

# HALF YEAR 2016/17 RESULTS

*24 November 2016*

Upper Derwent Valley, Peak District National Park

SEVERN  
TRENT

## 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.

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**LIV GARFIELD**

*Chief Executive*

# STRATEGY TO DRIVE RESULTS

## Our vision

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



## 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

# JAMES BOWLING

*Chief Financial Officer*

# H1 2016/17 HIGHLIGHTS

## Group turnover

£906.8m

+3.2%

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

£278.4m

+3.1%

## Effective finance cost

4.2%

down from 4.6%

## Forecast customer

### ODI reward<sup>(2)</sup>

£15m

## Underlying basic EPS<sup>(3)</sup>

62.3 pence

+13.5%

## Half-year dividend

32.6 pence

+1.1%

1. Underlying PBIT = Profit Before Interest, Tax and exceptional items. Reported PBIT of £299.4m (2015/16: £270.1m) includes exceptional items of £21.0m (2015/16: £nil)

2. Customer Outcome Delivery Incentives. Overall pre-tax reward at 2012/13 prices. Post-tax reward of £12m using the 2018/19 tax rate of 19%

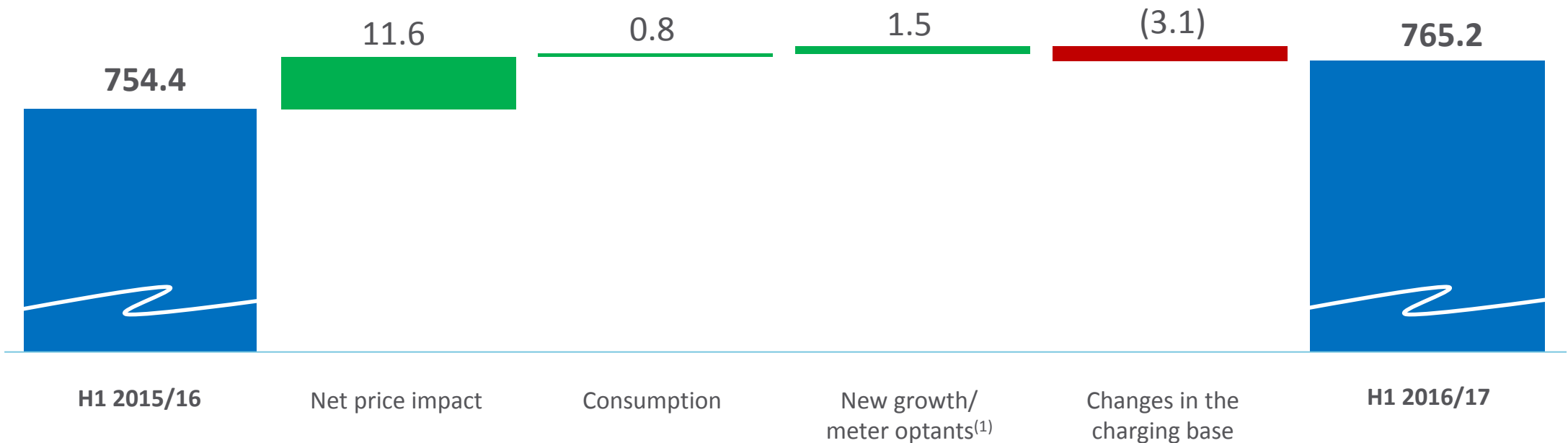
3. Underlying EPS = Earnings Per Share before exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on financial instruments and deferred tax. Reported basic EPS from continuing operations of 79.5p (2015/16: 56.9p)

# REGULATED WATER & WASTE WATER

**TURNOVER**  
**£765.2m**

- Turnover 1.4% higher due primarily to £11.6m RPI-linked price increases
- Partially offset by other net revenue decreases

£m

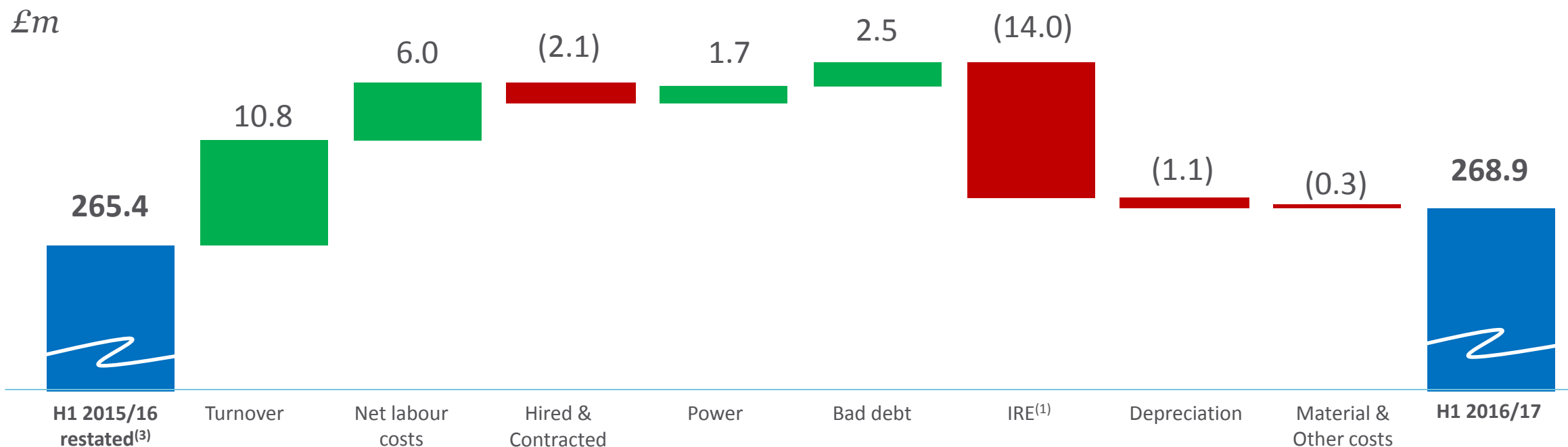


1. Reflects customers switching from unmeasured to measured supply

# REGULATED WATER & WASTE WATER

Underlying PBIT  
£268.9m

- Increased turnover and labour cost efficiencies
- Partly offset by acceleration of our IRE<sup>(1)</sup> programme, as expected, and costs of preparing for market opening<sup>(2)</sup>



1. IRE = Infrastructure Renewals Expenditure

2. Non-Household (NHH) Retail costs of £2.1m were incurred across net labour costs (£1.5m) and hired and contracted (£0.6m), in relation to the opening of the NHH retail market to competition in April 2017

3. Restated for the disposal of non-household retail activities to Water Plus, as set out in our stock market announcement dated 8<sup>th</sup> September 2016

