

# INTERIM RESULTS

*Six months ended 30 September 2015*

*26th November 2015*



SEVERN  
TRENT



# LIV GARFIELD

*Chief Executive Officer*

# OUR WINNING FORMULA

By 2020 to be the most trusted water company

Delivering an outstanding customer experience, the best value service and environmental leadership



Customers at the heart of our business

Operational excellence

Winners in a world of incentivisation

A company at the frontier of sector efficiency

Standard setters in renewable energy

Successful in competitive markets

# HY 15/16 HIGHLIGHTS

Good start to the new regulatory period:

- Progress made on the 5 levers of outperformance

ODIs

Delivering for customers – expecting a £10m reward this year

Totex

Thinking smarter, delivering savings

Efficiencies

£372m locked in, up to a further £50m locked in by May

Renewables

4% uplift in self generation – remain confident of 50% by 2020

Financing

Actively managing down the cost of debt

# JAMES BOWLING

*Chief Financial Officer*

# H1 HIGHLIGHTS

## Turnover

£896.1m

-0.2%

## Underlying PBIT<sup>1</sup>

£281.0m

+2.6%

## Effective finance cost

4.6%

## ODI performance

£10m

## Underlying basic EPS<sup>2</sup>

58.6 pence

+11.4%

## Interim dividend

32.3 pence

-5.0%

**Good start to AMP6**

1.

*Before exceptional items*

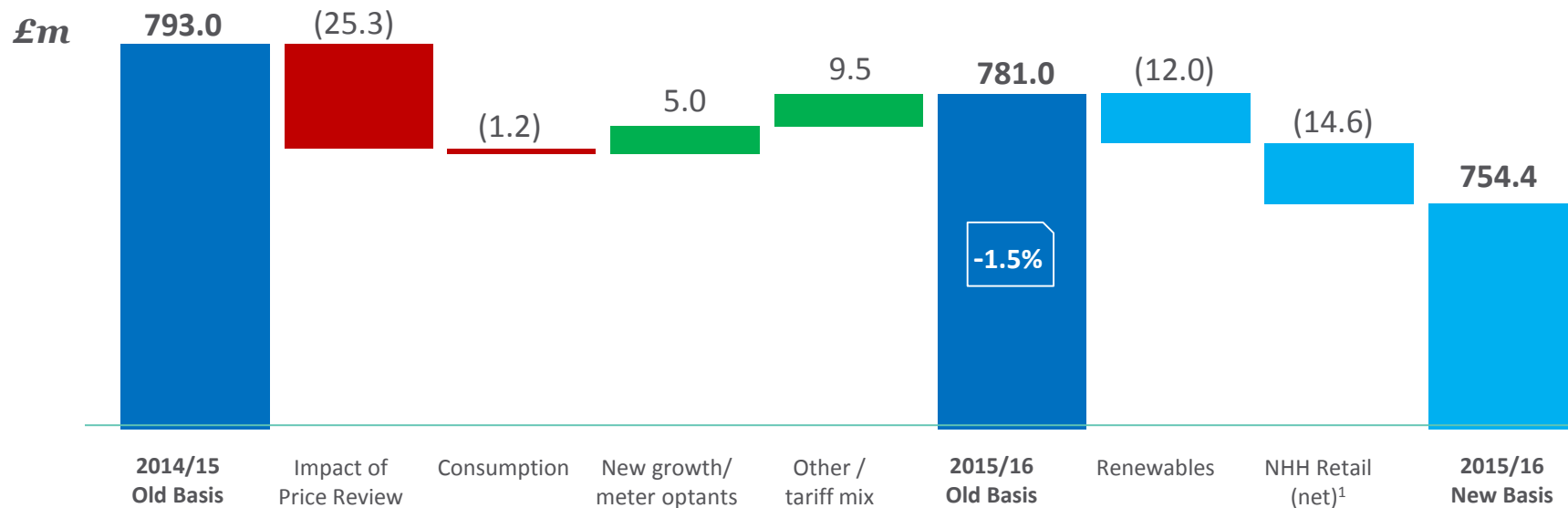
2.

*Before exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on financial instruments and deferred tax*

# REGULATED WATER & WASTE WATER

**TURNOVER**  
**£754.4m**

- Turnover 1.5% lower<sup>2</sup> due to £25m agreed lower prices for customers under AMP6
- Offset by new growth & tariff mix effects



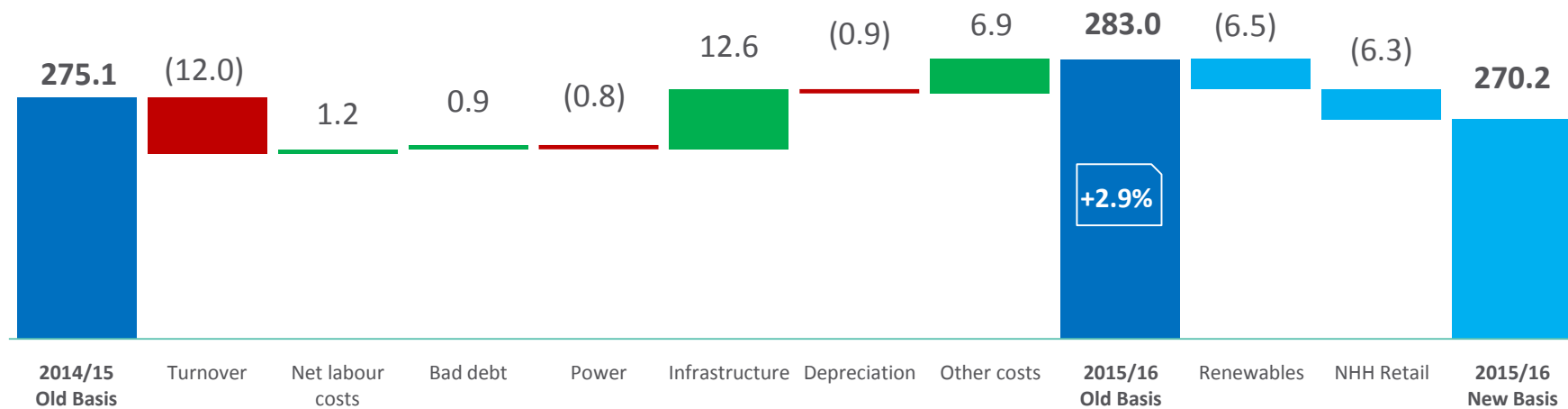
1. Gross NHH Retail turnover £200.3m, offset by inter-segment charge of £185.7m from Regulated Water & Waste Water to Business Services for wholesale services.  
 2. Reduction year on year on old basis of reporting structure

