

# HALF YEAR 2021/22 RESULTS

23 NOVEMBER 2021



WONDERFUL ON TAP

SEVERN  
TRENT

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# LIV GARFIELD

Chief Executive



# HALF YEAR HIGHLIGHTS

Continuing momentum in year two of AMP7

Balanced performance across all areas – over 90% of STW ODIs on track

Strong operational performance raising ODI guidance to at least £75 million<sup>1</sup> for the full year

Leading the sector with ambitious environmental plans

On track with AMP7 and Green Recovery capital programme

Strong financials and robust balance sheet supporting AMP7 RCV growth of c.10%

1. Customer Outcome Delivery Incentives (ODIs) quotes in 2017/18 prices and pre-tax (applying corporation tax at 25%, the rate expected to be applicable when the ODIs are taken to revenue) unless otherwise stated.



# JAMES BOWLING

Chief Financial Officer



# HALF YEAR FINANCIAL HIGHLIGHTS

Strong financials in line with expectations

Group revenue up  
8%, returning to  
pre-COVID levels

Group Adjusted  
PBIT up 14% year-  
on-year

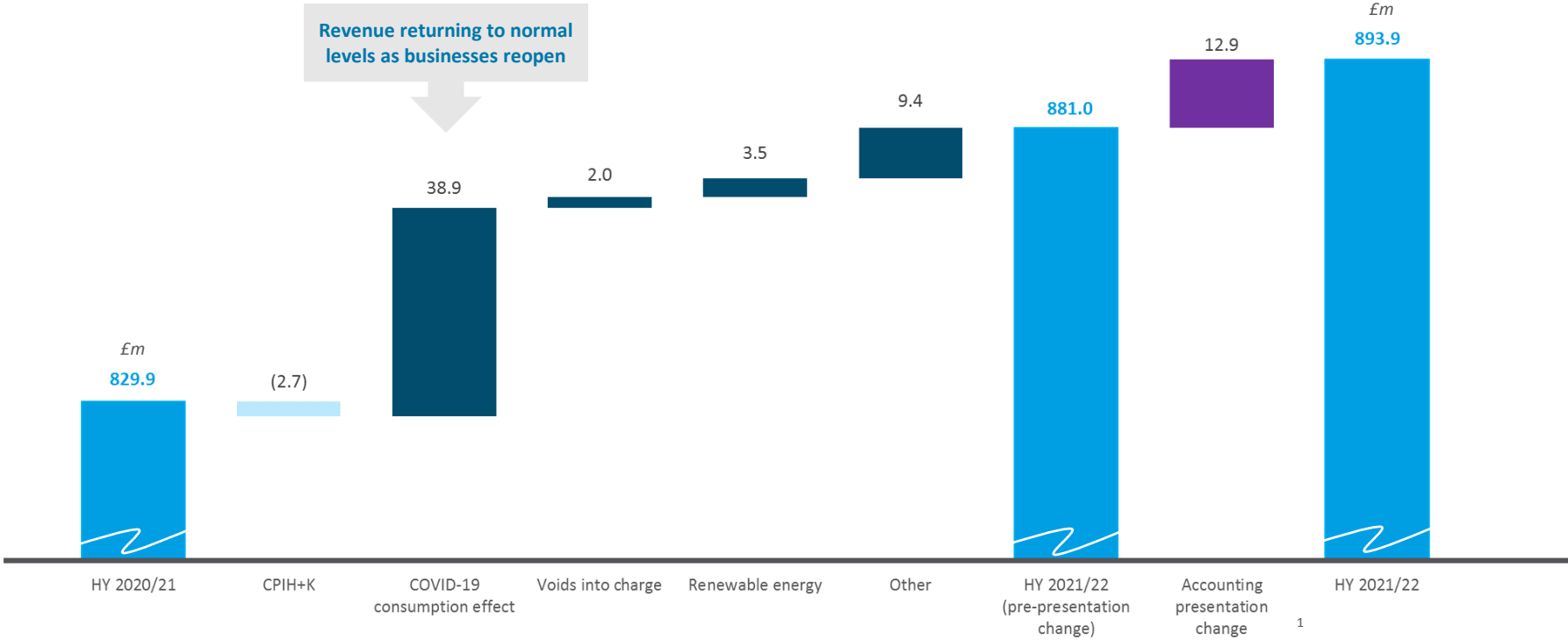
Strong balance  
sheet, pension  
deficit down to  
£292 million,  
supporting  
long-term  
growth

