kickstarted

Being in the middle of a global pandemic hasn't stopped us committing to take on board 500 16- to 24-year-olds who are at risk of long-term unemployment under the Government's Kickstart programme.

Each placement is for six months, with the aim of providing training, experience and skills to help the young people secure permanent jobs in the future. In fact, some of the first starters have proved so effective they've already been offered permanent roles at Severn Trent.

And, come next year, we'll be taking a major part in the #10000BlackInterns programme which aims to offer 2,000 internships each year for five consecutive years. You can read more about the programme [here](#).

## New and noteworthy

We've recently released a whole range of reports and updates, so we thought we'd draw your attention to at least a few of them.

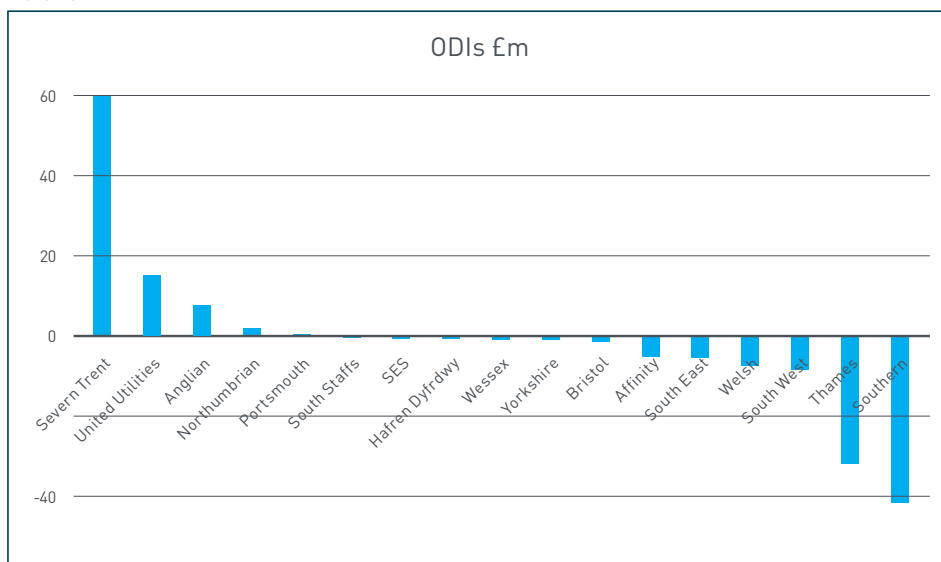
Our latest [Annual Report and Accounts](#) is available on our website, detailing how we've responded to the most remarkable of years, both operationally and socially, and where our focus on customers, communities and environment has never been more important.

As well as the ARA, we've also released our [Sustainability Report](#), which is interactive this year and which gives more detail about how we've been making a real difference to the areas we serve. Well worth checking out.

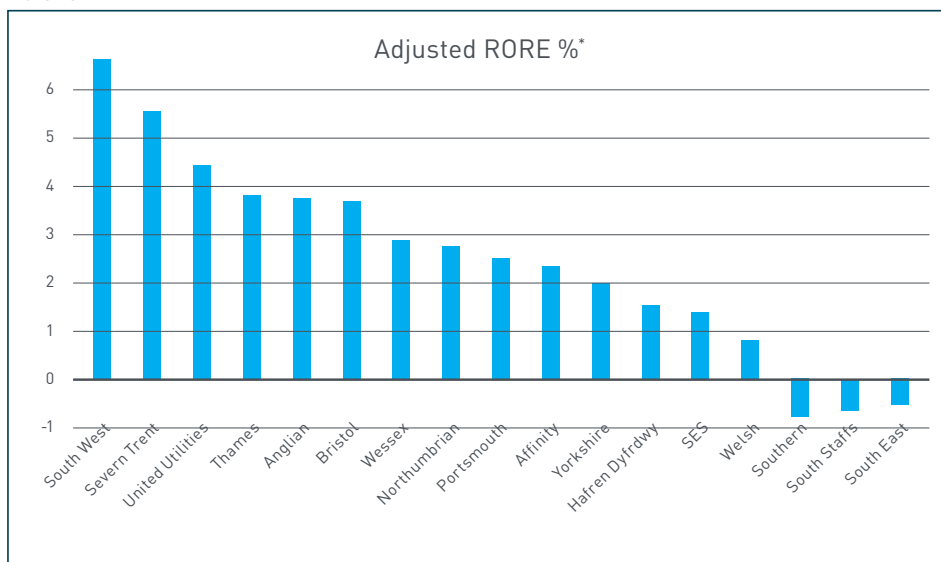
Our Q1 trading update was released earlier this month and highlighted our strong start to the year and that we expect to make at least £40 million in customer ODIs and to invest £550-650 million pounds this year. You can find our update [here](#).

