

CASE STUDY

FUTURE IS RENEWABLE

Using food waste to power our processes.

At our Coleshill sewage treatment works, we're turning food waste into enough electricity to make the site self-sufficient.

We've invested £13 million in an anaerobic digestion plant, which uses food waste from local businesses to create methane gas. We then convert this gas to green energy, sufficient to power over 4,000 homes or the whole of the works and more. Nothing is wasted, with plastic packaging going for recycling and the leftover material becoming fertiliser for local fields.

By digesting this food waste, we're preventing around 8,000 tonnes of carbon dioxide emissions each year. That's equivalent to taking 3,300 cars off the road. And we're enabling local businesses to save money and meet their environmental goals. The National Exhibition Centre is one of the first to send its food waste to Coleshill. We'll be taking around 120 tonnes of its waste each year, helping to ensure it sends zero to landfill.

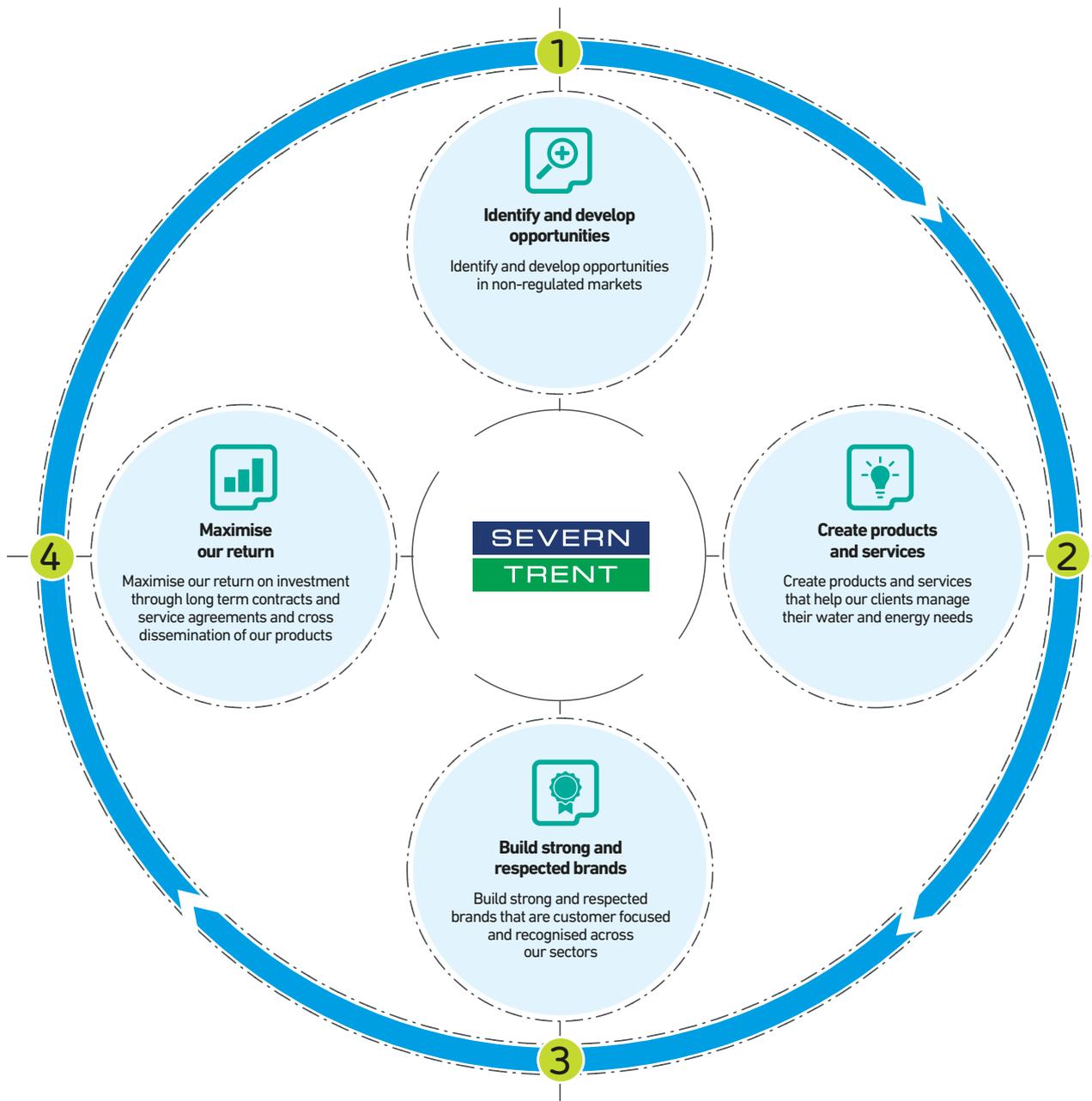


Non-regulated

Our business model

Our non-regulated business allows us to apply our water and waste water services knowledge to create and deliver services and products to UK and global municipal, industrial and commercial customers.

We also provide renewable energy to the group and are looking to identify new opportunities in energy generation.



Role



Identify and develop opportunities



Create products and services



Build strong and respected brands



Maximise our return



Associated risks

Severn Trent Operating Services

Operating Services analyses markets and works with customers to identify opportunities and markets where our capabilities can be applied for customers' and shareholders' benefit. In the UK we provide design, build and contract operations for water and waste water treatment facilities for a variety of industrial segments and supply retail water to businesses throughout the UK.

Our strategy is to continue growing our Operating Services business in the US and Europe. Water supply services across the UK are changing, with legislation giving businesses a choice from whom they buy their water and waste water services. Operating Services is pursuing this open market movement, helping businesses achieve optimum water and waste water management through enhanced services.

Severn Trent Operating Services is the largest private operator of facilities operated in the US, serving more than 321 facilities in 22 states. These facilities regularly win awards in areas such as environmental compliance, health and safety and overall plant performance. With water services licences for Scotland, England and Wales, we offer multi sited businesses the benefits and synergies of a single supplier approach.