Adjusted EPS up  
6% year-on-year

Interim  
dividend of  
40.86 pence, in  
line with policy

# REGULATED WATER AND WASTE WATER REVENUE

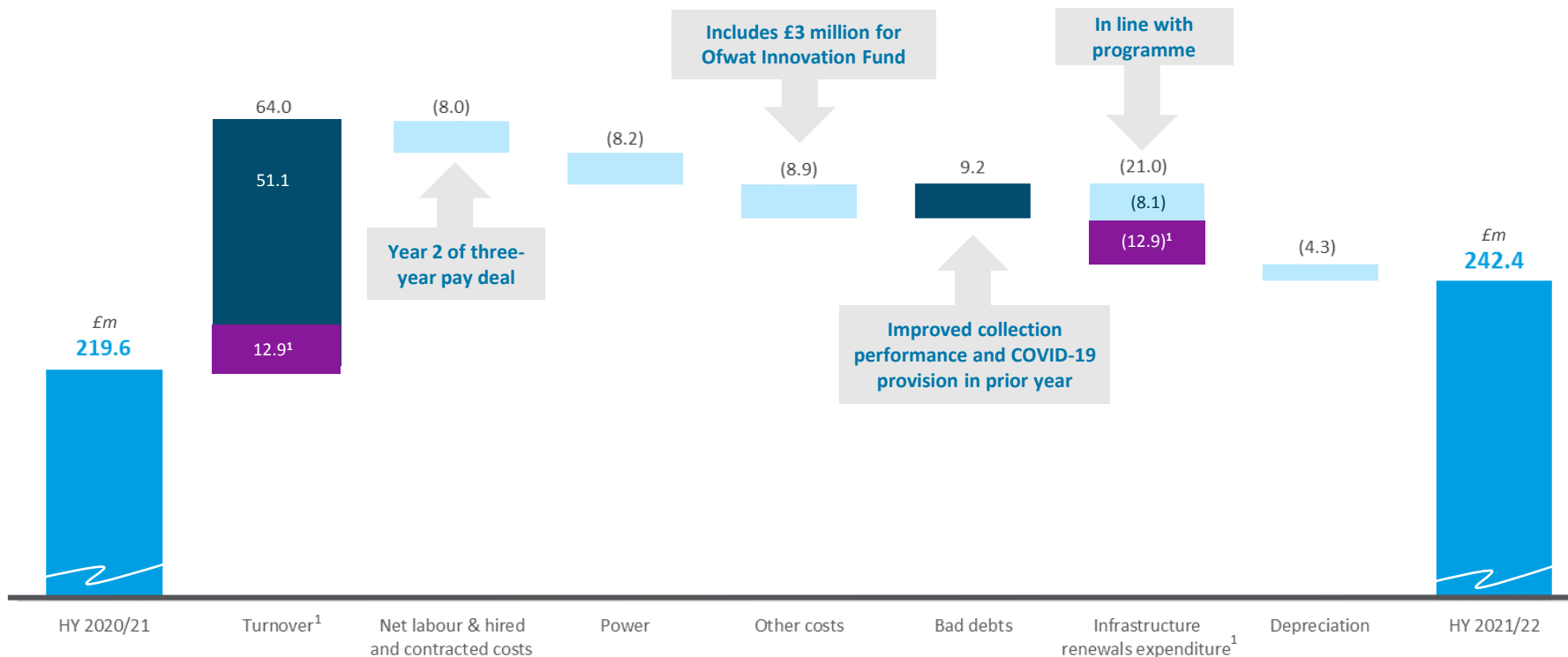
Consumption pattern returns to pre-COVID levels



1. Following a change in accounting presentation, which has resulted in a reclassification of £12.9 million of diversions income to turnover, previously credited to IRE.

# REGULATED WATER AND WASTE WATER PBIT

PBIT up 10% following recovery of revenue and increased investment



1. Following a change in accounting presentation, which has resulted in a reclassification of £12.9 million of diversions income to turnover, previously credited to IRE.