# IMPROVING MARGIN PERFORMANCE IN REGULATED WATER AND WASTE WATER

PBIT  
£270.2m

- Turnover down £12m driven by price reduction
- More than offset by £20m of net cost reductions

£m

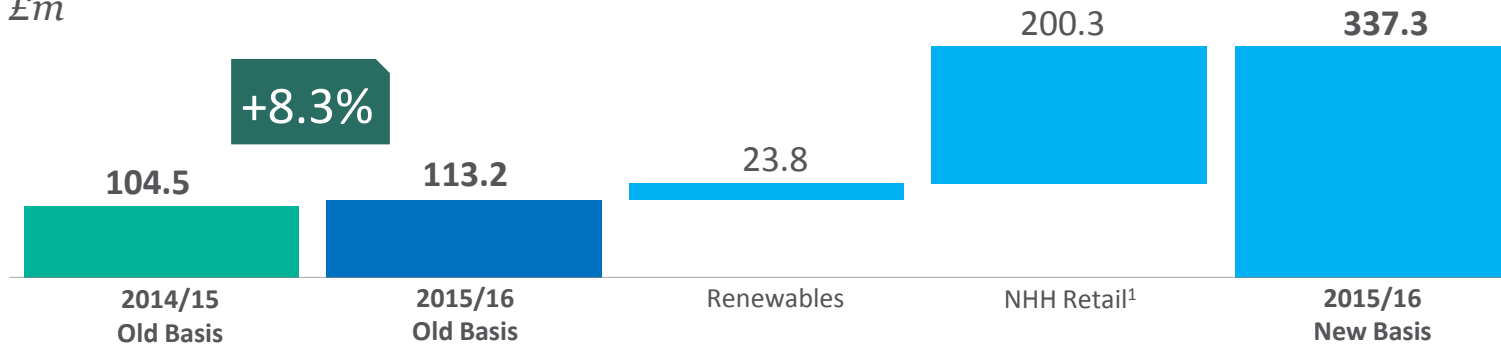




# BUSINESS SERVICES

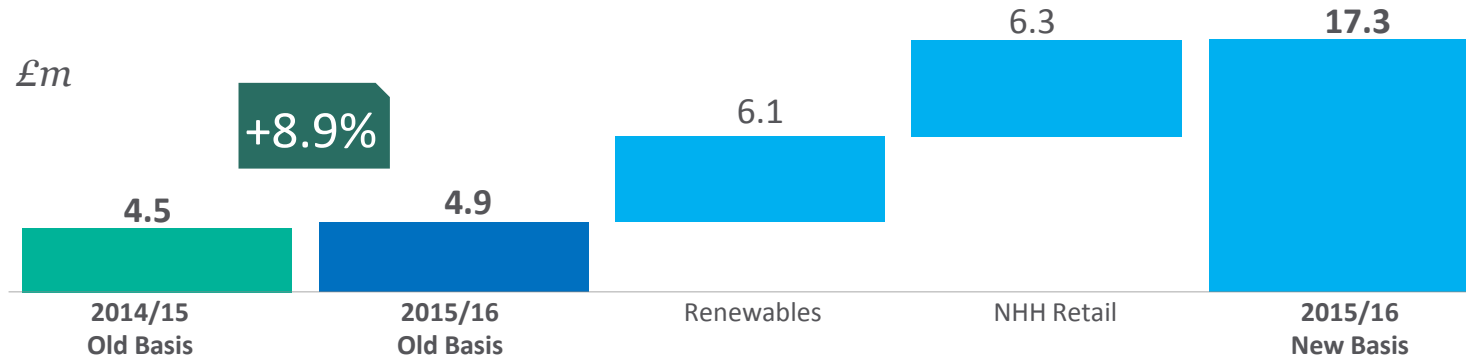
## Turnover

£m



## Profit

£m

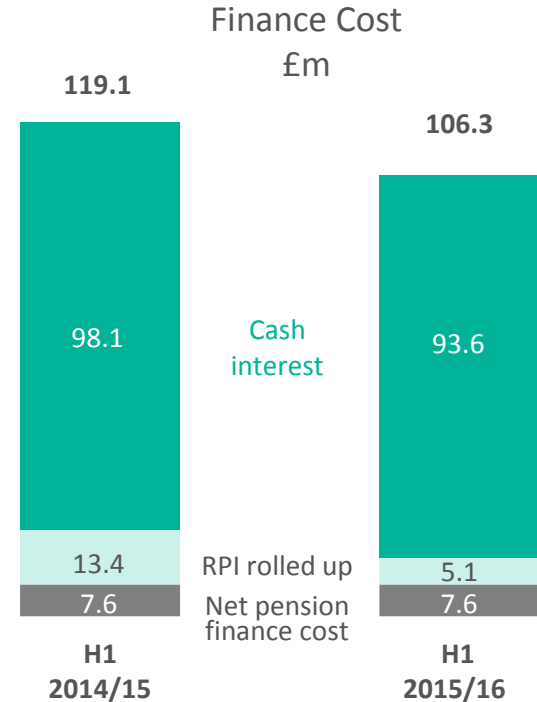


1. NHH Retail turnover comprises gross retail sales to customers. Regulated Water & Waste Water charge Business Services £185.7m for wholesale services.