We continue to enter new states in the US. In February 2015 OSUS was awarded a contract in Quincy, in the mid west region, replacing American Water. 2014/15 also saw the first year of our largest monetary contract to date in Bridgeport, Connecticut, while expanding our presence in California with the acquisition of 14 contracts from SouthWest Water Company. In the UK long term contracts with the Ministry of Defence (MoD) and First Milk provide continuing stability.

Hazardous processes may result in our people being injured (Principal Risk Ref 7). Failure of products or treatment processes may result in environmental damage and regulatory non-compliance (Principal Risk Ref 6). Regulatory or political change may lead to decreased demand for our services. We may be unable to take advantage of the opening up of the UK retail market to competition (Principal Risk Ref 2).

Renewable energy

Severn Trent generates renewable energy from anaerobic digestion (AD), wind turbines and some hydro. We are also expanding into the food waste market. Our new facility at Coleshill, UK, will convert up to 48,000 tonnes of food waste into 17,026 MWh of electricity and approximately 30,000 tonnes of biofertiliser for agriculture per year by 2016. We plan to investigate the development of other technologies including photovoltaics (PV) and biomass combustion.

In 2014/15 we will supply over 40,000 MWh of electricity and heat to our regulated business. Our new food waste AD business will provide a service for the recycling of industrial, commercial, retail and domestic food waste.

We are recognised as being experienced in the field of AD. Our expertise in this complex biological process means that we can be trusted to provide an excellent service.

We have established electricity and heat power sale/purchase agreements with our regulated business. We will be entering into long term contracts with the wider supply market to process food waste.

Hazardous processes may result in our people being injured. We may be exposed to increased volatility in energy prices. Regulatory or political change or local opposition to our plans may affect our ability to generate sufficient renewable energy to achieve our targets.

Non-regulated business performance review

Following the sale of our Water Purification business, we have reorganised and brought together our remaining non-regulated businesses – Operating Services US, Operating Services UK, including non-household retail and renewable energy – into a new Business Services division led by Andy Smith.

Severn Trent Services reported revenue rose by 2.9% to £216.3 million, with reported PBIT down 27.1% to £9.7 million. After adjusting for the impact of exchange rate movements, revenue was 4.6% higher and PBIT decreased by 27.1%.