# FINANCING PERFORMANCE

Effective interest cost<sup>1</sup> below embedded debt rate

Effective interest cost<sup>1</sup>

4.2%

up 90bps

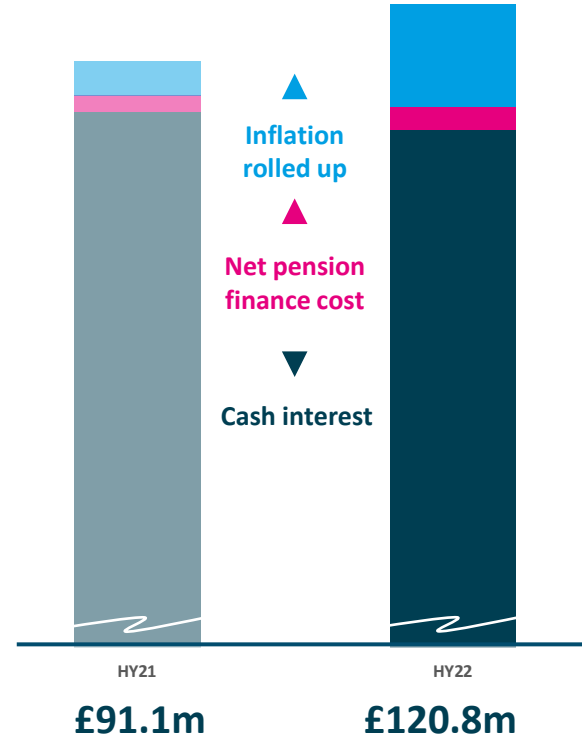
Effective cash cost of interest

3.1%

flat

Outperforming iBoxx on all new debt

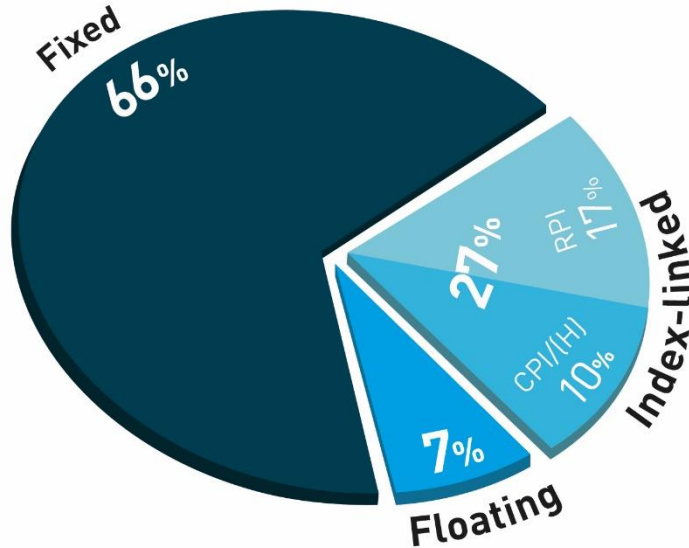
Embedded debt well below PR19 allowance



1. Before net pension finance costs but including capitalised interest.

# FINANCING STRATEGY

Well balanced financing position, strongly placed for future RCV growth



A **balanced debt portfolio**: low fixed interest rates locked in, low levels of index-linked debt limiting inflation impact, low rates of floating rate debt if rates rise

