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Severn Trent Plc

Annual Report and Accounts 2016

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2016 highlights

Turnover	£1,786.9m 2015:	£1,801.3m
Group Underlying Profit Before Interest and Tax	£522.8m 2015:	£540.3m
Group Profit Before Interest and Tax	£523.8m 2015:	£521.6m
Dividend per share	80.66p 2015:	84.90p
Underlying earnings per share	108.7p 2015:	107.2p

Financial Performance

Underlying EPS	up 1.4% year on year
Underlying Group Profit Before Tax	£313.6 million up 4.4% year on year
Group Profit Before Tax	£322.3 million up 117.5% year on year

Focus on operational improvement:

Net Award	£23.2m In 2012/13 prices pre tax
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Confidentiality statement

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.

Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Subject to compliance with applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so.

Nothing in this document should be regarded as a profits forecast.

This document is not an offer to sell, exchange or transfer any securities of Severn Trent Plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the US absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).

Our vision is **to be the most trusted water company by 2020**, delivering an **outstanding customer experience, best value service and environmental leadership**.

Our purpose is **to serve our communities and build a lasting water legacy**.

Digital First

Visit our online Annual Report to see how we have performed and how our strategy will help us achieve our vision of being the most trusted water company by 2020.

ar2016.severntrent.com

What we do

Serving our customers and communities

We are committed to putting customers at the heart of all we do. Our customers will always come first in our thinking and planning as we deliver our day-to-day business, working together tirelessly to serve our communities.

Building a lasting water Legacy

We are dedicated to ensuring a sustainable future for water and our environment. By recognising the growing challenges and pressures on resources; by investing in smarter, more efficient ways to supply the network and by adopting greener, renewable energy to support our operations, we demonstrate a commitment beyond serving the needs of today to securing a legacy for generations to come.

Earning the Trust of all

We are committed to earning the trust of everyone we serve. We will do this by transforming our service today, driving operational improvements and shaping the future of our industry for tomorrow, for the mutual benefit of our customers, communities, investors and employees.

Severn Trent provides clean water and waste water services through our businesses, Severn Trent Water and Severn Trent Business Services

Regulated Water and Waste Water

Wholesale operations and engineering

Household customer services

For further details

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About us

One of the largest of the 10 regulated water and waste water companies in England and Wales. We provide high quality services to more than 4.3 million households and businesses in the Midlands and mid-Wales.

Severn Trent Business Services

Business retail and operating services

Green energy

New water markets

For further details

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About us

UK Operating Services (incl. Italy and Ireland)

UK Operating Services provides contract services to municipal and industrial clients and the UK Ministry of Defence ('MOD') for design, build and operation of water and waste water treatment facilities and networks. Retail services are also provided to UK businesses.

US Operating Services

US Operating Services provides contract services to community, municipal and industrial clients for the operation and maintenance of water and waste water treatment facilities and networks.

Renewable Energy

Severn Trent Business Services generates renewable energy from wind turbines, anaerobic digestion, hydropower and solar technology.

Where we operate

Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from mid-Wales to the East Midlands.

Key facts

Turnover	£1,506.1m
Profit*	£492.1m
* Before interest, tax and exceptional items	
Households and businesses served	4.3m
Litres of drinking water supplied each day	1.8bn
Litres of waste water collected per day	1.4bn
Employees	5,080 as at 31 March 2016

Severn Trent Business Services includes our core businesses operating in the UK, the US, and Europe.

Key facts

Turnover*	£674.6m
Profit*, **	£38.2m
Employees	1,968 as at 31 March 2016

* New segmental basis

** Before interest, tax and exceptional items

Chairman's statement

Underlying Group PBIT*	£522.8m
Dividend	-5.0%
Dividend for the year	80.66p

* Before exceptional items

This has been another positive year for Severn Trent. We have embraced the new regulatory environment put in place for Asset Management Plan 6 ('AMP6') and are seeing the fruits of our preparation and hard work in improved service to our customers and the returns we can deliver for our shareholders.

Embracing regulatory change

Following a robust regulatory challenge with Ofwat at the end of 2014, we started AMP6 with a new regulatory framework that we believe will better align the interests of our customers, employees and investors through incentive mechanisms which seek to drive the right behaviours.

