

INVESTOR NEWS

Issue 8

March 2024

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[National Storm Overflows Plan](#)

[PR24 Business Plan Investor Summary](#)

[Severn Trent EU Taxonomy](#)

HELLO FROM BOB

Hello and welcome to issue 8 of our investor newsletter.

For those of you I've not met, I'm Bob Stear, Chief Engineer at Severn Trent

My journey into the wonderful world of water began during a visit to Nottingham Sewage Works in the 1990s while studying at Nottingham University. I was blown away by the fusion of physics, chemistry and biochemistry to take crude sewage right through to wonderful sparkling effluent. So much so that I actually undertook a PhD at the same works looking even deeper into the wastewater treatment processes. I loved it then and still do today!

And so there began my career in engineering, joining Severn Trent as a process technician in 1997, and since then I have worked my way through a whole series of operational, engineering, strategic and innovation roles.

Now, in my role as Chief Engineer, I'm incredibly excited to be approaching a really important period for the sector. We unveiled some very bold ambitions when we submitted our PR24 business plan to the regulator back in October, and my team worked really hard to produce the detailed plans for how we're going to tackle all the challenges we face ...and how innovation is going to be key. It really is a game-changing plan for our company, and you can see some of the reasons we're so proud of it in a few pages' time.

Speaking of which, one of the biggest totemic issues we face in the next few years, and a top priority for me and my team of around 600 engineers and innovators, is to reduce Combined Sewer Overflow (CSO) spills. At our Capital Markets Day a few months ago we shared more details on our new Zero Spills Hub in Nottingham, a centre of innovation as we turn our 'zero spills' mentality into a reality. More recently we compiled our Storm Overflow Action Plan, outlining the investment we're making over the next 25 years to transform our network and the health of our rivers, all of which you can read about on the following page.

Another of the key ambitions I'm working on is achieving operational Net Zero by 2030. We'll shortly be going live with the world's first carbon neutral waste treatment works in Stoke-on-Trent. Once we've completed this very large site (our 5th largest), we'll then use that blueprint to reduce our operational emissions across our estate over the next six years. We've also been busy stepping up our renewable energy generation through our growing Green Power business. Following the acquisition of Andigestion in 2023 it is now the largest food waste business in the UK, and if you read on you'll find an update on Green Power and specifically how the integration of Andigestion has been progressing over the past few months.

Having been part of the Severn Trent family for over 25 years, I've seen first hand the culture that makes Severn Trent a truly special place to work. It's no surprise to me that our employee engagement scores are consistently high, but we wanted to share a bit more about employee engagement and why it is that we're so proud of the culture we've built here – you can read a bit more detail about our engagement scores later on in this newsletter.

Lastly, just in case this newsletter isn't quite enough for you, we've left links above to a few reports you might have missed from the past few months.

Best Wishes,
Bob



WONDERFUL ON TAP

SEVERN
TRENT

STORM OVERFLOW ACTION PLAN

Severn Trent is committed to taking care of our natural environment, which is why we place so much importance internally on achieving 4* status in the EA's Environmental Performance Assessment each year. As announced in our recent Q3 Trading Statement, we are confident that we will be awarded 4* status for the calendar year 2023, which would be an unprecedented fifth consecutive year achieving the highest possible rating.

We made commitments to go faster to improve river health, launching our Get River Positive scheme in March 2022, including eliminating 99% of Reasons for Not Achieving Good Status (RNAGS) by 2030 - we believe we are now responsible for 14% of the RNAGS in our area.

We've already made huge strides to address storm overflows, and 100% of our storm overflows were fitted with a monitor by December 2022, a full year ahead of targets. With England having its sixth wettest year since records began in 2023, and seven named storms between September and December alone, resulting in some of the wettest periods on record, our average number of spills has increased year on year. However our work to reduce spill levels is still firmly on track - we will have invested £384m in the last two years of AMP7, as we work hard to meet our Get River Positive pledge of reducing spills from storm overflows to an average of 20 per year by 2025.