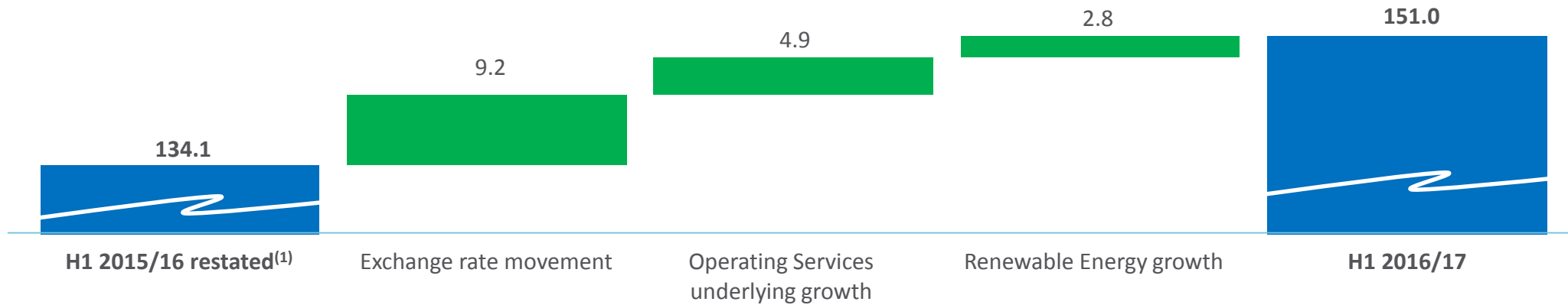


# BUSINESS SERVICES

Turnover: £151.0m

Turnover up £16.9m driven by good growth in both Operating Services and Renewable Energy and favourable exchange movements of £9.2m

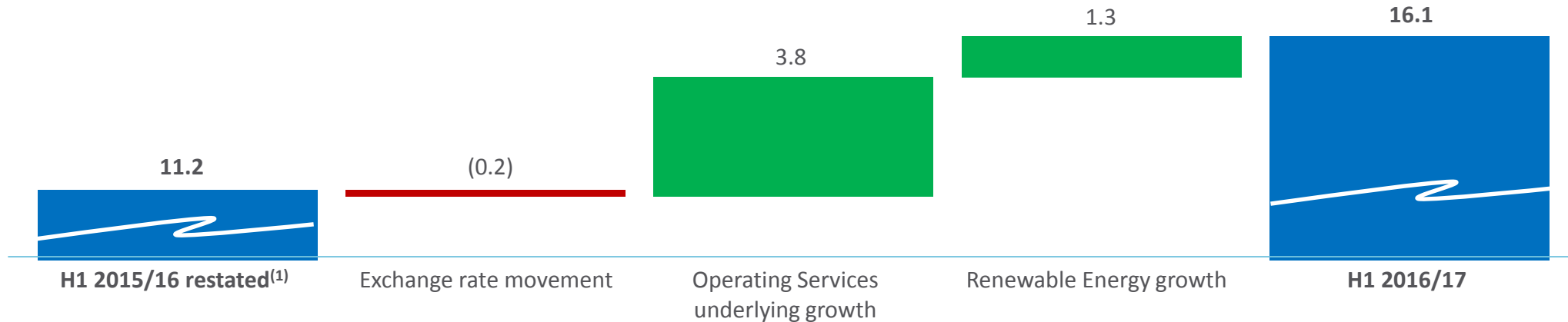
£m



Underlying PBIT: £16.1m

PBIT up £4.9m driven by underlying growth in both Operating Services and Renewable Energy

£m



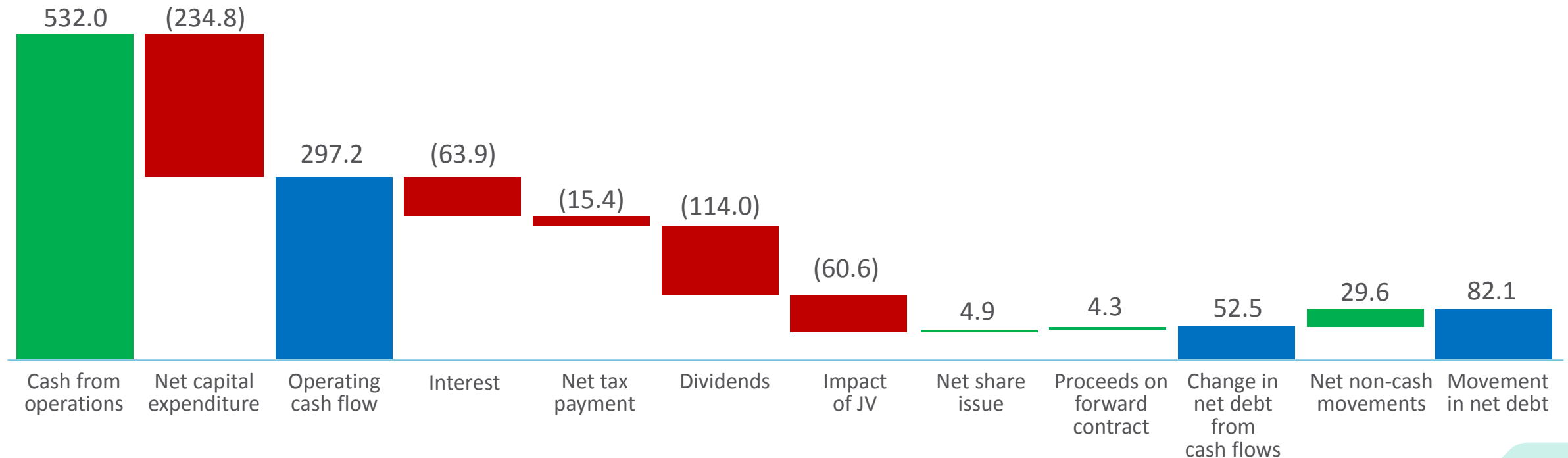
1. Restated for the disposal of non-household retail activities to Water Plus, as set out in our stock market announcement dated 8<sup>th</sup> September 2016