In 2015 we replaced our existing employee surveys into a single global survey. For its first year we are delighted that response rates have remained strong with the overall response rate at 80%.

Under the stewardship of our Chief Executive, Liv Garfield, Severn Trent planned and prepared well for the changes to our regulatory measures for the current AMP and I am pleased to see that this is delivering early positive results.

Last year we restructured and simplified our business by bringing our water and waste water operations together into one division. We now also have in place a restructured and refreshed management team with the right balance of experience and skills that will enable us to differentiate ourselves on a clear path to achieving our vision of being the most trusted water company by 2020. We have also simplified the management structure of our business, removing unnecessary layers from the organisational structure, giving our managers increased responsibility and empowering them to make the right decisions, enabling us to refocus our resources more towards front line services for our customers.

I am particularly pleased to see us making good progress on some of our performance commitments which were agreed with our customers as part of the price review process. Not only do they clearly demonstrate our engagement with the new regulatory incentives, but they also reward us for delivering the things our customers tell us are most important to them – reaffirming our core value of putting our customers at the heart of all we do.

Regulation in our industry is ever evolving, never more so than in the current period. The non-household retail market is due to open to competition in 2017 and we have swiftly moved to provide the best offering to customers in this market through Water Plus, our joint venture with United Utilities. This will see us combine both of our business retail operations into a new focused operation, based in Stoke-on-Trent. Leveraging our combined experiences of successful operations in Scotland will enable this joint venture to deliver benefits and efficiencies and service quality to customers when the market opens next year.

We have long been industry thought leaders through our Changing Course series of publications and have continued that trend this year with the publication of our latest report, Charting a Sustainable Course. This aimed to shine a light on the main policy issues facing the water sector and promote a constructive debate about its future. We have been encouraged by the way Ofwat is progressing its thinking on a number of fronts, including further developing the role of Outcome Delivery Incentives ('ODIs'), sludge trading and water trading.

During the terrible flooding which hit homes and businesses over the Christmas and New Year period, we helped our fellow affected water companies in getting the essential water services back up and running. We have also been engaging with the Government on a number of ways in which water companies can help the Environment Agency improve flood defence to limit the impact of such events in the future.

Delivering returns

Total Group revenue fell by 0.8% to £1,787 million, while underlying Group PBT increased by 4.4% to £314 million. This resulted in underlying earnings per share of 108.7 pence, up from 107.2 pence last year.

Having agreed a tough regulatory settlement for AMP6 at the start of the financial year, we revised our Dividend Policy for the five year period. As a result, your Board is proposing a final dividend of 48.40 pence per share to be paid on 22 July 2016. This will take the total dividend for the year to 80.66 pence per share. This is 5% lower than last year and will enable us to grow it at least in line with Retail Price Index ('RPI') over the remainder of AMP6.

Investing for the future

We are undertaking our largest ever investment programme in this AMP, with a capital investment programme of £3.5 billion. This includes one of our most significant projects to secure the supply of water to Birmingham for generations to come, through our Birmingham Resilience project. This £300 million project will deliver resilience to the existing Elan Valley Aqueduct, currently the sole supply of water to the city of Birmingham, enabling much more comprehensive maintenance projects on this feat of Victorian engineering.

Serving communities

This is an example of an infrastructure project that not only benefits our customers and shareholders, but also makes important economic, social and environmental contributions to our regions.

Our investments this AMP will also include up to £190 million in renewable energy which will see us producing the equivalent of 50% of our energy needs from renewable sources such as solar, wind and anaerobic digestion, by 2020. We already self-generate energy equivalent to 33% of our needs, and we are proud to be leaders in our industry in this field to help ensure safe, sustainable sources of energy for future generations.

Our colleagues

Our success is attributable to the fantastic work of our colleagues right across the business. It reflects the work being done each and every day to improve the services we provide to our customers and I would like to thank them for this hard work and dedication in delivering a better outcome for our customers and for the environment.

Looking forward

Strong foundations have been laid leading into AMP6 and I am pleased to report that your business is in good shape, embracing, leading and adapting to the changes in our industry.

Following year end, we announced changes to the composition of our Board and I am confident that these changes will enable us to continue to deliver rewards for our customers, communities, shareholders and their stakeholders. More information can be found in the Governance report on pages 64 to 105.