Net debt<sup>1</sup>

£6,232m

Regulated gearing<sup>2</sup>

60.8%

AMP7 debt issues

Over £100 million raised

Agreed facilities

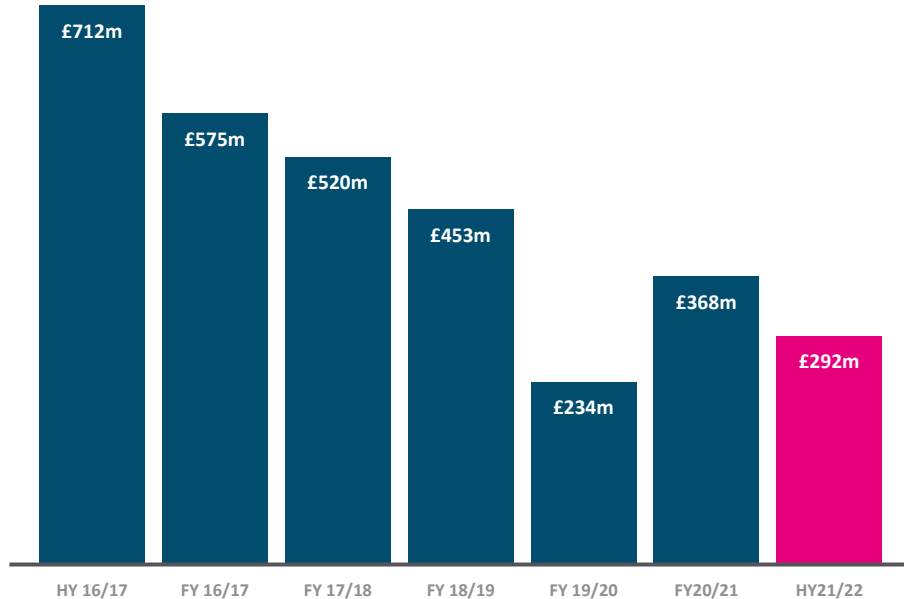
£1.1 billion

1. Includes cross currency swaps and loans due from joint venture.

2. Severn Trent Water Group (Severn Trent Water and Hafren Dyfrdwy combined) Net Debt/Regulatory Capital Value.

# PENSIONS PERFORMANCE

Pension deficit reducing in line with plan



**Effective hedging strategy** – protecting against higher inflation and interest rate volatility

**Asset performance** – Strong asset performance helping the deficit reduce more than £400 million over the last five years

**Sustainable cash contributions** – Average annual contributions of £60 million

Ahead of 2019 journey plan, next actuarial valuation due March 2022

# BUSINESS SERVICES

Robust performance sees revenue and EBITDA exceed pre-pandemic levels



## Financial results

Turnover  
£66.1m  
+12%

EBITDA  
£23.9m  
+58%

Adjusted PBIT  
£17.4m  
+112%

## Operating Services

**Improved performance** from **sales growth** on existing long-term contracts

## Green Power

**Underlying operational efficiencies** and higher energy prices improving EBITDA and **providing hedging benefits** for the regulated business

## Property Development

**Sales bounce back** from COVID-19; on track to deliver commitment of **£100 million PBIT by 2027**

Teal Close, Nottingham

# FY22 TECHNICAL GUIDANCE

Regulated Water and Waste Water		FY21	Year-on-Year	Movement in guidance from May 2021
Turnover <sup>1</sup>	£1.78 billion to £1.81 billion. Includes c.£50 million of diversions income related to HS2.	£1.69bn	▲	-
Operating costs (incl. IRE)	Higher year-on-year, driven by a planned step-up in our IRE programme and continued upward sector-wide pressure on energy and chemicals costs.	£878m	▲	-
ODIs <sup>2</sup>	<i>Continued outperformance across Water, Waste, Environment and Customer measures delivering a net reward of at least £75 million pre-tax (£56 million post tax).</i>	£77m <sup>3</sup>	↔	▲
Business Services				
Adjusted PBIT	<i>At least 20% growth for the full year, driven by strong H1 property sales.</i>	£26m	▲	▲
Group				
Interest charge <sup>4</sup>	<i>Increase year-on-year due to higher forecast inflation and average net debt. The second half of this year expected to be c.20% higher than the first half, based on latest inflation forecast.</i>	£187m	▲	▲
Adjusted effective current tax rate <sup>5</sup>	Adjusted effective current tax rate of nil due to "super deduction" and other accelerated capital allowances on our large capital investment programme.	11.4%	▼	-
Group capex	£550 million to £650 million including Green Recovery.	£593m	↔	-
Dividend <sup>6</sup>	Annual dividend growth of CPIH. 2021/22 dividend 102.14 pence.	101.58p	▲	-

1. Includes presentation of deferred income and diversions income released to turnover in the income statement.

2. Customer Outcome Delivery Incentives are quoted pre-tax in 2017/18 prices at the 25% rate expected to be in place when ODIs are taken to revenue (FY21 quoted pre-tax in 2017/18 prices at 19% tax rate).  
3. FY21 outturn restated to align with Ofwat's Final Determination of in-period ODIs for 2020/21.

4. Based on October Oxford Economics forecast of inflation.

5. Total effective tax rate is expected to be c.22%.

6. 2021/22 dividend growth rate is based on November 2020 CPIH of 0.55%.