# GROUP CASH FLOW

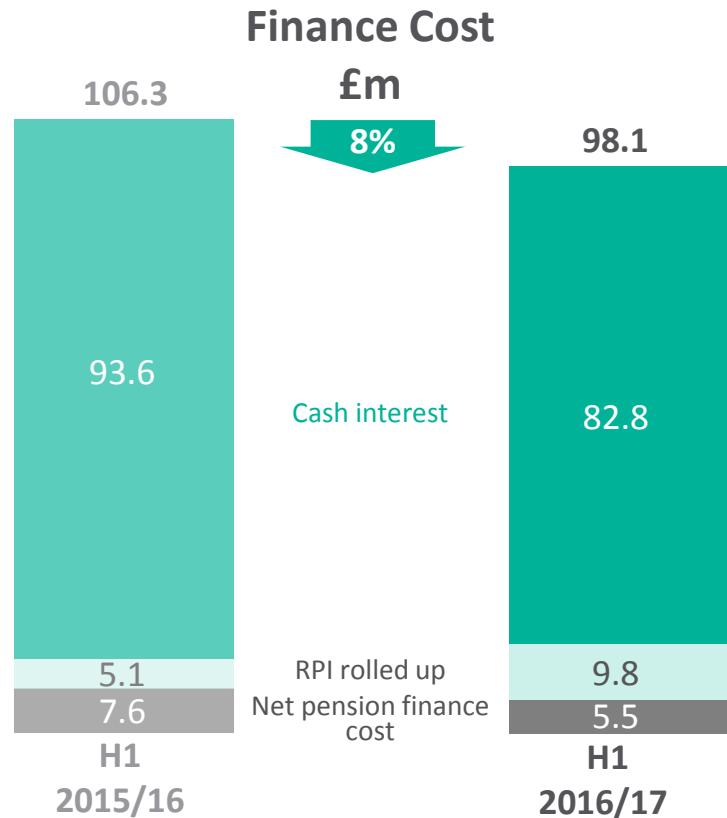
## MOVEMENT IN NET DEBT £82.1m

- Strong cash from operations: up £36.5m (7.4%) y-on-y
- Closing net debt £4,741.3m

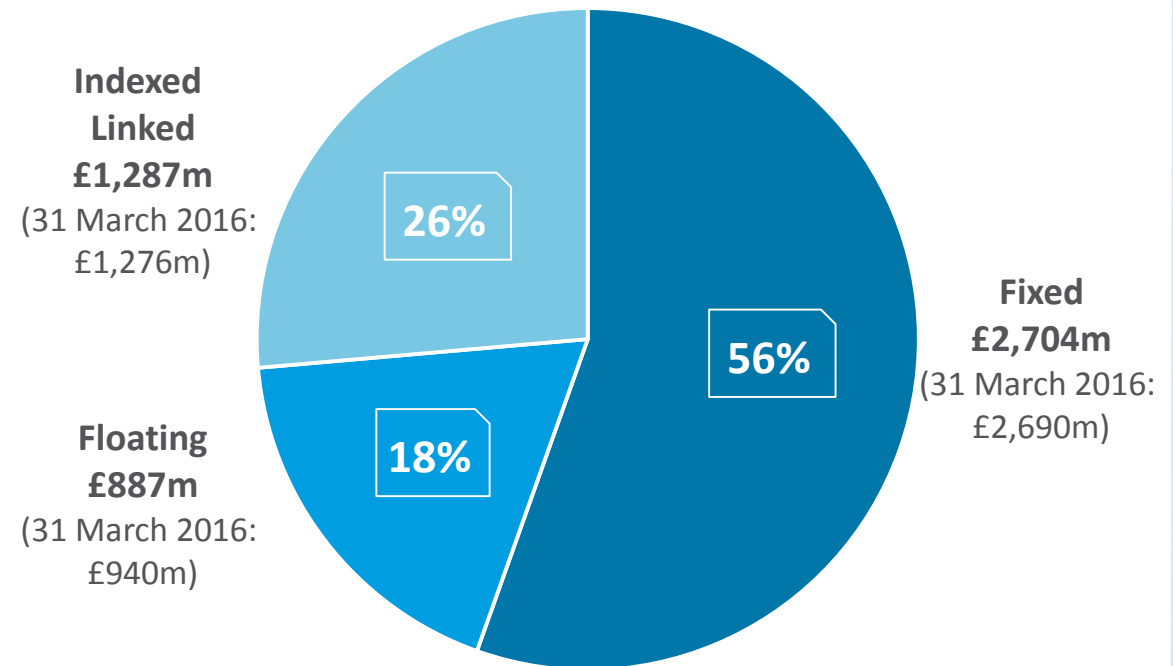
£m



# DEBT: SECURING LIQUIDITY DELIVERING OUTPERFORMANCE



**Gross Debt Profile at 30<sup>th</sup> September 2016**  
Total: £4.9bn



Active Treasury management to rebalance debt has led to

- Effective interest cost: 4.2%<sup>(1)</sup> (H1 2015/16: 4.6%)
- Effective cash interest cost<sup>(2)</sup>: 3.8% (H1 2015/16: 4.3%)

Securing liquidity: new £100m STW<sup>(3)</sup> bilateral bank loan  
Net debt<sup>(4,5)</sup> £4,741m (31<sup>st</sup> March 2016: £4,823m)  
Net debt/RCV<sup>(6)</sup> at 59.4%

1. Before net pension finance costs, but after capitalised interest  
2. Before net pension finance costs and RPI rolled up, but after capitalised interest  
3. STW = Severn Trent Water

4. Includes cross currency swaps but excludes the pension deficit  
5. Regulated net debt £4,583m (31<sup>st</sup> March 2016: £4,813m)  
6. Estimated Regulatory Capital Value (RCV) at 30<sup>th</sup> September 2016

## Triennial pension valuation – funding certainty for rest of AMP<sup>(1)</sup>

- **31<sup>st</sup> March 2016 triennial valuation – new funding plan agreed with Trustees**
  - Revised contribution plan<sup>(2)</sup> – base contributions increased by £3m pa to £15m<sup>(2)</sup> pa, extended to 2031
  - Efficient new ABF structure<sup>(3)</sup> enabling extra cash contributions of £10m pa for next three years
  - Existing ABF payments of £8m pa continue
- **IAS 19 accounting deficit £712m – impacted by the decline in corporate bond yields post EU referendum**
  - Liabilities<sup>(4)</sup> increased by 26% due to falling bond yields
  - Scheme assets performing well – up 10%
- **Active management of underlying obligations**
  - PIE<sup>(5)</sup> exercise completing December 2016: £21m exceptional credit recorded in P&L based on expected take up
  - Defined benefit schemes closed to future accruals since 31<sup>st</sup> March 2015

1. AMP = Asset Management Plan

2. Subject to finalising key terms

3. New ABF cash contributions index linked

4. Measured on an IAS19 basis

5. PIE = Pension Increase Exchange

# CONTINUED PROGRESS ON ENERGY



Minworth gas to grid plant

- Generation equivalent to **35%** of our energy needs
- On track for **50%** by 2020
- **+16 GWh** delivered in H1 2016/17
- **£70m** of the **£190m** investment programme spent to date
- EBITDA<sup>(1)</sup> of **£10.6m** in H1 2016/17