But we know we have to go further, faster.

We've recently released our Storm Overflow Action Plan, which outlines how we are going to exceed government targets on storm overflow discharges. The plan has been created after consultation with the Government, Defra,

the Environment Agency, Ofwat, and other key industry stakeholders, and means we're committing to invest **£4.4 billion** over the next 25 years across 99% of our operational storm overflows, including £1.1 billion in AMP8 (2025-2030), which is reflected in our PR24 business plan.

Each storm overflow will have a bespoke improvement plan based on our assessment of the most effective and best value solution. As schemes progress, we will be able to share more detail on what action is planned for every storm overflow in every water body, but in general it will involve a mix of solutions, including some of the following:

- Increasing the capacity of pipework or treatment works so that they can manage the higher volumes of wastewater which flow through the network following heavy storms.
- Increasing the capacity of storm tanks, to store more water in the event of extreme rainfall until it's able to be treated.
- Introducing more sustainable solutions to better manage surface water.
- Introducing more nature-based processes to pre-treat surface water, such as wetlands and reedbeds.
- Closer monitoring of rivers to ensure they're protected from harm.

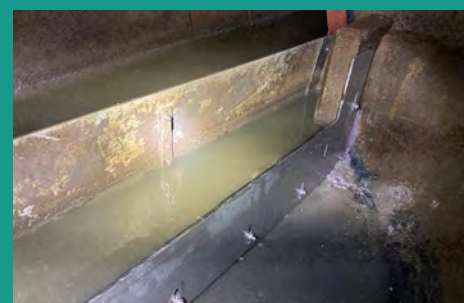
On top of that, we'll be utilising learnings from our Zero Spills Hub to tackle overflows more efficiently and effectively so that by 2045 no overflow will activate more than ten times in a typical year - five years earlier than government targets... and we're ambitious to do more.



A raingarden we installed in Mansfield town centre as part of our Green Recovery programme, an example of a Sustainable Drainage System to help slow the rate at which rain water enters our network from rainfall.



New storm tank installed at Stroud as part of our £25m project to upgrade the sewer network in the area. It has smart controls that can hold around 7.4 million litres of water back during severe weather events, before returning it back to our treatment works when rainfall has subsided and capacity to treat it is available.

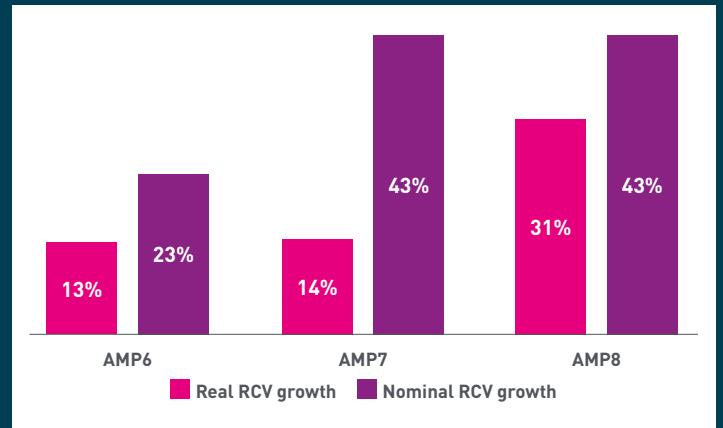


Example of a weir raise at one of our CSOs, a quick and low cost solution. At one of our CSOs in Leicestershire we estimate the weir raise will roughly halve the frequency that it spills.

OUR BUSINESS PLAN IN CONTEXT

At the start of October, we submitted our PR24 business plan to the regulator for the years 2025-2030. It's a truly transformational plan to enhance our network and revolutionise the service we give to our customers. Our Regulatory Capital Value (RCV) is projected to double between 2020 and 2030, with an estimated nominal CAGR of 7% throughout that period. And this is just the start – we have foresight of long-term regulatory targets that take into account climate change, population growth, and growing societal expectations, meaning this is the beginning of a multi-AMP programme of growth.