The sector's also published its respective APRs, with ours available [here](#), which means we can share a league table of everyone's ODI (Table 1) and RORE (Table 2) performance:

**Table 1**



**Table 2**



\*Late changes to the methodology meant not all companies reported within the same guidelines. The adjusted figures use the new methodology to ensure the percentages are comparable.

Also released was the Environment Agency's [Environmental Performance Assessment](#) for 2020 which showed we were rated as 4\* for the third time in four years, with Wessex, United Utilities, Northumbrian and Yorkshire also getting the highest rating.

The report showed a five-year table of results, where we had the joint second-best performance in the industry.

Year	2016	2017	2018	2019	2020	Total (out of 20)
Wessex	4*	4*	3*	4*	4*	19*
Severn Trent	3*	4*	3*	4*	4*	18*
United Utilities	4*	4*	3*	3*	4*	18*
Yorkshire	3*	3*	2*	3*	4*	15*
Anglian	3*	3*	3*	2*	3*	14*
Northumbrian	2*	2*	4*	2*	4*	14*
Thames	2*	3*	3*	3*	3*	14*
Southern	3*	3*	2*	1*	2*	11*
South West	2*	2*	2*	2*	2*	10*





## ESG update

### Our road to net zero

As a company, we not only recognise the growing importance of climate change generally, we also experience the impacts it can have on our business on an increasingly regular basis. Wetter winters with more intense periods of rainfall, as well as drier summers, create unique challenges to our business as we strive to provide the best possible service to our customers. The challenges of climate change adaptation are clearly set out in the TCFD section of our recently released [Annual Report](#) and through the materiality assessment in our [Sustainability Report](#).

Beyond adaptation and resilience, we've been clear on our need, as a company and as an industry, to play our part in mitigating the impact of our business on climate change. It's why the UK water industry was the first in the world to collectively commit to a net zero target and 2030 timeframe and why, here at Severn Trent, we've taken a leading role in pushing the net zero agenda forward through our Triple Carbon Pledge and our Great Big Nature Boost campaign. As key stakeholders, we want our investors to feel as engaged and excited in our journey as we do, which is why we were delighted that the non-binding advisory vote on our climate change approach at the AGM was passed with 99.44% of the vote.



But what about our Triple Carbon Pledge progress? While we've made some early inroads – such as starting the process of replacing our fleet with electric vehicles and moving to only being supplied with fully renewable-backed electricity from our energy suppliers – we still have several challenges to overcome.

But, by using our Reduce, Replace, Remove and Offset approach to net zero we're identifying opportunities all the time to get smarter in the way we do things, and we're finding loads of great partners to work with along the way.

For us, net zero is very much a long-term project with a series of short-term wins along the way, and we'll be delighted to keep you up to date with how our journey's going.

## Financing update

As part of our [Sustainable Finance Framework](#) we've now launched a sustainability-linked RCF. The facility is for five plus one plus one and is linked to several sustainable KPIs which are all measurable and which are also spread across the business rather than focusing on the purely operational.