Andrew Duff

Chairman

The markets we are focused on

Wholesale operations and engineering

What do we mean by this

Regulated water and waste water infrastructure and non infrastructure assets.

Household customer services

Customer services for household customers in the UK.

The values we need to be successful

We put our customers first

What do we mean by this

We're here for our customers 24/7. We want to create a relationship based on empathy and respect.

We are passionate about what we do

What do we mean by this We're passionate about the work we do and our expertise. We go the extra mile for customers and team mates.

Business retail and operating services

Customer and operating services for our business customers in the UK and overseas.

Green energy

Renewable energy generation including gas to grid, food waste biodigestion, wind and solar power.

New water markets

Opportunities in sludge trading, water trading and upstream competition.

See our Market and industry overview Page 13

We act with integrity

We strive to do the right thing by being transparent and honest in all that we do.

We want to create a better future for all.

We protect our environment

We're committed to a cleaner, greener future, protecting and improving our environment for generations to come.

We are inspired to create an awesome company

We'll all work together to be creative and to make special things happen.

See our performance reviews Pages 28 and 36

Market and industry overview

Achievements

It is just over 25 years since the English and Welsh water and waste water industry was privatised in 1989. Since then the industry has made significant progress through innovation, greater efficiency and a substantial increase in investment on pre-privatised levels. Investment to date is £108 billion.

This investment has helped to deliver real improvements for the industry's 50 million household and non-household consumers. Leakage has reduced by 35% since the mid-1990s, sewer flooding is 75% lower than a decade ago, and 99.96% of drinking water and 95.4% of bathing waters now meet European Union ('EU') standards. At the same time, it is estimated that industry-wide efficiencies have kept customers' bills £120 lower on average than they would otherwise have been.

Severn Trent Water Limited, our regulated business, is proud of the part it has played in these achievements as one of 18 regional suppliers. Ten of these, including Severn Trent Water Limited, provide water and waste water services. The remaining eight provide water only.

Challenges

Our industry, the environment in which we work, and the needs of the customers who we serve, continue to change. And while these changes present, as we see them, fantastic opportunities, there remain challenges.

Our customers' expectations are ever changing, not least how they'd like to communicate with us. Innovation in channels such as webchat and social media are transforming our industry beyond anything contemplated at the time of privatisation. At Severn Trent Water Limited, we're committed to serving our customers 24 hours a day, using channels that are convenient to them, and that means being a leader in this new digital world.

While meeting 21st century expectations, we also have to deal with the realities of an infrastructure that dates back, in some cases, to the early 20th century. Over the next five years, we're investing £700 million in repairing and, where necessary, replacing parts of our infrastructure to leave behind an even better set of water and waste water services for the next generation.

Increasing our network's resilience is also a priority. Extreme weather associated with global warming is likely to have a major impact on how we operate and how and where we invest. We're committed to building resilience against, and adapting to, flooding and drought in our plans. Our biggest capital investment over the next five years, the £300 million Birmingham Resilience project, is just one example of how, by creating a second source of water for the UK's second largest city, we're working to safeguard our customers' future supplies.

Meanwhile the UK's population continues to grow, and new households and businesses will place greater demand on our water and waste water services. Severn Trent Water Limited currently serves 4.3 million households and businesses and it is our responsibility to invest carefully to ensure that we have the right infrastructure and resources in place to meet their needs.

And, underpinning all these challenges, we must continue to be able to finance our future investment needs in a sustainable way, so that we can keep offering affordable bills to our customers, and create value for our investors.

Our biggest capital investment over the next five years, the £300 million Birmingham Resilience project, is just one example of how, by creating a second source of water for the UK's second largest city, we're working to safeguard our customers' future supplies.

A changing regulatory landscape

The industry in England and Wales operates in a policy framework where standards shaped by the European Union ('EU') are implemented by the Department for Environment, Food and Rural Affairs ('Defra') and the Welsh Government respectively.

The Drinking Water Inspectorate ('DWI') oversees the quality of drinking water, and the Environment Agency, and its Welsh counterpart, Natural Resources Wales, licence water abstraction, and regulate river pollution and flooding.