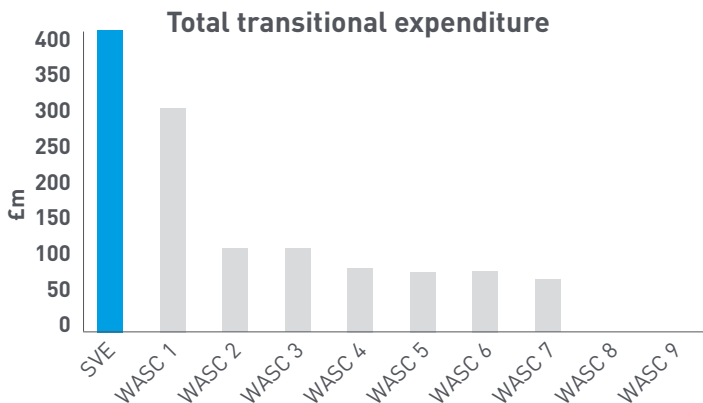
Following the submission of the business plan to Ofwat, we're into the query stage of the process. Having had a chance to review our plan against others, below is our internal analysis of how our plan stacks up against the rest of the sector on what we believe to be the three key areas Ofwat will judge our plan on: Deliverability, Affordability and Financeability.



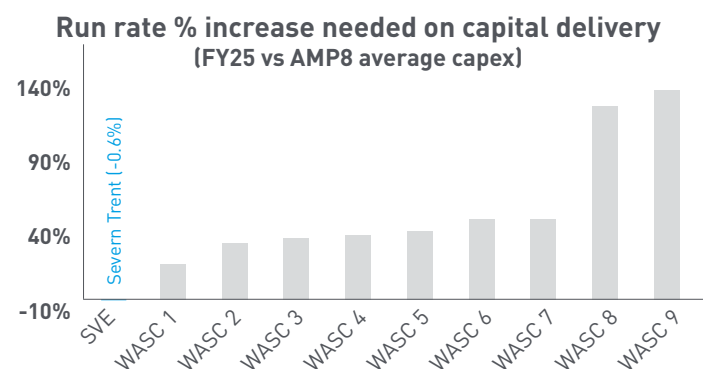
AMP7 RCV includes all midnight adjustments except £400m transitional expenditure which is expected to be incurred in AMP7 but relates to AMP8. Transitional expenditure is included within AMP8 RCV growth. Nominal RCV assumes forecast CPIH of 1.0% for 2025/26, 1.7% for 2026/27, 1.9% for 2027/28, 2.0% for 2028/29, and 2.0% for 2029/30.

DELIVERABILITY

Thanks in part to our Green Recovery programme, in which we won £566m of the total £793m awarded to the industry (2017/18 prices), we have already scaled up our capital delivery programme. This means we are the only company to be ending AMP7 on the required capital run rate for AMP8. By accelerating more spend than anyone else from AMP8 into AMP7, we've smoothed our capex profile and can begin benefitting from the enhancements right away. And on top of all that, we have tested the required supply chain capacity for our AMP8 programme and have confirmed availability at a level beyond our needs.



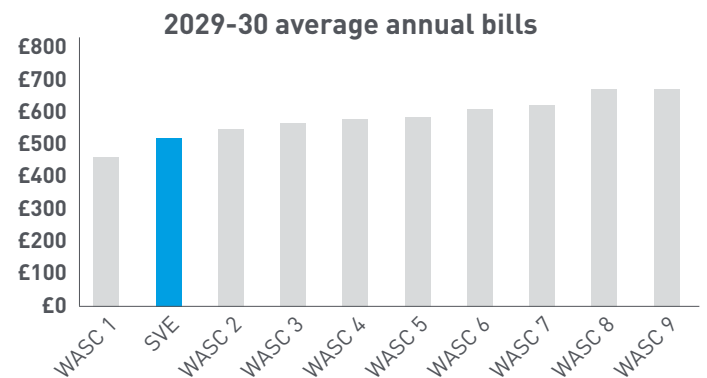
We're accelerating more spend than anyone else to drive improvements faster.