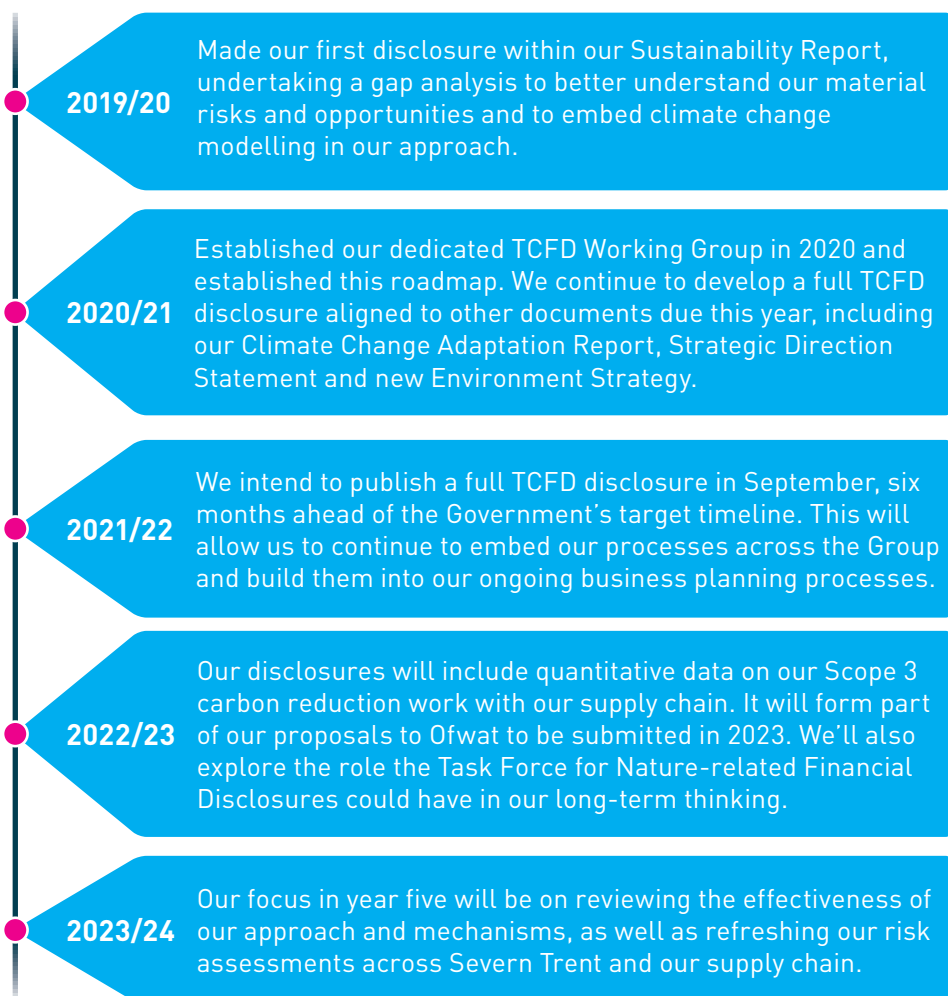


We believe our new RCF is further proof that not only is sustainability right at the heart of our business, it's also something that's made its way into all areas of the company, including in the way we finance Severn Trent.



## Our TCFD roadmap

We're committed to enhancing the way we report against the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and have laid out a five-year roadmap to explain how we intend to do that.



## Inflation and water

As has been highlighted by the Bank of England, expectations are that higher inflation is likely to be a feature of the economy's bounce back from COVID as lockdown measures ease and consumer spending increases.

### So how does inflation affect Severn Trent?

Overall, inflation tends to have a positive impact on our financials. In line with other utilities, our bills have an inflation element baked in and that means any increases would positively impact revenue. Inflation would also have a positive impact on our RCV, over and above the real growth of around 10% we

expect through the AMP following our Green Recovery funding award.

By contrast, in periods of low inflation, although we benefit through lower finance costs, we see a negative impact on RORE (due to the mechanistic nature of how it's calculated).

Given these effects, we set our dividend policy with inflation in mind – and have said we'll be increasing our dividend by at least CPIH during this AMP.





## First year (and a bit) of our Community Fund

We launched the idea for the Community Fund in our 2019 business plan, with the aim of donating around £10m to charities and not-for-profits over the course of this AMP. At the time, we couldn't have foreseen just how important the fund would become.

Due to the unique circumstances of the last year or so, we ended up donating the first £3.5m to hundreds of organisations right across our patch, including £1.5m to local Community Fund projects, £1m donated via our Emergency Coronavirus Fund to help community groups and those most vulnerable to the impact of the initial stages of COVID, as well as another £1m through the one-off charity challenge to get customers to use less water during hot weather.

That figure's now up another £889,000, courtesy of donations made in the first four months of this financial year, which means we've now supported more than 480 organisations across our region.

And the very latest news is that, just last month, we launched a £50,000 community fund for our Welsh customers. You can find out more about it by going [here](#).

You can read more about how the Severn Trent fund supported our communities [here](#), and don't forget to take a look at our first Annual Review document while you're there.





## Summer customer campaign

Last year, we discovered the national lockdown led to our customers using water in a different way to normal – hot weather, combined with little or nothing to do, led to a huge increase in usage as people decided gardening and car washing was a better option than bingeing on Netflix.