# FINANCIAL SUMMARY

**Strong financial performance supporting large-scale investment programme**

**Group PBIT up 14% driven by recovery in regulated revenues and strong performance in Business Services**

**Customer ODI guidance increased to at least £75 million for the full year**

**Robust financing position and new sustainable debt raised at attractive rates**

**Interim dividend confirmed at 40.86 pence, in line with our CPIH-linked policy**

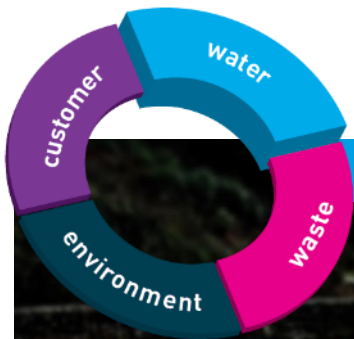




# LIV GARFIELD

Chief Executive





# MOMENTUM IN WATER

Focus drives continued performance

**Strong operational performance**

Over **85% of ODI water measures** on target or better

**Water quality improvements**

**Fifth successive year-on-year improvement** in water quality complaints, forecasting 18% reduction since the start of the AMP

**Improving customer response**

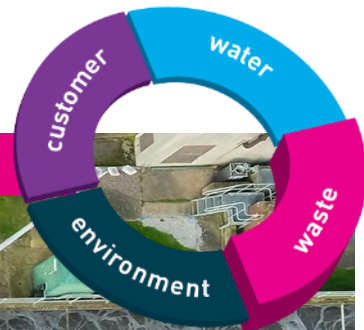
Forecasted **11% improvement in speed of response**, helped by upskilling teams

**Promoting water efficiency**

**Installing over 100,000 meters** by the end of the year

# LEADING IN WASTE

Delivering in areas that matter most to customers



Investment on blockages benefits other areas, with **blockages and floodings to reduce by over 30%** since the start of the AMP

**Holistic approach**

Big improvement in Hafren Dyfrdwy with blockbuster rollout **delivering over 15% reduction since the start of the AMP**