# FINANCING OUTPERFORMANCE ON TRACK

## Delivered in H1

- Effective interest cost: 4.6%
  - Down from 5.5% in 2014/15
- Effective cash<sup>1</sup> interest cost: 4.3%
  - Down from 4.8% in 2014/15
- Benefit from debt management actions and lower index linked costs



1. Before exceptional items and net pension finance costs

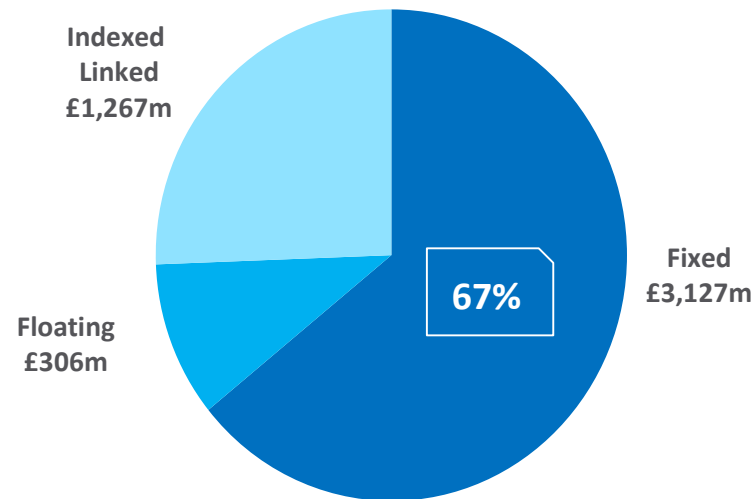
# DELIVERING A BETTER DEBT STRUCTURE FOR AMP6 AND BEYOND

## Actions taken

- US private placement - £471m<sup>1</sup> raised
  - Competitive, floating rate pricing
  - Range of “infill” tenors 11-15 years
- Liquidity of £1 billion in place for AMP6
  - £100m of new bilaterals plus £900m RCF
- Share buyback - £90m of £110m completed
- Net debt/RCV<sup>2</sup> at 59.7%
  - Down due to strong operational cashflows & WP receipt

1. Total sterling value of £ and \$ denominated debt raised  
2. Estimated RCV at 30 September 2015

Gross Debt Profile  
Total £4.7bn



Net Debt<sup>3,4</sup> £4,637m (14/15: £4,753m)

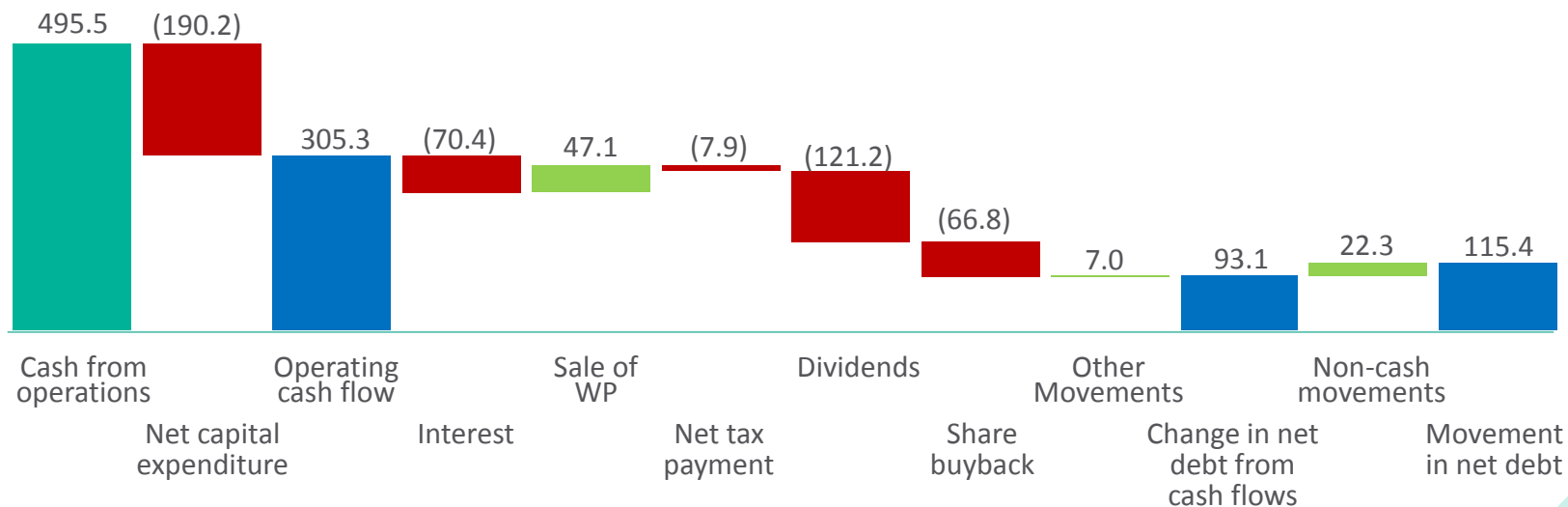
3. Includes net cash of £54.6 million & cross currency swaps hedging debt of £8.1m  
4. Regulated net debt £4,743m (31 Mar 2015: £4,701m)