**Double-digit post-tax IRR on all renewable investments**

## Energy case study

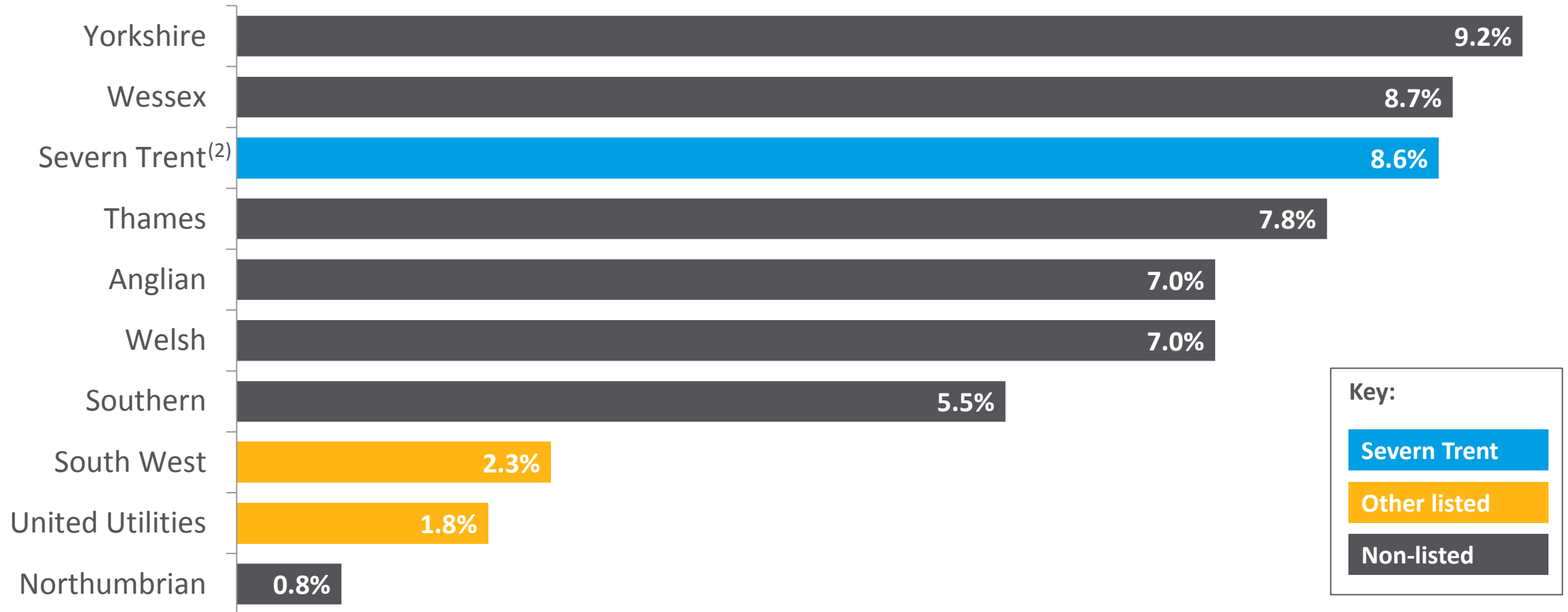
### Melbourne Water Treatment Network

- New pump efficiency technology installed
- Optimising pump operations - saving £400k per year

1. EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation. Reported PBIT in H1 2016/17 of £7.4m

# AMP6 RCV<sup>(1)</sup> GROWTH

In real terms, per final determinations



**RCV growing around 3x times faster than other listed WASCs<sup>(3)</sup>**

1. RCV = Regulatory Capital Value

2. To enable direct comparability with other WASCs, this excludes the impact of the forecast £260m outperformance on totex

3. WASC = Water And Sewerage Companies

# FY2016/17 TECHNICAL GUIDANCE

## Regulated Water & Waste Water

Includes regulated wholesale and the household retail business

## Business Services

Includes the old “Severn Trent Services” segment and all of our renewable energy businesses

Purple = change to guidance since FY 2015/16

Regulated Water and Waste Water		FY2015/16	Y-on-Y
<b>Turnover</b>	£1.50 billion to £1.52 billion	£1.51bn	↔
<b>Opex (IFRS)</b>	Lower opex: y-o-y benefits of efficiencies	£591m <sup>(2)</sup>	▼
<b>IRE</b>	£130 million to £155 million	£126m	▲
<b>Customer ODIs<sup>(1)</sup></b>	£15 million reward	£23m	▼
<b>Wholesale totex</b>	£1.04 billion to £1.06 billion (42.1% of 16/17 wholesale totex will be added to RCV)	£1.02bn	▲
Business Services <sup>(3)</sup>			
<b>Turnover</b>		£277m <sup>(2)</sup>	▲
<b>PBIT</b>	Further growth in both turnover and PBIT	£28m <sup>(2)</sup>	▲
Group			
<b>Interest charge</b>	Marginally lower y-o-y; lower costs on new floating rate debt, partially offset by higher RPI	£209m	▼
<b>Tax rate</b>	Effective tax rate between 17% and 19%	18.5%	↔
<b>Capex (IFRS, net cash)</b>	£450 million to £490 million	£410m	▲
<b>Dividend</b>	Set at 81.5p for 2016/17. Annual dividend growth thereafter of at least RPI until March 2020	80.66p	▲

1. Overall pre-tax reward at 2012/13 prices. Company assessment of performance, subject to Ofwat review process in Autumn 2017

2. Restated numbers treating NHH results as discontinued, following Water Plus announcement, as detailed in the stock market announcement on 8<sup>th</sup> September 2016

**LIV GARFIELD**

*Chief Executive*



# OUR WINNING FORMULA

## Our vision

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
- At the frontier of sector efficiency
- Standard setters in renewable energy
- Successful in competitive markets

# EMBEDDING CUSTOMERS AT THE HEART OF OUR BUSINESS

Encouraging progress in many areas, but more to be done



- Second best of WASCs<sup>(1)</sup> for low complaints
- Most improved WASC<sup>(1)</sup> for complaint reduction, down 28% in 2015/16



## Service Incentive Mechanism (SIM)

- Joint 3<sup>rd</sup> of the WASCs<sup>(1)</sup> in 2015/16
- Strong billing score at 4.6–4.7
- Focus on variability & issue resolution in Wholesale SIM
- More to be done

## Bad debt performance



- Household bad debt now 1.8% of turnover (15/16: 2.2%)