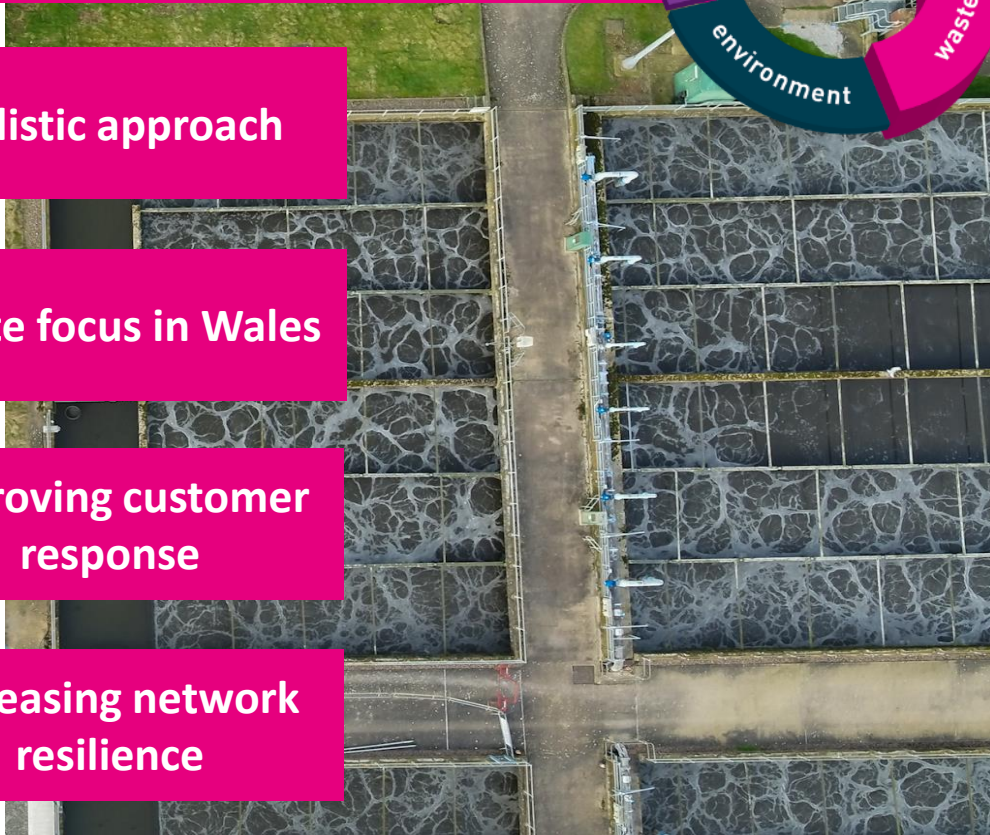
**Waste focus in Wales**

Creation of a **new management centre**, providing a better customer journey

**Improving customer response**

**Investing in 40,000 sewer sensors** to help identify problems earlier

**Increasing network resilience**





# PROTECTING OUR ENVIRONMENT

Leading with our environmental ambitions

**Delivering in all areas**

**100%** of environmental Customer ODIs at **or above target**

**Continuation of programme**

**2,900 of 5,000 hectares of biodiversity** of our commitment already delivered

**Net Zero by 2030**

Clear plans outlined to **reduce baseline emissions of 470kt CO<sub>2</sub>e**

**Next wave of biodiversity**

Commitment to **restore 2,000 acres of peatland** in England and Wales by 2025



# DELIVERING FOR OUR CUSTOMERS

Supporting our customers and improving their experience



**Industry-leading ODI reward** on combined experience measures

**Improving service**

**More than 160,000** of our most vulnerable customers supported

**Making a difference**

Intelligent customer systems providing **more methods of communication than ever**

**Focusing on customer experience**

Using technology to **improve and personalise customer journeys**

**Supporting our customers**



# OUR PEOPLE, OUR COMMUNITIES

Delivering benefits for our region



Supporting the  
region we operate in

Over **£8 million** awarded since start of AMP7 to support those in our region most in need

Responsibility  
recognition

**Top company** on Tortoise Responsibility100 index

Kickstart success

Top 3 employer on Government Kickstart programme, offering **500 placements**

Education  
programme

Education team has already hit its annual ODI target, with **more than 31,000 pledges made**



# SUMMARY

**Strong start for year two, alongside resilient financials**

**Operational performance ahead of plan**

**Customer ODI guidance increased to at least £75 million  
for the full year**

**Strong balance sheet supporting scale RCV growth**

**Leading the sector with environmental ambitions**



# APPENDIX

EBITDA<sup>1</sup>

H1 2020 £m		H1 2021 £m	Variance £m	Variance %
408.2	Regulated Water and Waste Water	435.3	27.1	6.6
15.1	Business Services	23.9	8.8	58.3
(2.1)	Corporate and other	(3.0)	(0.9)	(42.9)
421.2	<b>Severn Trent Group</b>	456.2	35.0	8.3

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

# H1 BUSINESS SERVICES EBITDA<sup>1</sup>

	Regulated £m	Non- Regulated £m	Total £m
Operating Services and Other	2.0	6.8	8.8
Green Power	(0.1)	6.3	6.2
Property Development	5.2	3.7	8.9
<b>EBITDA</b>	<b>7.1</b>	<b>16.8</b>	<b>23.9</b>
Depreciation and amortisation (excluding amortisation of acquired intangible assets)	–	(6.5)	(6.5)
<b>Adjusted PBIT</b>	<b>7.1</b>	<b>10.3</b>	<b>17.4</b>

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

# SEGMENTAL ADJUSTED PBIT<sup>1</sup>

H1 2020		H1 2021	Variance	Variance
£m		£m	£m	%
219.6	Regulated Water and Waste Water	<b>242.4</b>	22.8	10.4
8.2	Business Services	<b>17.4</b>	9.2	112.2
(2.2)	Corporate and other	<b>(3.2)</b>	(1.0)	(45.5)
225.6	<b>Severn Trent Group</b>	<b>256.6</b>	31.0	13.7

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

# DEPRECIATION<sup>1</sup>

H1 2020 £m		H1 2021 £m	Variance £m	Variance %
188.6	Regulated Water and Waste Water	192.9	4.3	2.3
6.9	Business Services	6.5	(0.4)	(5.8)
0.1	Corporate and other	0.2	0.1	100.0
195.6	<b>Severn Trent Group</b>	199.6	4.0	2.0