# GROUP CASH FLOW

## MOVEMENT IN NET DEBT £115.4m

- Solid cashflows from operations - up year on year, despite turnover reduction

£m



# CREATING VALUE

## MEASURING SUCCESS

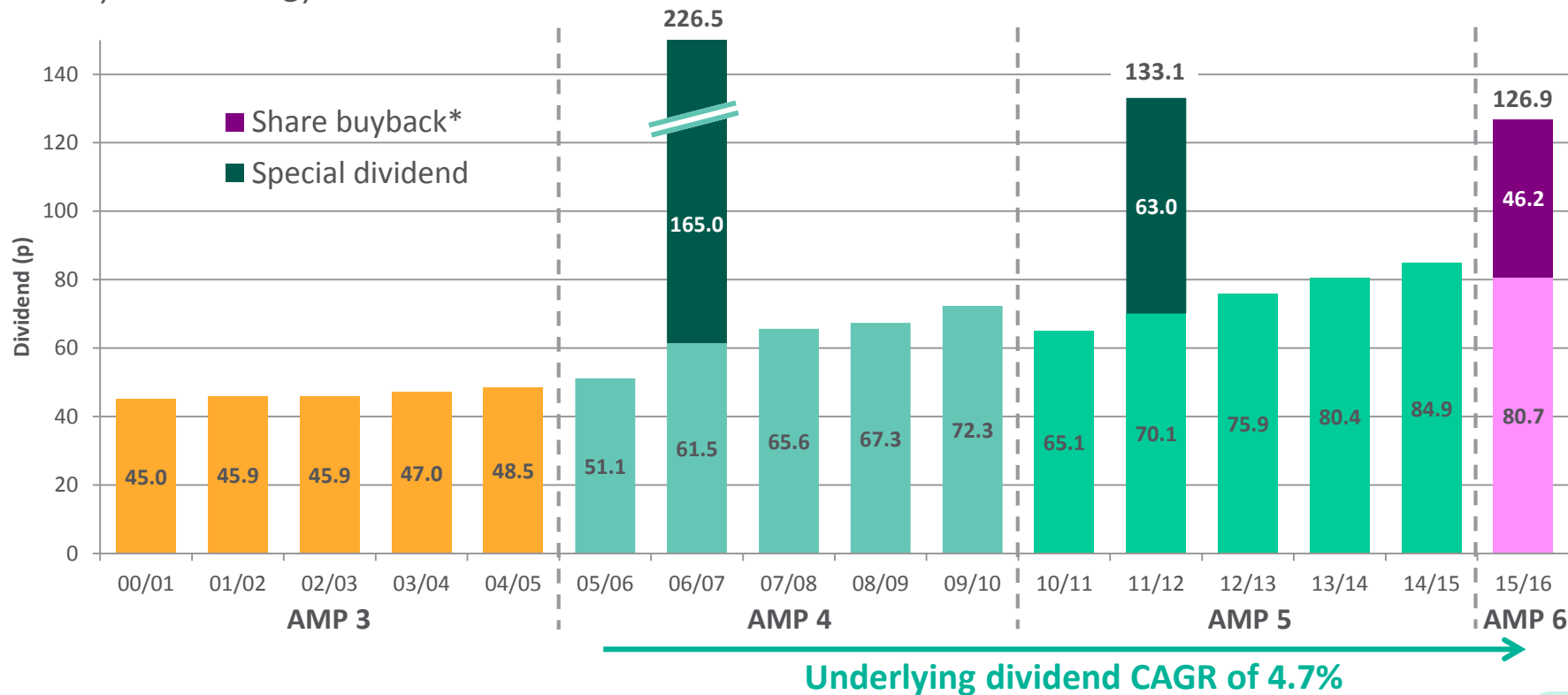
PBIT	<ul style="list-style-type: none"><li>• Improving margin performance</li></ul>
Totex	<ul style="list-style-type: none"><li>• £372m of efficiencies locked in</li><li>• Further opportunities</li></ul>
ODIs	<ul style="list-style-type: none"><li>• £10m rewards expected in 2015/16</li><li>• Good start, more to play for</li></ul>
RCV Growth	<ul style="list-style-type: none"><li>• Capital programme off to a good start</li><li>• Fastest growing RCV of listed WASCs for AMP6</li></ul>
Financing	<ul style="list-style-type: none"><li>• Effective interest cost 4.6%</li></ul>

RoRE

Shareholder returns

# TRACK RECORD OF DELIVERING RETURNS FOR SHAREHOLDERS

2000/01 – 2015/16



\*Based on £110m share buyback divided by 238m shares (average no. over buyback period)

# FY 2015/16 TECHNICAL GUIDANCE

## Regulated Water and Waste Water

Y-on-Y

<b>Turnover</b>	£1.49bn to £1.51bn (new reporting basis)	▼
<b>Wholesale totex<sup>1</sup></b>	£1.03bn to £1.06bn	↔
<b>RCV</b>	34.7% of 15/16 wholesale totex will be capitalised onto the RCV	▲
<b>Opex (IFRS)</b>	Lower Opex - benefits of tighter cost control and organisational efficiencies	▼
<b>Capex (IFRS, net cash)</b>	£410 million to £430 million	▲
<b>IRE</b>	£125 million to £135 million	▼
<b>ODIs</b>	Net rewards of £10 million expected, received on a two year lag	▲

## Business Services

Growth in revenues and PBIT	▲
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## Group

<b>Interest charge</b>	Lower year on year, due to reduced debt costs	▼
<b>Tax rate</b>	Effective tax rate between 17% and 19%	▲
<b>Dividend</b>	Set at 80.66p for 2015/16. The Board's policy is then to grow the dividend annually by at least RPI until March 2020	▼

1. Excludes retail costs, includes regulated renewables



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*Chief Executive Officer*



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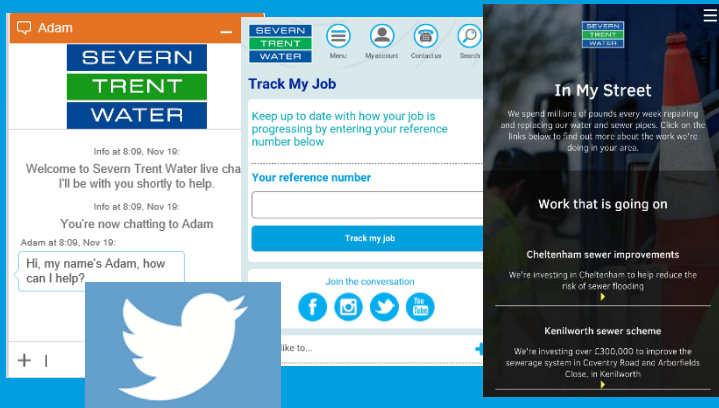
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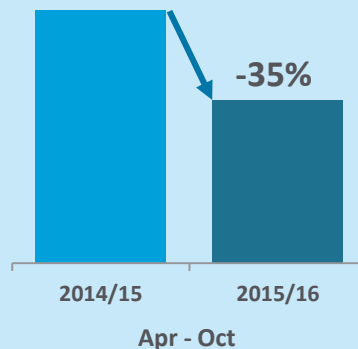
# A CUSTOMER FOCUSED BUSINESS

## Digital colleagues and customers

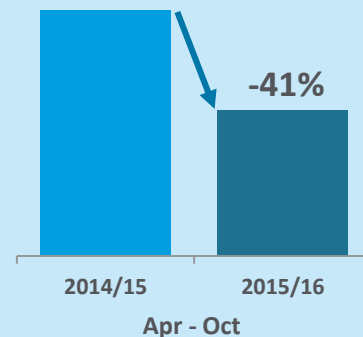


## Focus on issue resolution

### Complaints



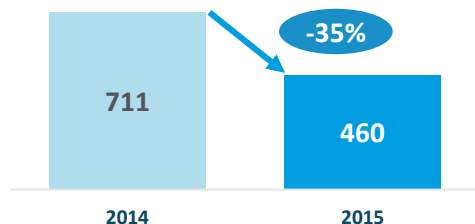
### Escalated Complaints



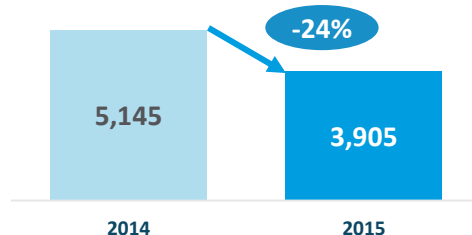
# OPERATIONAL PERFORMANCE: SIGNIFICANT PROGRESS IN LAST 18 MONTHS

Improved year on year performance on 83% of our operational measures, including:

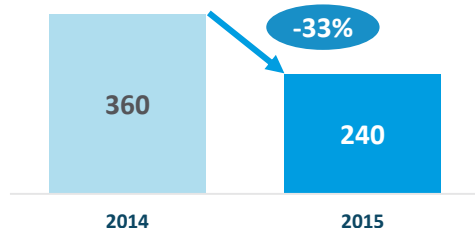
Internal Sewer Flooding (Apr-Oct)



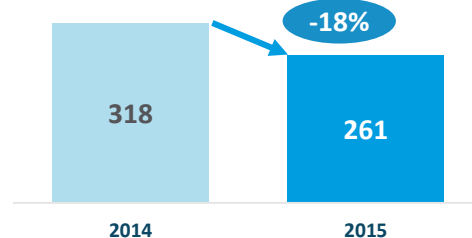
External Sewer Flooding (Apr-Oct)



Supply Interruptions (Apr-Oct)



Category 3 pollutions (Jan-Oct)



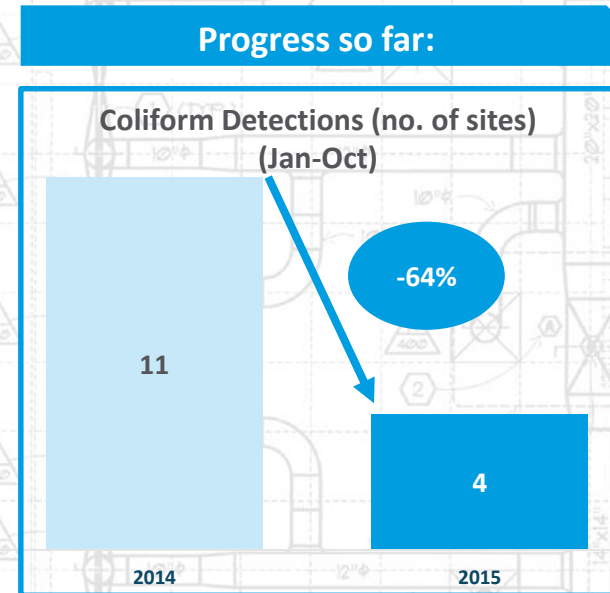
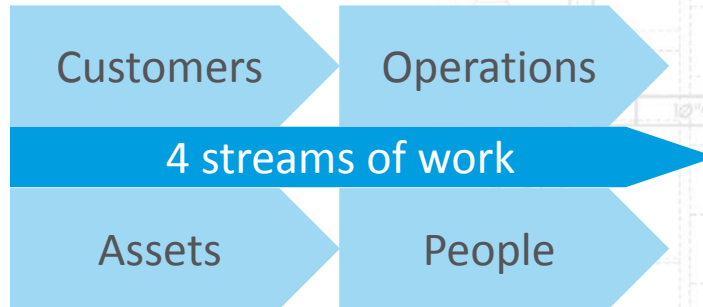
Against a background of reduced customer bills:



# UNDERLYING SERVICEABILITY MEASURES IMPROVING

## Serviceability Focus: WATER QUALITY

- Applying project-type discipline to 14 initiatives
- Governance uniting all key parties to drive them
- Cleanest Water dashboard – weekly review by STEC
- External expert appointed



# TRANSLATING INTO ODI REWARDS

Performance to end October

In AMP

Category 3 Pollutions



Water quality complaints



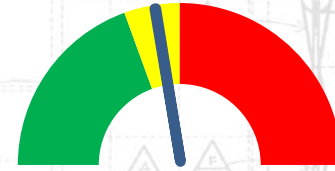
Internal sewer flooding



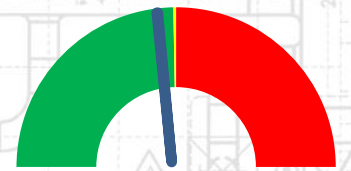
Supply interruptions



Leakage



External sewer flooding



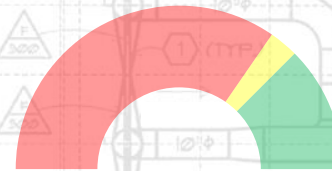
Coliform detections



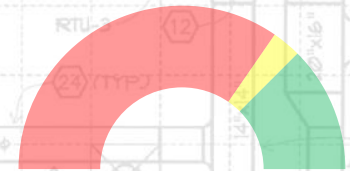
SIM



Catchment management



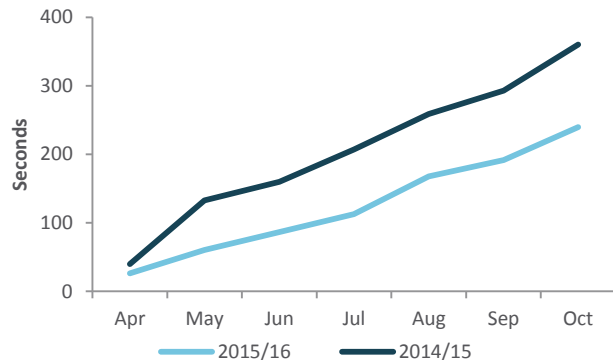
Water framework directive



End of  
AMP

# ODI SPOTLIGHT: SUPPLY INTERRUPTIONS

## YTD Performance:



## Our July initiative:

Striving to add zero minutes  
onto our supply interruptions

Driving belief in our ability to  
deliver



## How we're achieving outperformance:

- Cross-regional and cross-functional collaboration
- Reorganisation and redeployment of equipment
- Improved incident management
- Revised approach to planned work



# EMBEDDING TOTEX THINKING

You can always find ways to improve what you do

Peckforton 27" Main



Taking a risk based approach to identify highest priority risks, focusing on ODI impact

Asset Management



Network modelling identified low cost solution with no impact on network performance

- Embedding totex thinking at every level of the organisation
- Focusing on the whole life costs of assets