## Assisting vulnerable customers

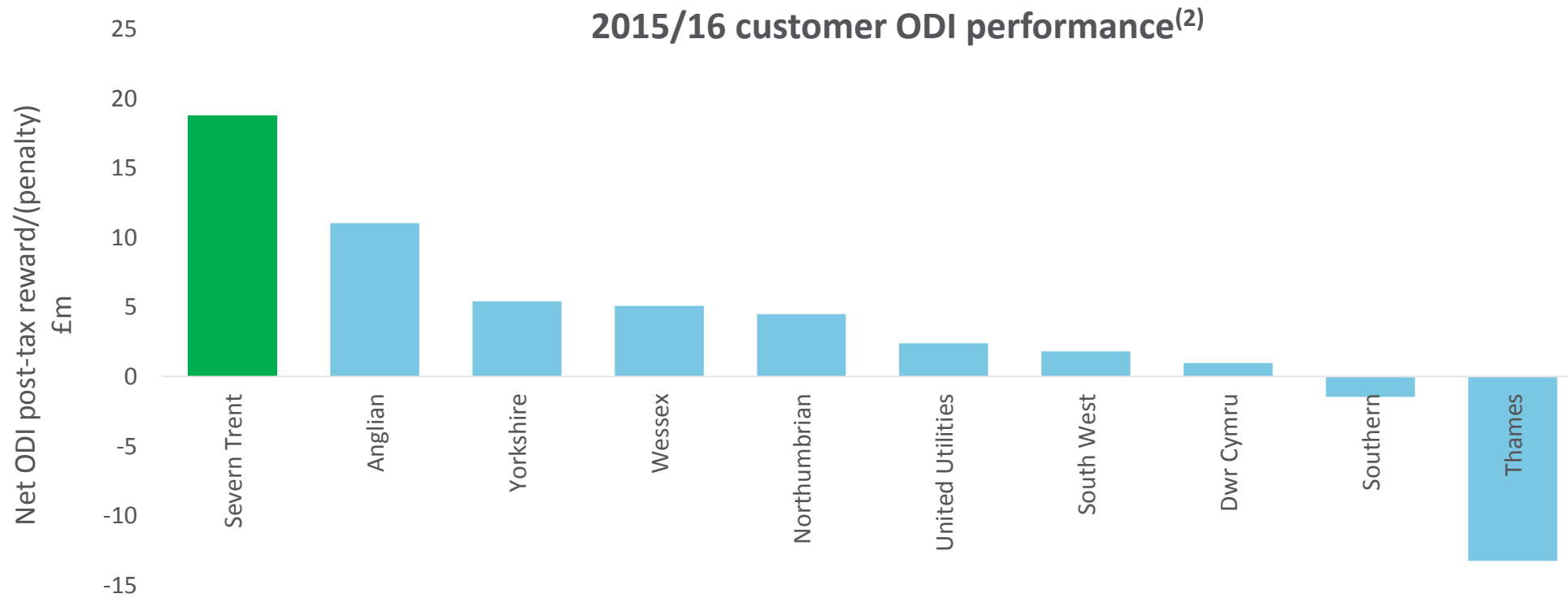
- Nearly trebled the number of vulnerable customers helped
- Named as the Best Vulnerable Customer Support team at Utilities & Telecoms Conference

Average combined bill remains the lowest in Britain, at £329pa

1. WASC = Water and sewerage company

# OPERATIONAL EXCELLENCE

## Strong customer ODI<sup>(1)</sup> comparative performance



1. ODI = Outcome Delivery Incentive (quoted pre-tax at 2012/13 prices)

2. Source: Company Annual Performance Reports

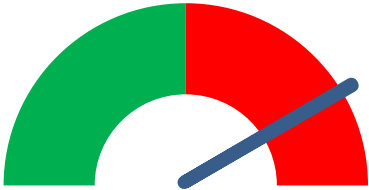
# WINNERS IN A WORLD OF INCENTIVISATION

On track for £15m FY16/17 customer ODI<sup>(1)</sup> reward, but winter ahead of us

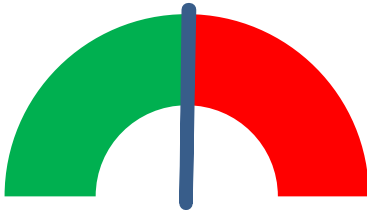
Category 3 pollutions



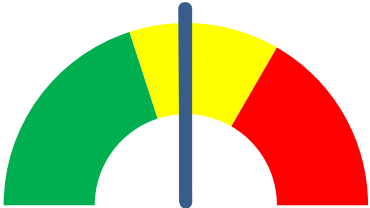
Water quality complaints



Internal sewer flooding



Supply interruptions



Leakage



External sewer flooding



Coliform detections<sup>(2)</sup>

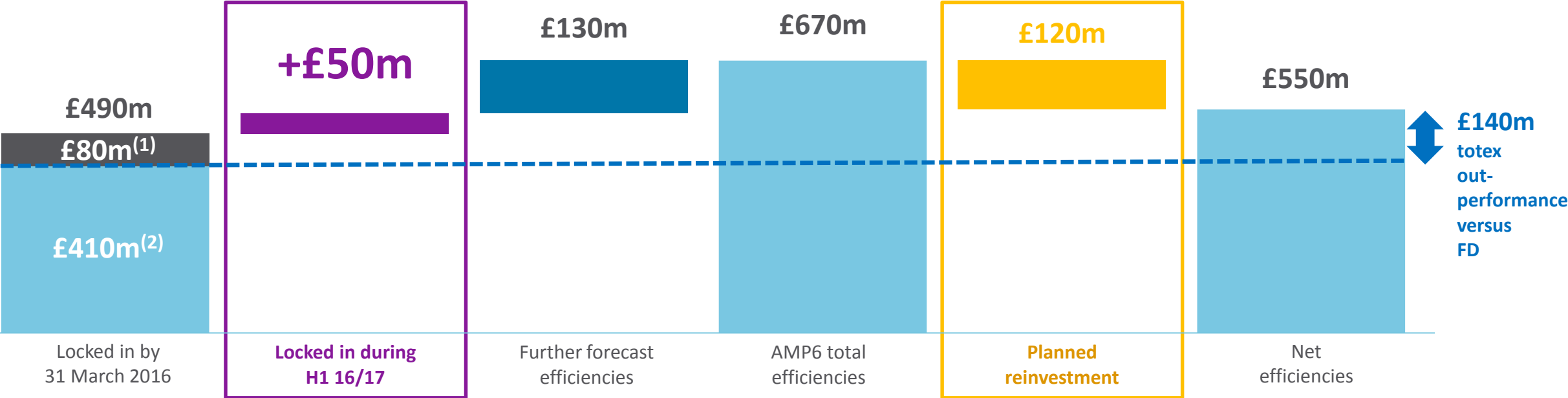


SIM<sup>(2)</sup>



1. Customer ODI = Customer Outcome Delivery Incentive, quoted pre-tax at 2012/13 prices  
 2. These forecast customer ODIs are measured annually but the reward/penalties are end of AMP adjustments  
 Note: customer ODI swingometers show actual year-to-date performance against the Ofwat final determination target

# LOCKING IN FURTHER TOTEX EFFICIENCIES



- £40m capital programme efficiencies
- £10m supplier consolidation

- Reinvesting £120m for the benefit of our customers in water quality, enhancing security and vulnerable customers
- ~40% of this investment is added to the RCV through the PAYG<sup>(3)</sup> mechanism

1. Efficiencies locked in, as announced on 24<sup>th</sup> May 2016  
 2. Efficiencies, in nominal terms, needed to meet the Final Determination (FD)  
 3. PAYG = Pay As You Go