The Consumer Council for Water, which represents the industry's customers, and Natural England which protects England's natural environment, play an important part of this framework.

It is perhaps in the economic regulation of the industry, where, in recent years, we have seen some of the most notable changes.

Ofwat, the industry's economic regulator, sets limits on the prices we can charge our customers over five year periods. These five year regulatory planning cycles, are known as Asset Management Plan ('AMP') periods. This financial year was the first of AMP6, which started on 1 April 2015.

Our planning for AMP6 concluded in 2014 when Ofwat carried out its 2014 price review ('PR14'). In our view, PR14 represented the most significant development of the economic regulation framework since privatisation. Ofwat sought to put greater responsibility on companies to develop their plans in consultation with customers, giving them a stronger voice in determining the future of their services.

To reinforce this customer-centric approach, Ofwat changed the nature of incentives within the price setting framework. By introducing Outcome Delivery Incentives ('ODIs'), Ofwat better aligned the interests of companies with those of their customers using performance-related penalties and rewards. Ofwat also encouraged companies to look at the whole life costs of their assets (by switching to a total expenditure cost assessment ('Totex')), and provided stronger incentives for companies to press for further efficiencies. Details about our ODIs can be found on pages 26 and 27.

Our AMP6 plans, driven by our determination to embed customers at the heart of all we do, embraced these changes. Our regulated business performance review on page 28 sets out how well we did during the first year.

Contributing to the future of regulation

The regulatory framework within which we operate continues to evolve. Ofwat consulted on its future proposals for the sector in its Water 2020 document. In establishing its proposals, Ofwat encouraged water companies to contribute to a 'marketplace of ideas'. We contributed to this on access pricing, the allocation of the regulatory capital value ('RCV') and indexation.

In September 2015, we also published Charting a Sustainable Course which set out our vision for the future of the water sector. This built on our previous series of Changing Course thought leadership publications. The Ofwat Water 2020 document is aligned with a number of our proposals including developing markets for sludge trading and water resources.

For the most part we are very supportive of the proposals. We believe that they will help us deliver our vision to be the most trusted water company by creating a much stronger emphasis on companies competing to deliver the best service for their customers.

Overall we think the reforms proposed by Ofwat have the potential to deliver enormous benefits to customers through lower prices and higher service levels. The ideas around sludge competition are perhaps the most exciting given recent technological developments and we think they will help promote a more innovative and sustainable sector.

We have suggested some improvements to the proposed package of reforms, particularly around sludge, direct procurement and the proposed transition to CPI.

The most significant immediate change to the framework within which we operate is the introduction of retail competition for non-household customers in April 2017. This will enable businesses, charities and other non-household customers to shop around for what they consider to be the best deal in water supply. Severn Trent welcomes the introduction of competition and the potential to win new customers. The Government has also asked Ofwat to look at how this choice might be extended to households and we welcome this review and are engaging with Ofwat to support its analysis.

A sustainable company

The central issues as we see them are around ensuring we continue to chart a sustainable course:

- empowerment for customers in decisions about their water services;
- affordable services for customers in the long term;
- a more resilient sector for water resources;
- flooding and drainage challenges, particularly during a period of climate change;
- cost-effective delivery of further improvements to the environment;
- innovation and market solutions to benefit customers; and
- working with partners across the community to deliver the most efficient and effective solutions.

Industry stakeholders and regulators are involved in a continual, constructive debate on how best to meet the changing needs and aspirations of our customers. We are proud that Severn Trent is among the leaders in that debate.

The most significant immediate change to the framework in which we operate, is the introduction of retail competition for non-household customers in April 2017.

Chief Executive's review

Transforming Customer services

This has been a promising year at Severn Trent as we embrace the new regulatory environment. However, there remains much to do to ensure that we are consistently delivering great service for our customers each and every day to achieve our vision of being the most trusted water company by 2020.

Embracing change

I firmly believe that if you embrace change in a regulated business such as ours you will be a winner. I also firmly believe that if you start with the customer and deliver a better service for them, you will drive improvements throughout the business and be rewarded for doing so. The new regulatory emphasis that rewards companies for doing the right thing for customers, improving services and being more efficient fits exactly with our strategic framework. Our framework outlines five areas of embedding customers at the heart of all we do: driving operational excellence and continued innovation; investing responsibly for sustainable growth; changing the

market for the better; and creating an awesome place to work. Focusing on these actions will, we believe, enable us to become the most trusted water company by 2020.