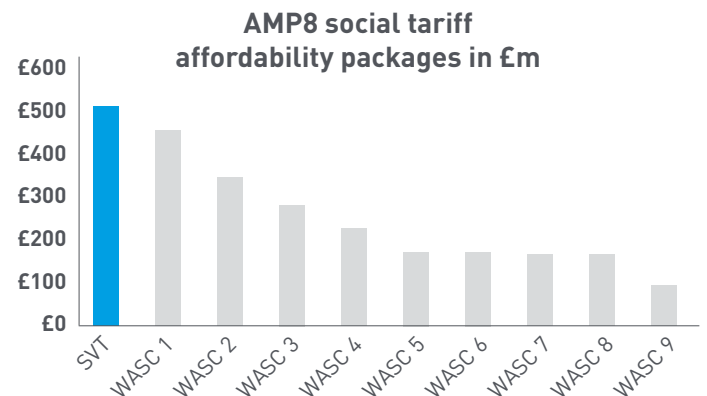
Severn Trent are the only company to end AMP7 at the right capital run-rate for AMP8.

AFFORDABILITY

Despite the high levels of investment, our combined bills will end AMP8 as the second lowest in the sector. However, we fully recognise that this increase will still be too much for some, which is why our plan includes a substantial social tariff support package, which is set to be the largest in the sector. As a result, Severn Trent was specifically called out in CCWater's recent business plan assessment for our commitment to eliminating water poverty.



Despite significant extra investment, customer bills are forecasted to remain around the second lowest in the sector.



On top of that, we have the largest affordability package in the sector.

FINANCEABILITY

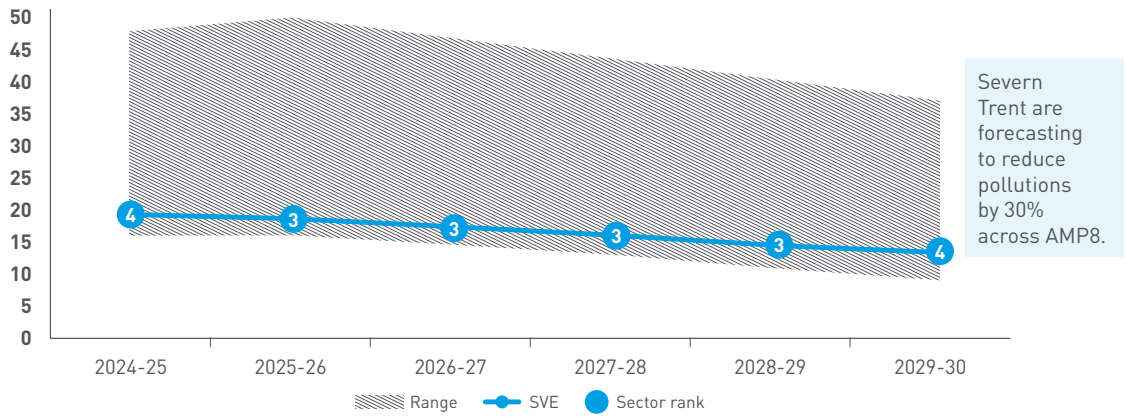
All of this will be achieved while aiming to maintain stable credit metrics, remaining within the guidelines set out in Ofwat’s methodology, and fully equity financed thanks to the raise conducted in September 2023.