# ASSET DELIVERY PROGRESS UPDATE

- RCV growth relies on delivering the planned schemes on time and budget
  - Good AMP6 progress to date

## Birmingham Resilience Programme



- All planning permissions obtained and contracts awarded
- Good progress being made on first tunnel in Bleddfa, Wales
- On track to deliver all customer ODI commitments

1. DWI = Drinking Water Inspectorate

## Draycote Water: a change of approach

**Original plan:**  
Increase capacity of  
Draycote reservoir



**Revised course of action:**  
Purchased River Severn  
abstraction rights from  
3<sup>rd</sup> party

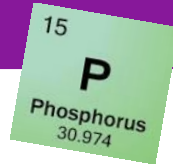
## DWI<sup>(1)</sup> – ‘named schemes’



- Detailed programme of 58 obligations developed in discussion with DWI<sup>(1)</sup>
- Expect programme to be successfully delivered this AMP

# DELIVERING OUTPERFORMANCE THROUGH INNOVATION

## Phosphorus removal



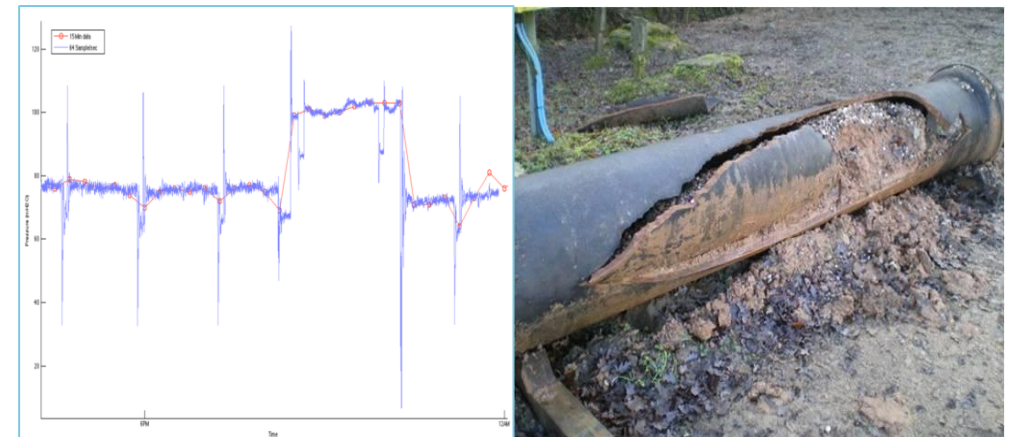
- Key stage in sewage treatment process
- Commenced implementation of new technology
- Reduces phosphorus to extremely low levels
- Generates totex efficiencies with recycling of phosphorous



Our world-first algal bead bioreactor, one of several technology applications

## Pressure transient waves

- Pressure surges can cause bursts on our water pipes
- Previous technology logged pressure every 15 minutes
- New technology logs pressure 128 times per second
- Enables enhanced targeting of pressure surges and assists our pipe replacement programme



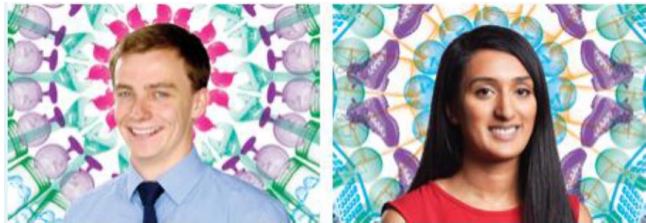
Loggers to enhance assessment of mains pipes

# RESPONSIBLE BUSINESS

We invest responsibly for the future of our business...

## Future talent

- We have almost trebled our apprentice intake this year and our graduate intake is up >50%
- We believe in investing in talent to help create the future leaders of Severn Trent



## Corporate responsibility commitments

We have an important role to play in protecting water as a precious resource and the wider environment:



We will make our region the most water efficient in the UK



We will play a leading role to help make our region's rivers even healthier

... and have been recognised for our achievements



FTSE4Good

- Met the challenging criteria and awarded FTSE4Good status in July 2016
- Demonstrates strong environmental, social and governance (ESG) practices



Hampton-Alexander review – recognised for improving gender balance in FTSE leadership



Asian Apprenticeship Awards – named Employer of the Year



# THE REGULATORY ENVIRONMENT INCREASED VISIBILITY TO 2025



We now have far greater clarity of  
the regulatory environment for AMP7...

- Cost of debt
- CPI indexation
- Water resources/bio-resource competition
- Risk and reward

...enabling us to commence our planning  
and prepare the business for upcoming changes

# PROGRESS AND MOMENTUM

Consistent progress in the first six months of this year...

**£50m**

More efficiencies  
locked-in

**£15m**

Customer ODI  
reward on track

**40bps<sup>(1)</sup>**

Financing cost  
improvement

**...but more we can do**

1. Finance cost improvement H1 2016/17 versus H1 2015/16



**Liv Garfield**  
*Chief Executive*



**Sarah Bentley**  
*Chief Customer Officer*



**Martin Kane**  
*Chief Engineer*



**Evelyn Dickey**  
*Director of Human Resources*



**Helen Miles**  
*Group Commercial Director*



**James Bowling**  
*Chief Financial Officer*



**Emma FitzGerald**  
*Managing Director,  
Wholesale Operations*



**Andy Smith**  
*Managing Director,  
Business Services*



**Bronagh Kennedy**  
*Group General Counsel  
and Company Secretary*



**Tony Ballance**  
*Director, Strategy &  
Regulation*

# APPENDIX

# GROUP EARNINGS

## Six months ended 30<sup>th</sup> September 2016

2015 (restated)		2016	Variance	Variance
£m		£m	£m	%
143.7	Profit for the period attributable to owners of the company	<b>210.2</b>	66.5	46.3%
(8.1)	Adjusted for discontinued operations	<b>(22.5)</b>	(14.4)	177.8%
135.6	Profit for the period from continuing operations attributable to owners of the company	<b>187.7</b>	52.1	38.4%
pence		pence	pence	%
	<b>Basic EPS from continuing operations</b>			
54.9	Underlying basic EPS (before exceptional items, net gains/losses on financial instruments and deferred tax)	<b>62.3</b>	7.4	13.5%
56.9	Basic EPS	<b>79.5</b>	22.6	39.7%
	<b>Diluted EPS from continuing operations</b>			
54.7	Underlying diluted EPS (before exceptional items, net gains/losses on financial instruments and deferred tax)	<b>62.1</b>	7.4	13.5%
56.6	Diluted EPS	<b>79.2</b>	22.6	39.9%