Watch now

Watch a video of Liv on our investor area of our site: ar2016.severntrent.com

Liv Garfield

We planned and prepared well for these changes. For example, we sought to embed the principle of performance commitments and Outcome Delivery Incentives ('ODIs') across the business ahead of implementation, enabling us to assess what needed to be done to deliver operational improvements and ultimately improved services for customers.

This approach has enabled us to deliver some significant milestones this year and make some great strides in operational improvements. For example, we have reduced the number of sites with coliform failures by 62% and incidents of internal sewer flooding by 31%. These improvements have been achieved through a number of initiatives, such as pre-emptive work on known problem areas or by working with customers to reduce materials that cause blockages, such as fats being disposed of in drains. By being proactive in managing our network we can prevent problems occurring in the first place, which improves services for customers as well as enabling us to operate more cost-effectively and be rewarded for doing so. This type of thinking has seen us exceed our initial expectations and earn a reward of £23.2 million under the ODI mechanism this year.

That said, we still have much to do to improve the quality of our service for our customers. We had two significant unsatisfactory incidents during the year. In February, a burst water main in Nottingham saw more than 7,000 customers without water for over 12 hours. In March, an incident at our Castle Donington reservoir affected 3,700 customers on the Derbyshire and Leicestershire border, the majority of which were able to use their water supply within 24 hours. These incidents show that there remains much work to be done to consistently deliver the high quality levels of service that our customers rightly deserve.

Our aim is to lead our sector in how we manage energy. We aim to generate more renewables, use less energy from the grid and pay the lowest prices where we are not generating our own. Over the last 12 months we have generated an extra 44GWh compared to 2014/15, which is an increase of 17%. We now generate an equivalent of 33% of our consumption.

Making the business better for customers requires us to look at all parts of our business. With a new management team in place we have been able to review our cost structures including how and where we spend our money. This has not only enabled us to lock in our £372 million (at 2012/13 prices) efficiency target set by Ofwat, but also to map out an additional £260 million of efficiencies, at nominal prices, that we can deliver over the course of the AMP. About half of this we will re-invest back into the business to improve water quality, security and service to vulnerable customers. These changes will not only make the business better, but cost less to run for customers and easier to manage for our colleagues. We want to be leaders in our industry and these improvements will serve us well on the journey towards maintaining our position at the frontier of efficiency of waste water and help us move closer to our ambition of upper quartile efficiency in water when compared to other UK water and waste water companies. In our Business Services division we continued to see growth in turnover and profits.

Our regulator has started to further utilise markets in some downstream activities with the introduction of non-household retail competition in England. We think the best way to win in this market is to offer customers a cost-effective, service driven operation at scale and we have created a joint venture with United Utilities to achieve this. Water Plus, the new operation is based in Stoke-on-Trent and will combine the complementary skills of both companies in customer service, billing and debt management systems to deliver an outstanding customer service to non-household customers. I am very excited by the opportunity this innovative approach will bring for customers and shareholders alike.

All of this activity has been done against a backdrop of further reductions in customer bills with the average combined water and waste water bill for our customers being £329 p.a., once again the lowest in Britain. Our

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customers pay less than £1 a day for all their clean and waste water services. Of course water is an essential commodity and we must do all we can to ensure that vulnerable customers have access to all that we can offer. So I am delighted that our Big Difference Scheme has doubled the number of vulnerable customers we have helped this year. If everyone pays their fair share, then all customers get a better deal, so I am pleased to see that we have also further reduced bad debts again this year.

Lowest average combined bill 2015/2016	£329
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Internal Sewer Flooding	-31%
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Continuing our strong track record of delivery from last year, we have achieved sector leading environmental performance again, having been awarded a provisional Environment Agency 4* rating in their Environmental Performance Assessment, demonstrating that we continue to respect our environment and are viewed as industry leading when benchmarked against our peers.

Engaged workforce

None of this intense activity would have been possible without the hard work and dedication of all of my colleagues across the business. I could not be more proud of the way they have risen to the challenges, embraced change and delivered a better service for our customers. I thank them all wholeheartedly.