# BIRMINGHAM RESILIENCE: ON TRACK TO DELIVER



Land purchases now complete



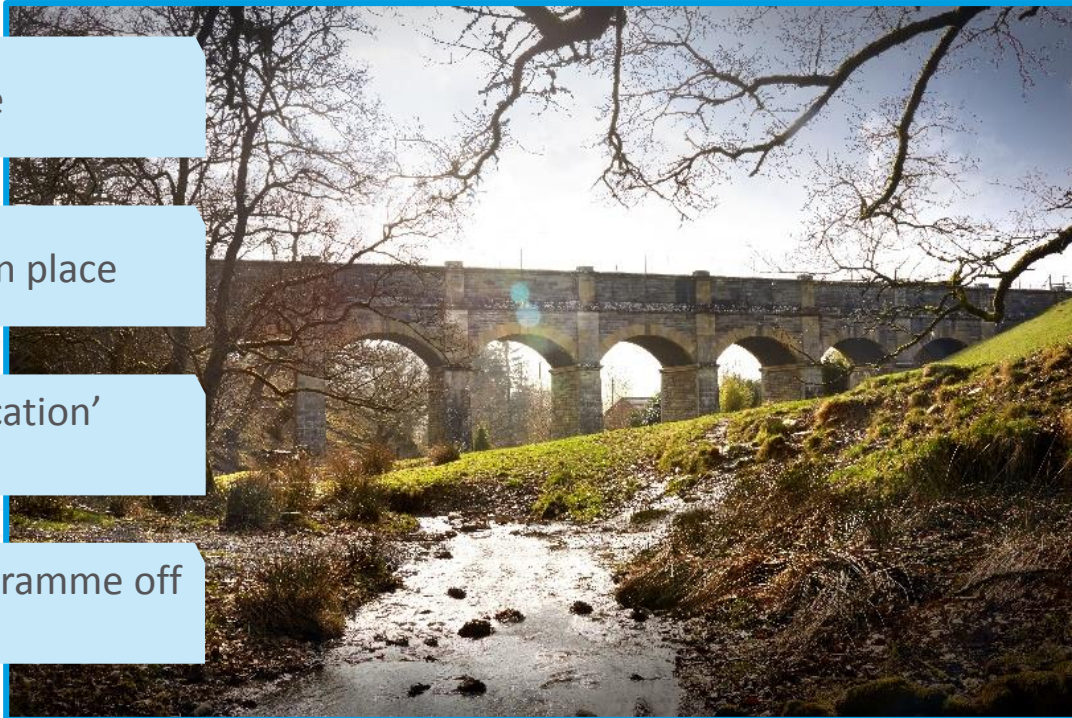
Formal planning agreements in place



Abstraction licence 'pre-application'  
approved by the EA



Stakeholder engagement programme off  
to positive start





# LOCKING IN EFFICIENCIES

All £372m<sup>1</sup> now locked in



## Supplier Contract Efficiencies

- Sewerage commercial model
- Chemical contracts

## Capital Programme Efficiencies

- Working with our One Supply Chain partners to deliver capex efficiencies

## Restructuring

- Delaying the organisation
- Reducing the cost base

Focused on outperformance

- Up to £50m more to be locked in by May
- Further opportunities

# GOING BEYOND £372m EFFICIENCIES

Already frontier efficiency for Waste Water

Striving for upper quartile performance on Water

How we will get there:

Digitalisation of our networks

Driving proactive asset management

Supply chain activity

Utilising new technology



# LEADERS IN RENEWABLES

32%

of energy needs today<sup>1</sup>

50%

of energy needs by 2020<sup>2</sup>

£190m

investment

DOUBLE DIGIT

IRR

on all investments

Potential for  
outperformance with  
new technology



Wind turbines  
2 sites

~25GWh



Solar  
40 sites

~25GWh



Sewage sludge THP  
2 sites

~250GWh



Crop & food waste AD  
4 sites

~130GWh

New sites over AMP6

Target generation  
by end of AMP6

1. As at 30<sup>th</sup> September 2015

2. By end of AMP6

# STRONG START TO AMP6

- ✓ Customers at the heart of what we do
- ✓ ODIs delivering; for customers and shareholders
- ✓ Totex thinking embedded
- ✓ Going beyond £372m efficiencies
- ✓ Opportunity through renewable energy
- ✓ Engaged in the debate



**More to do – focused on delivery**

# DISCLAIMERS

## Cautionary statement regarding forward-looking statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

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# APPENDIX

# DEFINING RoRE

$$\text{RoRE} = \frac{\text{PAT}^1 + \text{Regulatory adjustments}}{\text{RCV} \times (1 - \text{Actual Gearing})}$$

The diagram illustrates the formula for Return on Regulatory Expense (RoRE). The numerator consists of PAT<sup>1</sup> and Regulatory adjustments. The denominator consists of RCV and (1 – Actual Gearing). The Regulatory adjustments are further detailed as Performance variance, which includes TOTEX, ODIs<sup>2</sup>, and Financing.

1. As per the Final Determination

2. Includes SIM

# GROUP EARNINGS

## PERIOD ENDED 30 SEPTEMBER 2015

2014/15 £m		2015/16 £m	Variance £m	Variance %
107.5	Profit for the period attributable to owners of the company	143.7	36.2	33.7%
(0.5)	Adjusted for discontinued operations	0.6	1.1	220.0%
107.0	Profit for the period from continuing operations attributable to owners of the company	144.3	37.3	34.9%
Pence		Pence	Variance Pence	Variance %
	<b>Basic EPS from continuing operations</b>			
52.6	Underlying basic EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	58.6	6.0	11.4%
44.8	Basic EPS	60.5	15.7	35.0%
	<b>Diluted EPS from continuing operations</b>			
52.4	Underlying diluted EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	58.4	6.0	11.5%
44.7	Diluted EPS	60.3	15.6	34.9%



# GROUP BALANCE SHEET

## AT 30 SEPTEMBER 2015

31 March 2015 £m		30 September 2015 £m	Movement in the period £m
7,520.0	Property, plant and equipment	7,581.6	61.6
81.0	Intangible assets	80.8	(0.2)
4.7	Other non-current assets	4.8	0.1
(1,310.8)	Working capital, provisions and pensions	(1,277.8)	33.0
<b>6,294.9</b>	<b>Capital employed</b>	<b>6,389.4</b>	<b>94.5</b>
72.6	Net assets held for sale	-	(72.6)
11.2	Tax debtor/(creditor)	(11.3)	(22.5)
(625.1)	Deferred tax provision	(652.4)	(27.3)
176.7	Cash	57.2	(119.5)
(4,926.7)	Borrowings	(4,702.5)	224.2
(2.6)	Cross currency swaps	8.1	10.7
(4,752.6)	Net debt	(4,637.2)	115.4
(177.7)	Other derivative financial instruments	(159.5)	18.2
<b>823.3</b>	<b>Net assets</b>	<b>929.0</b>	<b>105.7</b>
<b>85%</b>	<b>Gearing <sup>1</sup></b>	<b>83%</b>	