# GROUP BALANCE SHEET

## At 30<sup>th</sup> September 2016

31 <sup>st</sup> March 2016		30 <sup>th</sup> September 2016	Variance
£m		£m	£m
7,805.6	Property, plant and equipment and intangible fixed assets	7,912.3	106.7
5.2	Joint ventures, associates and other investments	39.4	34.2
91.0	Working capital	(16.2)	(107.2)
(878.3)	Deferred income	(903.1)	(24.8)
(309.5)	Retirement benefit obligations	(711.7)	(402.2)
(30.0)	Provisions	(31.3)	(1.3)
(1.1)	Non-controlling interests	(1.3)	(0.2)
<b>6,682.9</b>	<b>Capital employed</b>	<b>6,288.1</b>	<b>(394.8)</b>
1,017.4	Equity	761.7	(255.7)
4,823.4	Net debt	4,741.3	(82.1)
166.3	Other derivative financial instruments	200.6	34.3
11.1	Current tax	25.2	14.1
664.7	Deferred tax	559.3	(105.4)
<b>6,682.9</b>		<b>6,288.1</b>	<b>(394.8)</b>

# MOVEMENT ON SHAREHOLDERS' EQUITY

## Six months ended 30<sup>th</sup> September 2016

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At 1 <sup>st</sup> April 2016	1,018.5
Total comprehensive income for the period	(150.3)
Dividends paid to shareholders of Severn Trent Plc	(114.0)
Share based payments charge (after tax)	3.9
Shares issued	4.9
<hr/>	
<b>At 30<sup>th</sup> September 2016</b>	<b>763.0</b>

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# GEARING

## At 30<sup>th</sup> September 2016

31 <sup>st</sup> March 2016	Net debt/RCV <sup>1</sup>	30 <sup>th</sup> September 2016
62%	Severn Trent Group	59%
62%	Severn Trent Water	57%

1. Estimated RCV at 30<sup>th</sup> September 2016



# PBITD<sup>1</sup> ANALYSIS

## Six months ended 30<sup>th</sup> September 2016

2015 (restated) £m		2016 £m
417.5	Regulated Water and Waste Water	422.1
15.4	Business Services	21.6
(6.8)	Corporate and Other	(6.6)
<b>426.1</b>	<b>Severn Trent Group</b>	<b>437.1</b>

1. Profit from continuing operations before interest, tax, depreciation (see depreciation slide) and exceptional items

# DEPRECIATION<sup>1</sup>

## Six months ended 30<sup>th</sup> September 2016

2015 £m		2016 £m
152.1	Regulated Water and Waste Water	153.2
4.2	Business Services	5.5
(0.3)	Corporate and Other	–
<b>156.0</b>	<b>Severn Trent Group</b>	<b>158.7</b>

1. Including amortisation of intangibles

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

## Six months ended 30<sup>th</sup> September 2016

2015 £m		2016 £m
180.8	Regulated Water and Waste Water	193.3
7.2	Business Services	39.8
2.2	Corporate and Other	1.7
<b>190.2</b>	<b>Severn Trent Group</b>	<b>234.8</b>

*1. Including purchases of property, plant and equipment, intangible assets, proceeds on disposal of property, plant and equipment and contributions and grants received*

# BUSINESS SERVICES PERFORMANCE

## Six months ended 30<sup>th</sup> September 2016

Turnover			Underlying PBIT <sup>1</sup>			
2015 (restated)	2016	Variance	2015 (restated)	2016	Variance	
£m	£m	%	£m	£m	%	
134.1	<b>151.0</b>	12.6	As reported	11.2	<b>16.1</b>	43.8
9.2	–		Exchange rate impacts	(0.2)	–	
143.3	<b>151.0</b>	5.4	Like for like <sup>2</sup>	11.0	<b>16.1</b>	46.4

1. Before exceptional items

2. On constant currency excluding acquisitions and disposals

# NET FINANCE COSTS

## Six months ended 30<sup>th</sup> September 2016

	Income statement charge 2016 £m	Capitalised interest 2016 £m	Gross interest incurred 2016 £m
“Cash” interest (including accruals)	82.8	7.1	89.9
Net pension finance cost	5.5	-	5.5
RPI interest	9.8	0.9	10.7
	98.1	8.0	106.1

# NET DEBT

## At 30<sup>th</sup> September 2016

31 <sup>st</sup> March 2016 £m		30 <sup>th</sup> September 2016 £m	Variance £m
55.2	Net cash and cash equivalents	38.9	(16.3)
(1,249.8)	Bank loans	(1,178.8)	71.0
(3,539.7)	Other loans	(3,582.2)	(42.5)
(117.2)	Finance leases	(117.2)	–
–	Loans receivable from joint ventures	45.7	45.7
28.1	Cross currency swaps	52.3	24.2
(4,823.4)	<b>Net debt</b>	<b>(4,741.3)</b>	<b>82.1</b>