I firmly believe that helping our colleagues to do their job more easily and effectively will not only make their lives better, but also improve the service we deliver to our customers. So I am pleased that despite some tough choices, we instigated a number of initiatives to simplify processes and management structures. By doing this we have empowered our colleagues to take the right action for our customers. Deploying digital tools, such as smartphones and tablets, as well as introducing apps, helps speed up processes and reduce costs. For example, a new app enables our teams out in the field to photograph, map, spec and log work that needs doing in a fraction of the time taken previously and improves scheduling and deployment of resources. We have also introduced new ways for our customers to interact with us, such as webchat with 100,000 chats this year already. Improving the management of, and access to, supplies and assets means that our teams can more easily get hold of the materials they need to complete jobs in a more timely manner. These are just a few of a number of changes we have introduced that are helping our colleagues do a better job for customers and there are many more that we will introduce in the years ahead.

Our colleagues' health and safety ('H&S') is an on-going priority and on H&S measures we have seen operational improvements with a reduction of 20% in accidents this year.

Alongside all this, we have aligned bonus structures across the business, with everyone rewarded for delivering the same three key metrics – profit, customer service and operational performance, and health and safety. This means that everyone is incentivised to work towards common goals, ensuring greater cohesion of objectives.

Delivering returns

I am delighted that all of our hard work is delivering for our investors. We measure ourselves against four key measures of potential outperformance, three of which I have discussed above: ODIs, Totex and Renewables. James Bowling, our Chief Financial Officer, discusses the fourth, Financing, in more detail in the Financial review, and through his careful stewardship I am pleased to see that we are on track to deliver outperformance on this, too.

ODIs, Totex and Financing are key enablers for us to deliver outperformance on our allowed return on regulatory equity (RoRE). This year we have achieved 8.4% RoRE. We see this as an important measure of the quality of our earnings as it reflects not only regulatory requirements, but in our case, the significant improvements in underlying services provided to customers as measured by ODIs. This approach, we believe, holds us in good stead to deliver for all of our stakeholders in the years ahead.

I firmly believe that if you embrace change in a regulated business such as ours you will be successful, and that if you start with the customer and deliver a better service for them, you will drive improvements throughout the business and be rewarded for doing so.

Thinking outloud

- 1 Our 'Thinking Out Loud' initiative gives a voice to employees across all business areas, enabling them to share their awesome ideas and to make a difference in company decisions.
- 2 Severn Trent achieved sector leading environmental performance again, having been awarded a provisional Environment Agency 4* rating for environmental performance.

Looking forward

This has been a year with some significant achievements for Severn Trent. However there remains much to do. We will continue to prioritise water quality. We want to deliver the best quality possible to our customers. This will require us to remain obsessive about the provision of wholesome water and deliver continuous improvements.

We will continue to embrace regulatory change. We are well placed for the forthcoming changes to the non-household retail market and are engaging with Ofwat about the further opening up of competition in parts of our value chain, in particular in relation to sludge trading.

We have one of our largest ever asset-creation programmes underway for this AMP, which includes the Birmingham Resilience project, a major scheme that will secure the future supply of water to Birmingham for many years to come. Alongside this we will continue to invest in maintaining and upgrading our network as well as delivering our renewables programme. In fact, this is one of our largest investment periods in our history which will see us invest £3 billion, delivering one of the biggest increases in asset value across the sector.

These ambitious plans of course require us to continue to invest in our colleagues. We will invest further in digital technology for our teams to help make their jobs easier and more efficient. Our apprenticeship and graduate schemes will increase in size this year, which alongside our technical training schemes will ensure Severn Trent is equipped to serve the needs of our customers for the next generation and beyond.

Customers remain firmly at the heart of everything we do with a focus on doing the right thing for them each and every day. I am extremely privileged to be a part of this great company, to work with such a fantastic team of people and to ensure the sustainability of such an important service for customers.

Liv Garfield
Chief Executive

Our long term strategy is to transform customer services today, drive growth, and shape our industry for tomorrow, for the mutual benefit of our customers, communities and investors.

Read the following pages to see how we are doing it and the progress we have made in the past year.