1. Net debt divided by net debt and equity

# MOVEMENT ON SHAREHOLDERS' EQUITY

## PERIOD ENDED 30 SEPTEMBER 2015

	£m
At 1 April 2015	823.3
Total comprehensive income for the period	217.9
Dividends paid to shareholders of Severn Trent Plc	(121.2)
Share based payments charge (after tax)	2.0
Shares issued	7.0
<b>At 30 September 2015</b>	<b>929.0</b>

# GEARING

## AT 30 SEPTEMBER 2015

31 March 2015	Net debt/RCV	30 September <sup>1</sup> 2015
61%	Severn Trent Group	60%
61%	Severn Trent Water	61%

1. Estimated RCV at 30 September 2015.

# WHOLESALE TOTEX RECONCILIATION

## PERIOD ENDED 30 SEPTEMBER 2015

	Opex £m	Capex £m	Totex £m
STW Opex per income statement	292.5	-	292.5
STW Capex per cash flow statement	-	180.8	180.8
Infrastructure maintenance expenditure	-	52.0	52.0
ROC income deducted from Totex	(7.4)	-	(7.4)
Proceeds on sale of fixed assets	3.4	7.4	10.8
Change in capital creditors	-	(4.2)	(4.2)
Amortisation of grants and contributions	5.3	-	5.3
Retail Opex	(59.7)	-	(59.7)
Non-appointed Opex	(4.6)	-	(4.6)
Other income	1.6	-	1.6
<b>Wholesale Totex</b>	<b>231.1</b>	<b>236.0</b>	<b>467.1</b>

# SEVERN TRENT SERVICES PERFORMANCE

## PERIOD ENDED 30 SEPTEMBER 2015

Turnover				Underlying PBIT <sup>1</sup>		
2014/15 £m	2015/16 £m	Change %		2014/15 £m	2015/16 £m	Change %
104.5	<b>113.2</b>	8.3	As reported	4.5	<b>4.9</b>	8.9
4.6	-		Exchange rate impacts	(0.1)	-	
109.1	<b>113.2</b>	3.8	Like for like <sup>2</sup>	4.4	<b>4.9</b>	11.4

1. Before exceptional items

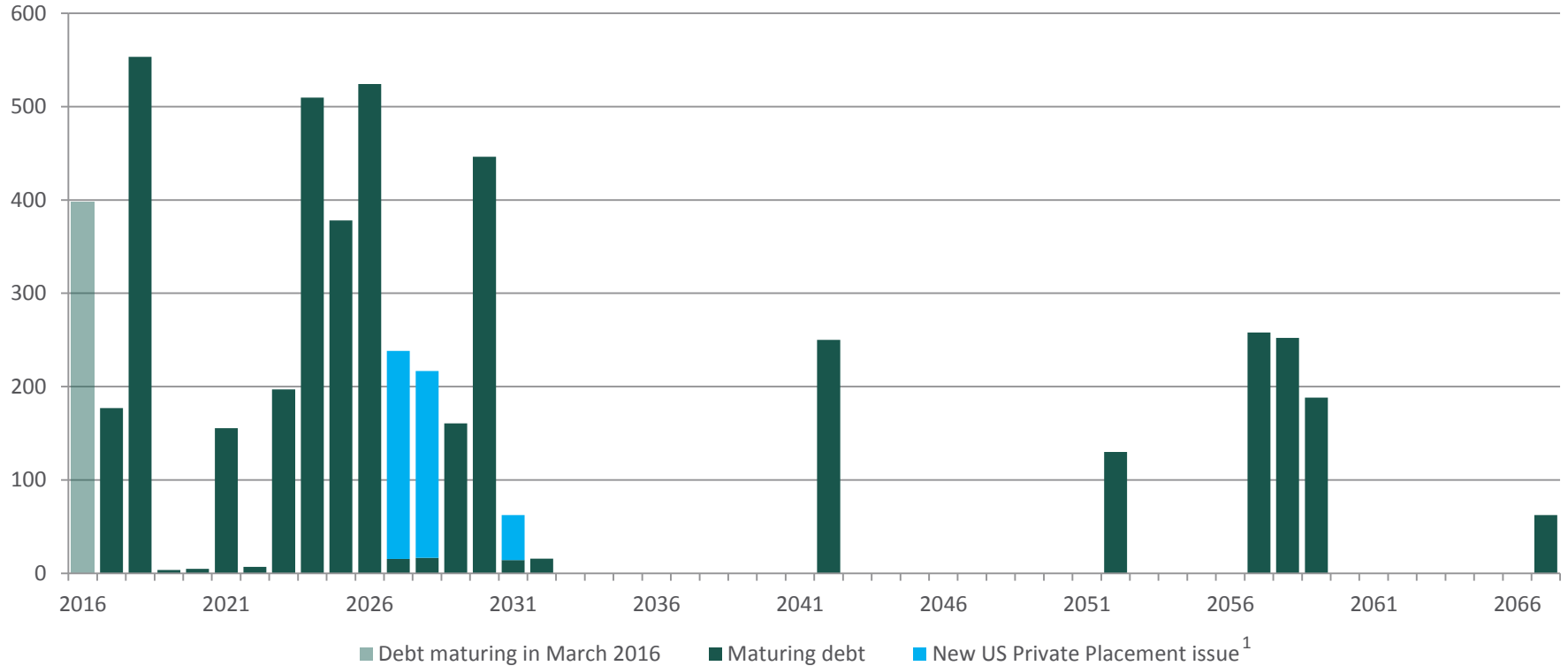
2. On constant currency excluding acquisitions and disposals

# NET FINANCE COSTS

## PERIOD ENDED 30 SEPTEMBER 2015

	Income statement charge 2015/16 £m	Capitalised interest 2015/16 £m	Gross interest incurred 2015/16 £m
"Cash" interest (including accruals)	93.6	7.5	101.1
Net pension finance cost	7.6	-	7.6
RPI interest	5.1	0.4	5.5
	106.3	7.9	114.2