Company	FY25-30 gearing projected in plan (actual structure)	Equity inflow assumed in plan (actual structure)	Wholesale WACC assumed in plan	Regulatory dividend assumption (% of regulated equity)
WASC 1	59%	£0.01 billion	3.23%	2%
WASC 2	61%	None	3.23%	3%
WASC 3	64%	£1.35 billion	3.23%	3%
SVT	66%	£1.00 billion - fully raised	3.23%	4%
WASC 4	66%	None	3.60%	3%
WASC 5	69%	£0.82 billion	3.23%	2%
WASC 6	70%	£3.87 billion	4.25%	2%
WASC 7	71%	£0.40 billion	3.49%	2%
WASC 8	72%	None	4.39%	5%
WASC 9	72%	£0.37 billion	3.77%	2%

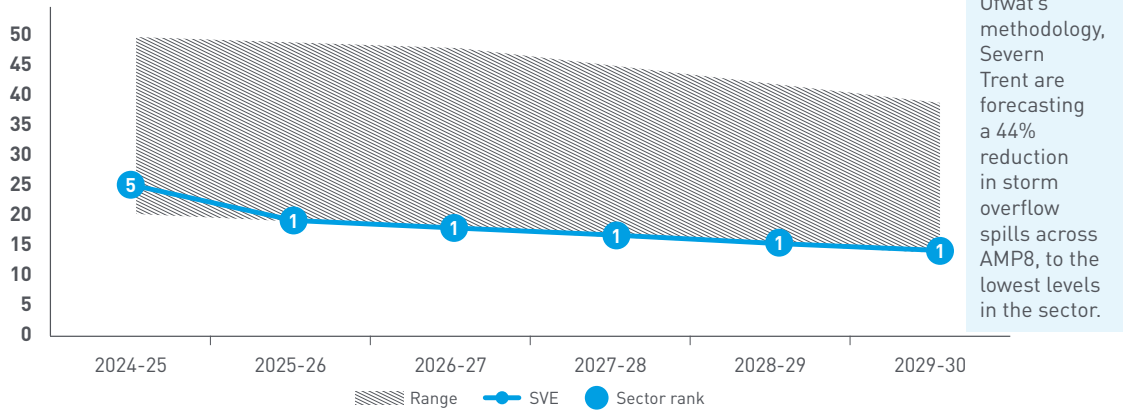
SERVICE FOR CUSTOMERS

Our plan also shows ambition across the three totemic issues in the sector: pollution incidents, storm overflow spills, and leakage, with FY30 targets above upper quartile on all three. Overall, across all business plan submissions, our forecasts for the end of AMP8 put us around upper quartile on 72% of measures.

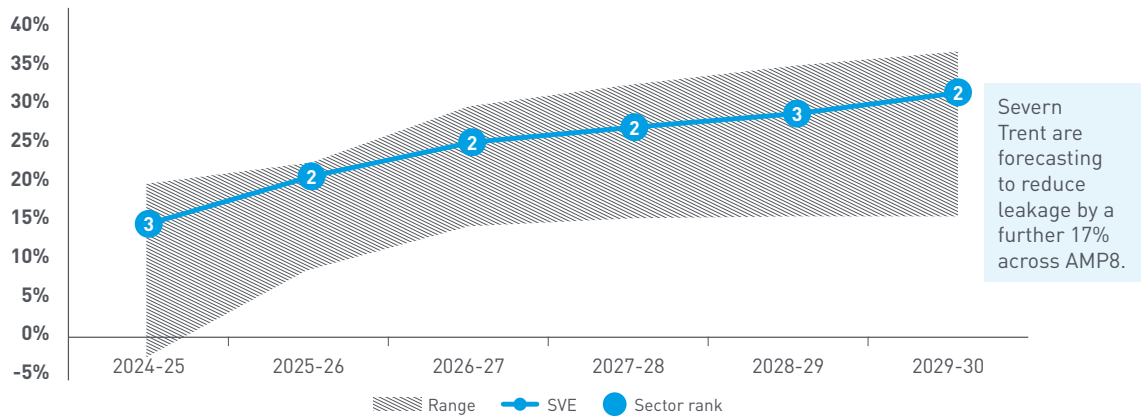
Pollutions per 10,000km of Sewer



Average Spills per Overflow



Percentage Reduction from 2017-2020 3-Year Average Baseline



All analysis is based on our own assessment of the business plan submissions of the ten largest WASCs and the figures referenced are indicative of planned performance.