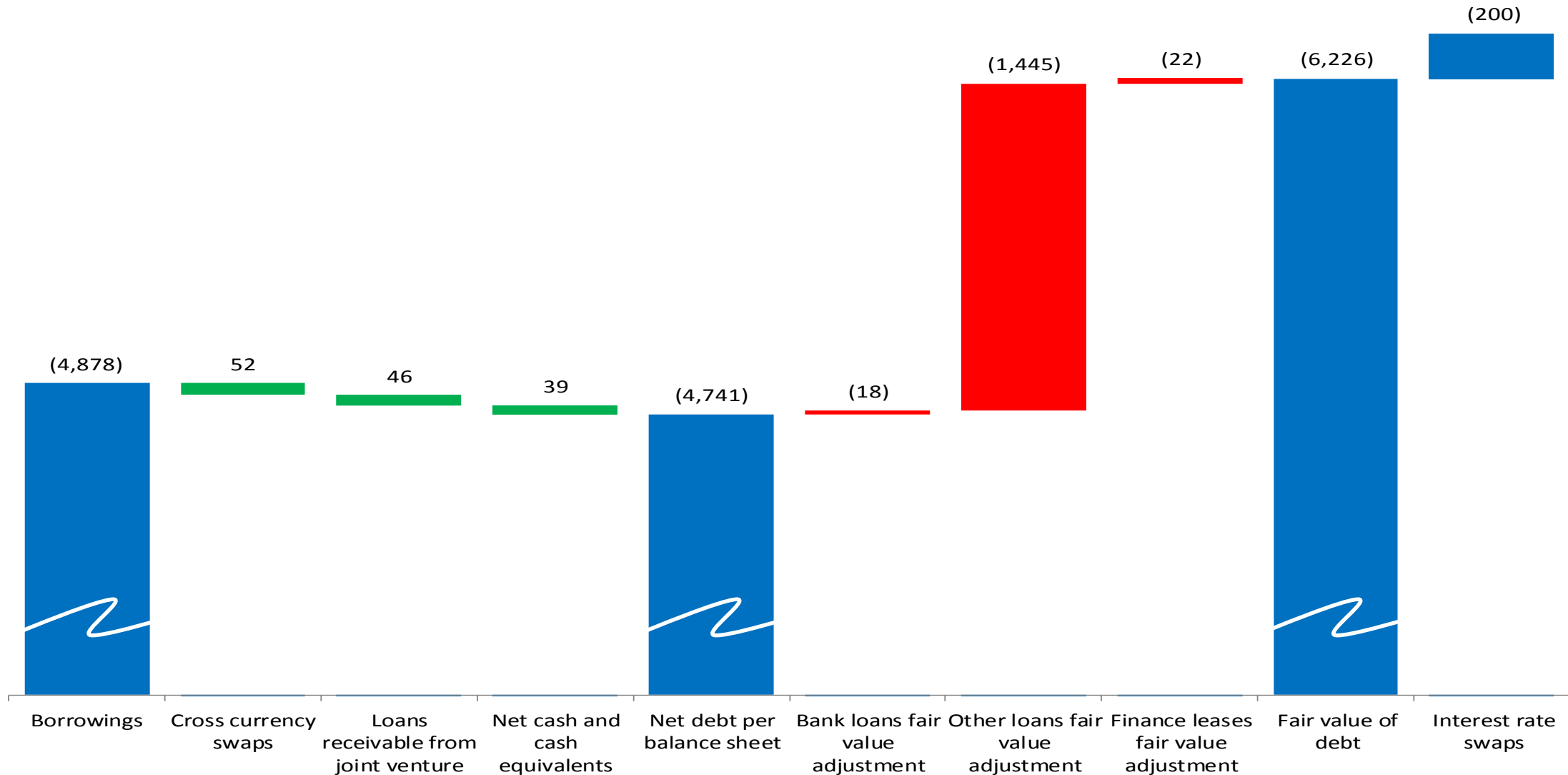
# FAIR VALUE OF DEBT

## At 30<sup>th</sup> September 2016

31 <sup>st</sup> March 2016 £m		30 <sup>th</sup> September 2016 £m	Variance £m
(1,257.2)	Bank loans	(1,197.0)	60.2
(4,387.1)	Other loans	(5,025.9)	(638.8)
(125.4)	Finance leases	(139.6)	(14.2)
(5,769.7)		(6,362.5)	(592.8)
55.2	Net cash and cash equivalents	38.9	(16.3)
–	Loans receivable from joint ventures and associates	45.7	45.7
28.1	Cross currency swaps	52.3	24.2
(5,686.4)	Fair value of debt	(6,225.6)	(539.2)
(4,823.4)	Net debt (previous slide)	(4,741.3)	82.1
(863.0)	Difference	(1,484.3)	(621.3)

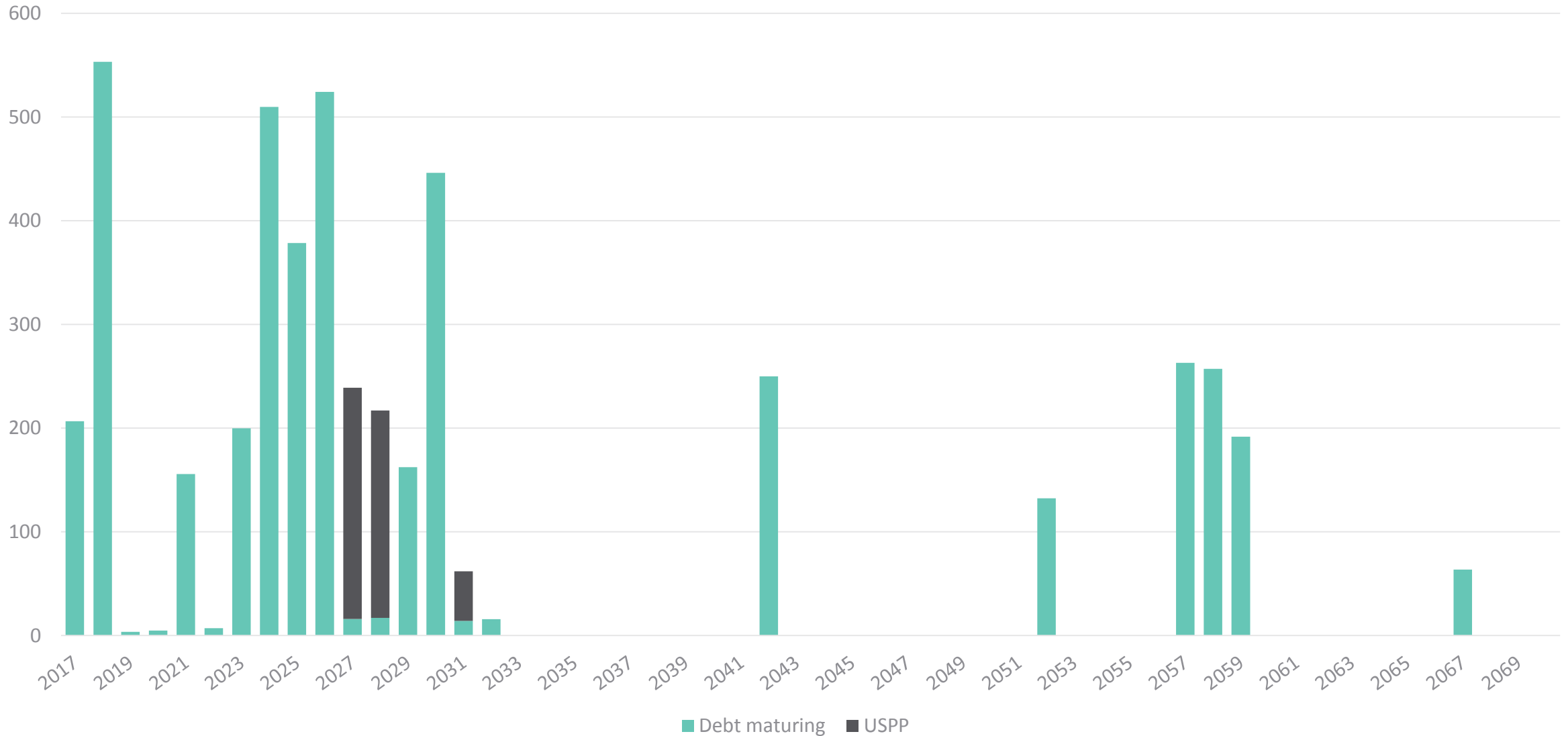
# ANALYSIS OF BORROWINGS, NET DEBT AND SWAPS

At 30<sup>th</sup> September 2016





# IMPROVING DEBT MATURITY PROFILE



# CREDIT RATINGS

## Severn Trent Water

## Severn Trent Plc

Moody's

A3

Baa1

Standard & Poor's

BBB+

BBB-

- Moody's – outlook is stable
- Standard & Poor's – outlook is stable

# HALF YEAR 2016/17 RESULTS

*24 November 2016*

Upper Derwent Valley, Peak District National Park

SEVERN  
TRENT