

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

PR24 Business Plan rated 'Outstanding'

We are delighted that our PR24 Business Plan, for the period 2025 to 2030, has been recognised by Ofwat as 'Outstanding'.

This rating provides a number of important benefits:

- A financial reward of £93 million;
- Protection from any decline in the Weighted Average Cost of Capital ('WACC') between Draft Determination and Final Determination while still benefitting from any increases;
- Protection from any reductions in base cost allowances between Draft Determination and Final Determination; and
- Guaranteed 50-50 cost sharing on base expenditure, meaning that Severn Trent bears 50% of any overspends and benefits from 50% of any underspends.

It is pleasing that, in its assessment, Ofwat agreed that Severn Trent has set an ambitious level of performance for the period ahead, as we work towards delivering the best possible service for our customers. Our customers will also benefit from an enhanced affordability package, which will enable us to provide support to anyone who is struggling to pay their bill.

The level of investment set to be delivered in AMP8 is unprecedented, with a £4.3 billion increase compared to AMP7. This is reflected in strong real RCV growth of 24%, which compares to 27% in our submitted Plan. Including investment accelerated into AMP7, real RCV growth is 28%, compared to 31% in our Plan. Based on costs approved in our Draft Determination, this would take our AMP8 closing RCV to £15.1 billion (2022/23 prices), compared to £15.7 billion in our submitted Plan.

We have a strong track record on delivering efficiently, and this is reflected in our base cost allowance. With the exception of energy, for which Ofwat have said they will introduce a true-up mechanism, and business rates, which will be subject to enhanced 90:10 customer-sharing rate, Ofwat have estimated that the base costs in our Draft Determination are roughly equal to those submitted in our PR24 Business Plan.

All 13 of our enhancement business cases have been approved, with further evidence requested on the costs associated with some of these projects, totalling around £1.2 billion¹, the majority of which relates to WINEP schemes and net zero. We are confident we have robust evidence to provide to Ofwat on these schemes in the coming weeks. Further protection is also offered through real price effect true ups on some cost elements.

We note the WACC has been set at 3.72% in the Draft Determination, reflecting a Cost of Equity of 4.8% (up from 4.19% in PR19).

We are currently reviewing the documents in more detail and will be sharing more information through a presentation which will be made available on Tuesday, 23 July 2024. Later that same day we will be hosting live Q&A sessions at 2.00pm and 10.00pm BST with members of our Executive Team, which you will be able to register for through our website nearer to the time.

We will respond to Ofwat by 28 August 2024 and look forward to continued constructive dialogue until the Final Determination on 19 December 2024.

Footnotes

1. Enhancement cases

Amount stated is before frontier shift efficiency and real price effects, per Ofwat's 'our approach' document, p16.

Securities may not be offered, sold or transferred in the United States, absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).