GROWING OUR GREEN POWER

Severn Trent Green Power is a growing part of our business that complements our core regulated business, delivering EBITDA of £35.7m last year. Aside from its attractive returns and long-term value generation, Green Power's rapid and continuing expansion contributes to our Net Zero 2030 goal – energy generation has grown by 10% in the past three years, and it currently generates around 300GWh of energy per year, which is enough to power 91,000 homes. Together with our regulated Bioresources division, it helps Severn Trent to generate more than half of the electricity we consume each year through renewable sources such as solar, wind, hydro, and increasingly, food waste.

Energy is generated from food waste through anaerobic digestion, which uses bacteria to break down organic matter, producing a renewable energy source called biogas which is either upgraded and sent to the gas grid, or converted to electricity in a CHP engine. It is a process that combines environmental sustainability with innovative energy production.

Severn Trent Green Power is the UK's largest producer of renewable energy from food waste, processing over 600,000 tonnes of organic waste a year, working with over 65 local authorities and 100 major commercial customers. Acquiring Andigestion last year increased our energy capacity in Green Power by c. 14% while expanding our geographical footprint into the South West of England. It also included a contract for Cornwall's food waste, which started in February.

We've implemented lessons from the successful acquisition of Agrivert in 2018, which is comfortably ahead of the business case that underpinned its purchase, to help integrate Andigestion into Green Power. We have transitioned suppliers and customers over to our payment and invoicing systems, and our new colleagues have now been successfully onboarded.

We have now embarked on standardisation of weighbridge systems, which will ensure that real-time weight data and tonnage information from Andigestion's sites can be sent to Green Power's head office, providing accurate information for accounting purposes and feedstock calculations. We expect that all of these processes to standardise our approach will unlock further benefits.

Following five months of ownership and closer understanding of the assets on the ground we are confident that we will outperform our base valuation. We see a pathway to significantly growing the level of base generation and have identified multiple further opportunities within the business to increase generation, none of which were factored into the purchase price paid. We have already begun the expansion of front-end operations at our Holsworthy (Devon) facility, and we are exploring whether there is potential to set up a solar farm there.

And as we look to the future, mandatory separate food waste collections in England are required to be implemented by March 2026, and the increased supply of food waste is estimated to require 20-30 new Anaerobic Digestion plants across England by 2030. In preparation for this, we are investing significantly in our existing plants to boost generation capacity, and keeping abreast of any further opportunities for expansion.

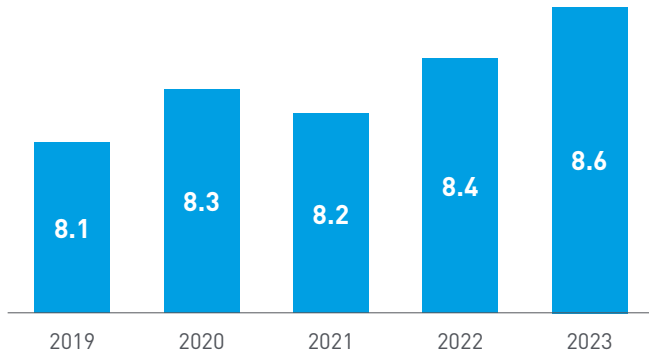
Green Power is just one element of what makes Severn Trent unique, and is set up to become an even more important part of our future.



EMPLOYEE ENGAGEMENT



Employee engagement score



At Severn Trent, we put a lot of energy into maintaining a supportive culture that we believe drives our strong performance. As a 24-hour customer service business, it's incredibly important that all of our employees are committed to their roles, engaged with our strategic direction, and motivated to go the extra mile to improve service. And as we head towards the biggest growth period in our history, it's critical that the whole organisation is energised and pulling in the same direction to build on our position as operational leaders in the sector. Therefore, we were thrilled to share our best ever employee engagement score as part of our half-year results.