As a response to that, we started to trial various various nudge theories designed to encourage people to use less water – both our £1m charity challenge and a series of text alerts to at-risk areas provided us with useful intelligence we've been putting to good use already this year.

Our standard education campaign started as early as May, with the main push coming in June with the Summer Water Saving Hero campaign which encourages customers to share their top water saving tips to win a free day out. As part of that, and for the first time, we've partnered with hyper local social influencers like Alison Sadler and DaywithDad to support our messaging by tapping into their pre-existing followers.

At the same time, we've been targeting customers where we don't have their full details to ensure we can contact them should there be any issue. That's all part and parcel of our alert system where, as a starter for 10, we've emailed all our customers to let them know we might be in touch during hot weather to ask them to reduce their usage.

And, when we spotted increased usage during the recent hot weather, our Network Control team was able to identify a number of actual and potential hotspots which were then targeted with a series of text alerts that got progressively more urgent as customers continued to use considerably more water than usual. When we got through that period we were then able to text our thanks to areas where usage had seen a dip in response to the original texts.

While the text system was first trialled last year, meaning we could roll it out quickly this year when we needed it, we're looking at a number of different trials as the summer progresses, including 'odds and evens', meter reading prompts, and targeting businesses.



'Odds and evens' is a scheme used in Australia where homes with odd numbers can use hosepipes or sprinklers on one day, and homes with even numbers the next day. The meter trial will see how customers respond when asked to provide a reading during times of heavy usage with hope that, by showing them how much water they use, they'll then use less, and the business trial is an incentive scheme which encourages customers to become more efficient.

By working on these innovative projects, we hope to discover which options have the greatest effect on our customers' water usage in the hottest weather and so, in the future, be able to avoid any unexpected outages caused by hot weather or a combination of weather and lockdown, so improving service for customers and helping our customer ODIs.





## Premier League

We appear in a number of league tables and indices highlighting our commitment to diversity and inclusion, regularly being the top utility. We view these as validation of our ambitions to reflect the communities in which we live and work rather than as an end in themselves but it's worth highlighting some of the higher profile tables in which we appear.



The fifth and final [Hampton-Alexander Review](#) was published earlier this year and named us in second place, with our Board being 55.6% women, making us one of only two companies in the FTSE 100 to have a majority of women on our Board. Not forgetting we're one of only four FTSE 350 companies to have a female CEO and Chair.



The [Social Mobility Employer Index](#) ranks Britain's employers based on the actions they're taking to ensure they're open to accessing and progressing talent from all backgrounds. The latest index put us in eighth place and reflects the work we've done to ensure every applicant has an equal chance of not only joining us but also advancing their career, regardless of their background.



We were a top 10 UK company, and in 31st place worldwide, in the [Equileap 2021 Gender Equality Global Report and Ranking](#) which scores companies on a range of measures, including the gender balance of the workforce, senior management and board of directors, as well as the gender pay gap and policies relating to parental leave and sexual harassment.



The [Tortoise Responsibility100](#) ranks FTSE 100 companies on their commitment to key social, environmental and ethical objectives, inspired by the UN Sustainable Development Goals. We were top 10 again, in sixth place this time, and were the top utility.

## Who are the IR team?



Stu Howell, Interim Head of Investor Relations

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Stu's day job is Head of Finance for our Customer Operations but he's stepped in to head up our IR team while we search for someone to take on the role full-time. He joined us in 2012 from Mondelez, having previously worked for Cadbury plc for nine years. Stu also spent some time as CFO of Water Plus, our business JV with United Utilities. His interests include running, cycling and swimming (yep, he does triathlons).



Selina Soma, Investor Relations Manager

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Selina joined the Investor Relations team in the middle of the pandemic, which was a little challenging, having joined us as Group Financial Reporting Manager in 2018. Before then she had a number of other finance roles and trained at KPMG. In her spare time you can usually see her supporting her favourite teams as she loves all things sport!



Faye Stringer, Investor Relations Analyst

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Faye joined Severn Trent on our Graduate scheme in 2018 after graduating from Sheffield Hallam with a Bachelor's in Accounting and Finance, joining the IR team in January this year. Her interests include running, cooking and travelling (just not all at the same time).

### Investor Events Timetable

24th September	Capital Markets Day	2nd December	Ex-dividend date (interim)
23rd November	Half-year results announcement	3rd December	Dividend record date (interim)
		7th January	Dividend payment date (interim)