The business benefited from a number of actions we took to position it for growth and greater efficiency. We moved from being an integrated business to three separate business units, each focused on its own markets and customer needs, and each under new leadership teams. ■■

Operating Services

Operating Services provides contracted operating services, to manage and maintain water and waste water plants and networks. It delivered revenue growth on the back of new contract wins in the US and the UK. Revenue in 2014/15 was £216.3 million, up 4.6% after adjusting for the impact of exchange rates.

In the US, we won a number of contracts in the Northeast and Pacific regions. We also benefited from the first full year of our contract in Bridgeport, Connecticut. This contract, which we won in 2013/14, is our largest in the US by monetary value, with annual revenues of £13.8 million over 10 years. We operate, maintain and manage two waste water treatment facilities, 10 pumping stations and nearly 300 miles of sewers. Our performance to date has been strong, which has helped us to build an excellent relationship with the client. Most recently, we have assisted with the development of a five year capital plan, to address the challenges of ageing infrastructure.

In the UK, we continued to pick up selected new retail business in Scotland, with contract wins in the healthcare, retail and leisure sectors. Our approach here is disciplined, focusing on winning profitable work and using the opportunity to develop our understanding of the market, ahead of the opening up of non-household retail competition in England from April 2017.

We are actively preparing for the introduction of competition in non-household retail in England. We now have new processes which will equip us to deliver outstanding service to customers.

Our 25 year, £1 billion operation and maintenance contract with the UK Ministry of Defence is now in its 10th year. We continue to work with our customers to find new ways to improve our performance. During 2014/15, we also won a major contract with the Coal Authority, to operate and maintain mine water treatment plants across the UK for the next 10 years.

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IMPROVING EFFICIENCY, COMPLIANCE AND UNION RELATIONS



Our US Operating Services business has a 10 year contract to help the city of Bridgeport, Connecticut, meet the challenges of ageing plants, a struggling sewer system and improvements to safety and compliance. Since we started work in January 2014, we've built productive relationships with all five labour unions, by aligning our goals with theirs and the client's. This has helped us achieve outstanding regulatory compliance, enabling the city to sell credits under the state's Nitrogen Credit Exchange Program.

Renewable Energy

During the year, we continued to build our industry leading position in renewable energy generation. We sell the energy we create to power our regulated business' operations, with the surplus sold to National Grid.

Key developments during the year included opening our 'gas to grid' plant at Minworth, Birmingham. This plant is the first of its kind in the water industry, and injects the gas generated from the anaerobic digestion of sewage sludge into the national grid. As well as being a source of revenue for us, this has important environmental benefits by enabling power stations to turn the gas into electricity more efficiently than we could on-site. Our first food waste digestion plant, at Coleshill, Warwickshire, began generating electricity in December 2014.

We will invest in solar energy, making use of surplus land on or around operational sites.

Outlook

We believe Severn Trent Business Services has a number of attractive growth opportunities and that we've positioned the business to take advantage of them. In Operating Services, our preparations for non-household retail competition in England are going well, and we see potential in the US market, which is showing signs of opening up, as described on page 16.

We'll continue to invest in our renewables business, with the aim of increasing our external sales and providing around 50% of Severn Trent Water's energy needs by 2020. We intend to expand energy production from food waste, to upgrade our sewage anaerobic digestion to the latest technology and to add solar generation, with technological developments having made this more economically attractive.

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CASE STUDY

Taking the lead on environmental performance.

Our customers and other stakeholders value healthy rivers and want us to continue improving our local environment. That's why environmental performance is central to our plans.

We've invested more and achieved another record breaking year at our waste water treatment works. Of more than 700 sites, 99.9% met their compliance limits.

We've also further reduced the number of pollution incidents, by improving the way we work and launching new training for our people and subcontractors. Our environmental performance over the last year places us amongst the best in the industry. We'll continue to work hard to improve our local environment, with our plan for AMP6 including no fewer than 12 performance commitments.

FUTURE IS PROTECTING



Strategic report

Governance

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Company financial statements

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