Each year we participate in a third-party run, anonymised engagement survey, given to all employees, which allows us to compare our strengths and weaknesses with companies of all kinds across the globe. This quantitative scoring is supplemented by employee comments on each question – in our most recent survey, over 43,000 comments were submitted, and then analysed with the help of AI to generate insight into what we're doing well and where we can improve further.

Our overall score of 8.6/10 puts us in the top 3% of utilities globally, and follows a trend of improvement over the course of the past five years since the survey has been taken. But more than that, we were delighted in the consistency across the organisation, with every directorate in Severn Trent scoring 8.5 or above. These scores don't happen by chance, they arise out of the clear plans we put in place to drive engagement.

We invested £10m to build a dedicated training academy in Coventry and since opening in 2021, the Academy at Hawksley Park has welcomed over 62,000 people through its doors and we have delivered c. 500,000 training hours across our region. This has contributed to our strong talent pipeline that has seen over 900 colleagues promoted or progressed to a broader role in the past 12 months alone, and around 70 internal promotions to senior management level in the past two years. This all plays through to our Career Path score, which was our strongest performing comparative area, with our score of 8.0 a massive 1.4 points above the benchmark.

Equally, as the sector changes, we've placed huge emphasis on taking our employees on that journey with us. Following the submission of our PR24 business plan, Liv embarked on an all people roadshow across 59 separate events on 13 separate sites to share the plan in more detail and gather thoughts on how best to achieve our ambitions. Participation on the roadshows was excellent, and this collaborative approach is part of the reason we've seen another high score of 8.4 for organisational strategy, 1.0 points above the benchmark.

And at a day-to-day level, we strive to create a friendly, safe, and inclusive culture that fosters trust and commitment – our advisory groups for ethnicity, disability, LGBTQ+ and Women in STEM and Ops work closely with the business to continue evolving our culture in line with the communities we serve. It is therefore particularly pleasing to see high scores for Peer Relationships (8.8), Health and Wellbeing (8.7), and Diversity and Inclusion (8.9), showing our success in building a collaborative and inclusive working environment.

Putting all of this together, Severn Trent has an engaged workforce who enjoy the culture and people around them, are aligned with our strategic direction, and see a long-term career path before them. So it's no surprise that we have a loyalty score that is in the top 5% of utilities, 1.1 points above the benchmark.

We don't take these scores for granted, and we continue to ensure our employees remain motivated and engaged as we enter the most transformative period in our company's history.

8.6/10
Company
engagement

Top 3%
Of utilities
globally

72%
Net Promoter
Score

86%
Participation
rate

WORLD'S FIRST CARBON NEUTRAL WASTE WATER TREATMENT WORKS

We will shortly be going live with the world's first carbon neutral waste water treatment works at Strongford in Stoke-on-Trent. In June, we will be hosting a virtual stakeholder event to share our learnings with other Chief Executives, regulators, investors, and other interested parties – let us know if you'd like to find out more!

CDP

Severn Trent have recently been recognised as a CDP supplier engagement leader in 2023. CDP's annual Supplier Engagement Rating evaluates corporate supply chain engagement on climate issues, with the highest rated companies being recognised as leaders.

We are proud of this achievement as it highlights our strong position in tackling climate change and recognises the need to lead the way towards a net-zero sustainable economy.

EUROBONDS

On 27 February we priced a €500m 10-year benchmark bond. The bond represents our reintroduction to the EUR bond market, having last issued a EUR bond in 2008 which matured in 2016. The bond was well received with the book being 3.4 times oversubscribed. The transaction provides us with additional liquidity and flexibility as we enter the final year of AMP7 and push ahead on our investment plans. We issued the bond under our Sustainable Finance Framework, and have continued to build on our ESG credentials with our recent EU Taxonomy alignment disclosure.



KEY DATES

Full year results: 22 May 2024

Draft Determination:
Expected May/June 2024

AGM: 11 July 2024

Final Determination:
Expected late 2024

KEY CONTACTS

Please get in touch with the team at: investorrelations@severntrent.co.uk – we'd love to hear your feedback or help with any queries you may have.

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