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



# NET FINANCE COSTS

H1 2020				H1 2021		
Income statement charge £m	Capitalised interest £m	Gross interest incurred £m		Income statement charge £m	Capitalised interest £m	Gross interest incurred £m
83.2	14.9	98.1	Cash interest (including accruals)	81.0	15.2	96.2
2.6	–	2.6	Net pension finance cost	3.4	–	3.4
5.3	–	5.3	Inflation uplift on index-linked debt	36.4	–	36.4
91.1	14.9	106.0		120.8	15.2	136.0

# ADJUSTED EARNINGS PER SHARE

H1 2020 £m		H1 2021 £m	Variance £m	Pence/share
225.6	Adjusted profit before interest and tax	<b>256.6</b>	31.0	13.0
(91.1)	Net finance costs	<b>(120.8)</b>	(29.7)	(12.5)
–	Share of net loss of joint venture	<b>(1.8)</b>	(1.8)	(0.7)
134.5	Adjusted profit before tax	<b>134.0</b>	(0.5)	(0.2)
(12.3)	Tax at the adjusted effective rate of 0.0% (2020: 9.1%)	–	12.3	5.2
122.2	Earnings for the purpose of adjusted basic and diluted earnings per share	<b>134.0</b>	11.8	5.0
238.1	Weighted average number of ordinary shares for basic earnings per share	<b>246.5</b>	8.4	1.9
51.3	Adjusted basic EPS (pence)	<b>54.4</b>	3.1	3.1

# GROUP BALANCE SHEET

31 March 2021 £m		30 September 2021 £m	Variance £m	Variance %
10,261.4	Property, plant and equipment, right-of-use assets, intangible assets and goodwill	10,355.6	94.2	0.9
–	Investment in joint venture	16.9	16.9	N/A
15.2	Working capital	(43.6)	(58.8)	(386.8)
(1,259.1)	Deferred income	(1,302.1)	(43.0)	(3.4)
(367.7)	Net retirement benefit obligations	(291.5)	76.2	20.7
(43.2)	Provisions	(47.9)	(4.7)	(10.9)
(0.2)	Current tax	(0.2)	–	–
(906.0)	Deferred tax	(1,247.5)	(341.5)	(37.7)
(117.9)	Other derivative financial instruments	(57.3)	60.6	51.4
7,582.5	Capital employed	7,382.4	(200.1)	(2.6)
1,138.7	Equity	1,150.2	11.5	1.0
6,443.8	Net debt	6,232.2	(211.6)	(3.3)
7,582.5		7,382.4	(200.1)	(2.6)

# CAPITAL EXPENDITURE (NET CASH)<sup>1</sup>

H1 2020		H1 2021	Variance	Variance
£m		£m	£m	%
279.6	Regulated Water and Waste Water	<b>233.6</b>	(46.0)	(16.5)
3.9	Business Services	<b>4.4</b>	0.5	12.8
283.5	Severn Trent Group	<b>238.0</b>	(45.5)	(16.0)

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

31 March 2021 £m		30 September 2021 £m	Variance £m	Variance %
(1,011.1)	Bank loans	<b>(928.0)</b>	83.1	8.2
(5,471.3)	Other loans	<b>(5,316.0)</b>	155.3	2.8
(121.3)	Lease liabilities	<b>(122.4)</b>	(1.1)	(0.9)
44.0	Net cash and cash equivalents	<b>32.2</b>	(11.8)	(26.8)
31.9	Cross currency swaps	<b>36.5</b>	4.6	14.4
84.0	Loans receivable from joint venture	<b>65.5</b>	(18.5)	(22.0)
<b>(6,443.8)</b>	<b>Net debt</b>	<b>(6,232.2)</b>	211.6	3.3

1. Average monthly debt was £6,251.5 million (31 March 2021: £6,236.1 million).

# FAIR VALUE OF DEBT<sup>1</sup>

31 March 2021 <sup>2</sup> £m		30 September 2021 £m	Variance £m	Variance %
(1,045.9)	Floating rate debt	(965.0)	80.9	7.7
(4,376.4)	Fixed rate debt	(4,126.4)	250.0	5.7
(2,636.3)	Index-linked debt	(2,872.5)	(236.2)	(9.0)
(8,058.6)		(7,963.9)	94.7	1.2
44.0	Net cash and cash equivalents	32.2	(11.8)	(26.8)
84.0	Loans due from joint venture	65.5	(18.5)	(22.0)
31.9	Cross currency swaps	36.5	4.6	14.4
(7,898.7)	Fair value of net debt	(7,829.7)	69.0	0.9
(6,443.8)	Net debt (previous slide)	(6,232.2)	211.6	3.3
(1,454.9)	Difference <sup>3</sup>	(1,597.5)	(142.6)	(9.8)