# IMPROVING MATURITY PROFILE



1. Funds to be received in March 2016

# NET DEBT

## AT 30 SEPTEMBER 2015

	30 September 2014 £m	31 March 2015 £m	30 September 2015 £m
Cash and cash equivalents	(154.1)	(176.7)	(57.2)
Bank overdrafts	0.6	-	2.6
Bank loans	595.8	1,279.2	1,125.1
Other loans	3,786.1	3,467.5	3,432.2
Finance leases	180.7	180.0	142.6
Cross currency swaps	(26.3)	2.6	(8.1)
<b>Net debt</b>	<b>4,382.8</b>	<b>4,752.6</b>	<b>4,637.2</b>



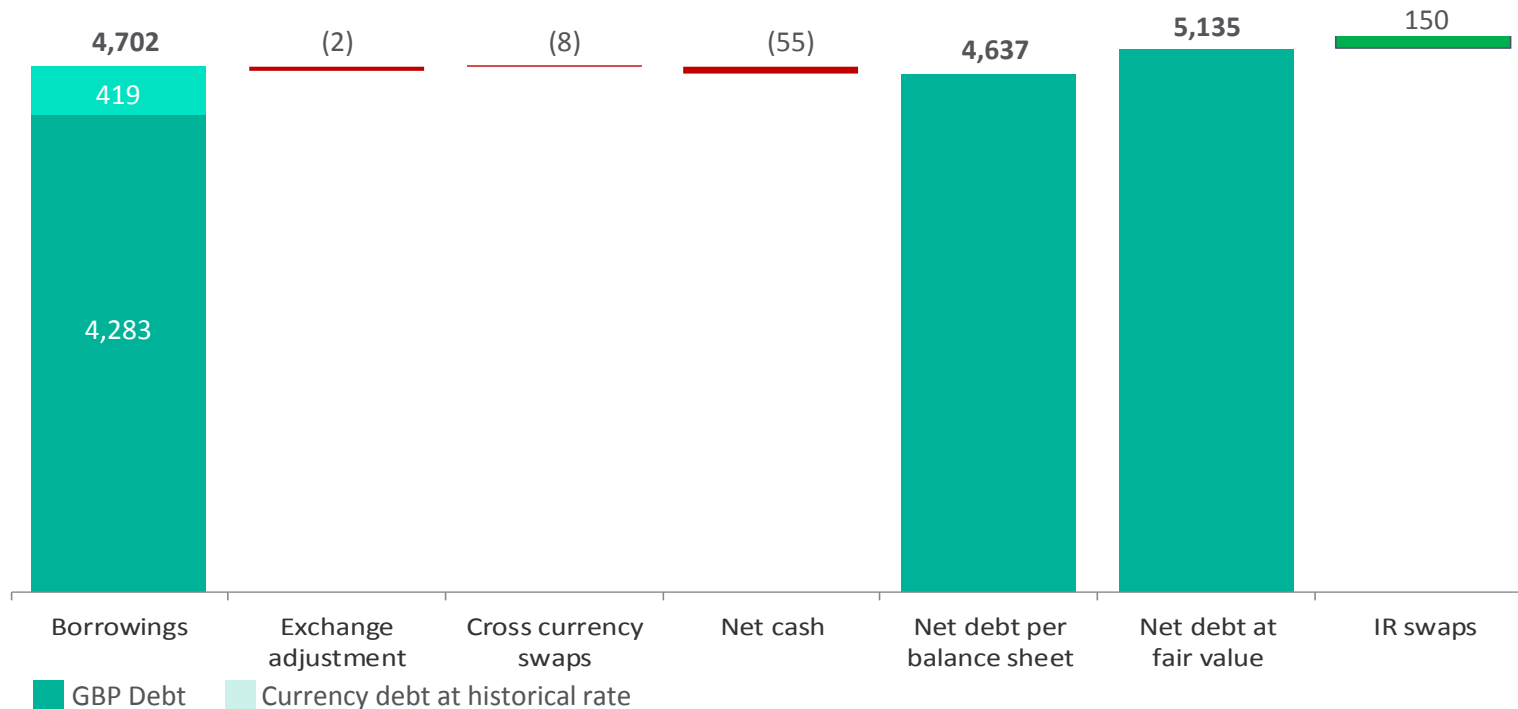
# FAIR VALUE OF NET DEBT

## AT 30 SEPTEMBER 2015

	30 September 2014 £m	31 March 2015 £m	30 September 2015 £m
Bank loans	613	1,298	1,136
Other loans	4,289	4,331	3,914
Finance leases	175	191	148
	<b>5,077</b>	<b>5,820</b>	<b>5,198</b>
Net cash and cash equivalents	(154)	(177)	(55)
Cross currency swaps	(26)	3	(8)
Fair value of net debt	4,897	5,646	5,135
Net debt (previous slide)	4,383	4,753	4,637
Difference	514	893	498

# ANALYSIS OF BORROWINGS, NET DEBT AND SWAPS AT 30 SEPTEMBER 2015

At 30 September  
2015



# CREDIT RATINGS

	Severn Trent Water	Severn Trent Plc
Moody's	A3	Baa1
Standard & Poor's	BBB+	BBB-

Moody's – outlook is negative

Standard & Poor's – outlook is stable

# SEVERN TRENT WATER - RCV

**2015/16 Opening RCV**      **£7,683m**

£m	2015/16	2016/17	2017/18	2018/19	2019/20
Per Determination <sup>1</sup>	7,336	7,490	7,684	7,866	7,948
Projected Outturn (OBR RPI assumptions <sup>2</sup> )	7,855	8,220	8,695	9,177	9,560

1. 2012/13 prices

2. Based on Office of Budget Responsibility RPI assumptions (2.7% average)

# COMPANY VISION, PURPOSE AND VALUES

## WHAT WE STAND FOR

### Our Vision:

By 2020 to be the most trusted water company:  
delivering an outstanding customer experience, the best value service and environmental leadership

### Our Purpose:

To serve our communities and build a lasting water legacy

### Our Strategy:

Severn Trent are transforming service today, driving growth, and shaping our industry for tomorrow – for the mutual benefit of our customers, communities and investors

### How we do it:

Embed customers at  
the heart of all we  
do

Drive operational  
excellence and  
continuous  
innovation

Invest responsibly  
for sustainable  
growth

Change the market  
for the better

Create an awesome  
place to work

### Our Market Segments:

Wholesale  
operations and  
engineering

Household customer  
services

Business retail and  
operating services

Green energy

New water markets

### Our Values:

We put customers  
first

We are passionate  
about what we do

We act with integrity

We protect the  
environment

We are inspired to  
create an awesome  
company