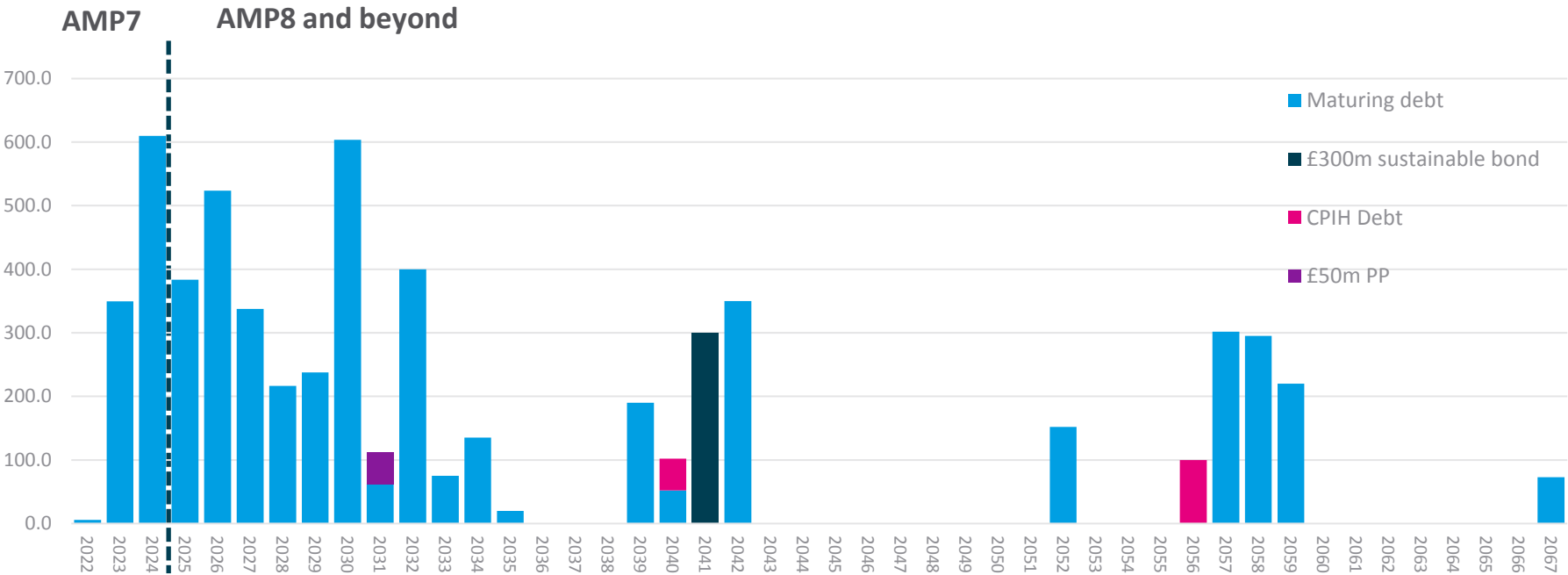
1. The floating, fixed and index-linked debt classification above is shown before the impact of interest rate swaps or cross currency swaps.

2. Restated to reclassify three debt instruments between floating and fixed rate debt, resulting in a net £10.4 million increase in the fair value of fixed rate debt and a net £4.9 million decrease in the fair value of floating rate debt.

3. Difference comprises of £14.5 million on floating rate debt; £463.5 million on fixed rate debt and £1,119.5 million on index-linked debt.



# DEBT MATURITY



# GEARING AND CREDIT RATINGS

30 September 2020	31 March 2021	Net debt/RCV <sup>1</sup>	30 September 2021
66.1%	67.5%	Severn Trent Plc Group <sup>2</sup>	63.8%
63.9%	64.5%	Severn Trent Water Group <sup>3</sup>	60.8%

31 March 2021			30 September 2021		
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

1. Estimated RCV at 30 September 2021.

2. Based on statutory net debt of £6,232m (31 March 2021: £6,444m).

3. Based on Severn Trent Water Group (Severn Trent Water and Hafren Dyfrdwy) regulated net debt of £5,878m (31 March 2021: £6,150m).