How we are achieving our strategy

Our purpose is to serve our communities and build a lasting water legacy. It is our vision by 2020 to be the most trusted water company: delivering an outstanding customer experience, the best value service and environmental leadership. How we plan to achieve this strategy is set out below.

Embed customers at the heart of all we do		
What do we mean by this?	Our progress in 2015/16	Areas focus for 2016/17
We'll improve the way in which customers engage with us through improved insight and understanding of what's important to them. Page 21	- Expanded digital channels and apps – launched webchat and Facebook, launched Track My Job and In My Street apps - Improved operational performance - Resolved longstanding legacy issues and improved case management - Simplified customer experience by reducing contact numbers and simplifying our automated telephony	Refresh online experience for customers - Expand personalised service and vulnerable customer offering - Improve customer contact centre effectiveness through cross-skilling our agents - Expand proactive customer communications
Drive operational excellence and continuous innovation		
We'll build a smart water and waste water network and relentlessly look at ways to improve operational performance and customer service levels. Page 22	- We have made positive steps in our energy efficiency, investing in our first Thermal Hydrolysis Plant during the year - We have embedded communities of practice to bring together experts from across the Company and empower them to drive improvement - We have aligned performance reporting to focus on what our customers value (ODIs)	- We will continue to work on our energy profile, both usage and generation - We will continue to focus on improving information to drive better customer outcomes
Investing responsibly for sustainable growth		
We'll develop an effective strategy which optimises our regulated asset base, whilst creating new growth opportunities for the future. Page 23	- We have started our Proactive Asset Management programme focused on investing at the right time and cost to maintain and enhance the long term health of our assets - We continue to investigate new technology and process innovation which brings improved customer delivery at reduced cost	- Careful management of our investment programme to deliver high value projects on cost and on time - Selected investments in new technology to enhance customer delivery or reduce costs

What do we mean by this?	Our progress in 2015/16	Areas focus for 2016/17
Change the market for the better		
We'll embrace market opening in England and explore opportunities for growth in new water markets worldwide. Page 24	- We have laid the foundations for the retail market opening in our structures, creating a market facing unit and commercial pricing and delivery model - We have begun developing the right operating model to prepare for potential sludge market opening	- Readiness for shadow operation of the retail market, followed by successful market opening in full - Continued work on sludge market opening structures and models
Creating an awesome place to work		
We'll create a culture of empowerment and accountability with a focus on skills, talent and career development. Page 25	150 of our Team Managers completed our new Awesome Leaders Programme designed to help them engage and empower their teams to drive high performance - We have redesigned our annual opinion survey – QUEST – to provide better data to managers about engagement levels in their teams to focus their action planning	- A further 300 Team Managers will have completed the Awesome Leaders Programme by the end of July 2016 - We will double our intake of graduates and apprentices in 2016 to build our talent pipelines for the future

Strategy in action

Embed customers at the heart of all we do

Enhancing customer experience through digital channels has been a key priority for us this year and we've added real value for our customers, particularly through our new webchat facility. As an example, we recently assisted a customer whose husband had passed away and needed a change of name processed on their account. The webchat service made this easy to do and avoided her having to talk about the loss of her husband on the telephone. The changes were made in minutes and the ease of service shows how we're expanding our channels to continuously put customers at the heart of all we do.

We are excited to help as many customers as we can in ways they find the most convenient for them. Further information on customer engagement can be found on page 32.

Drive operational excellence and continuous innovation

We have begun an exciting programme of investment in renewable energy technology, aiming to generate 50% of the electricity we use from renewable energy by 2020. A component of this plan is building solar photovoltaic arrays on unused land at our water and waste water treatment works.

One of the largest of these is at Barnhurst Treatment Works in Wolverhampton, where a 2.8MW array of 11,000 solar panels has been built to provide electricity for the equipment we use. This covers an area equivalent to four football pitches, generating enough electricity to power the equivalent of around 800 homes! Further information on our renewables initiatives can be found on page 39.

Investing responsibly for sustainable growth

The Water Framework Directive is driving the need for phosphorus removal from sewage to very low levels. As current UK technologies are unlikely to be capable of achieving this, we have invested in a ground breaking trial at our Packington Sewage Treatment Works to investigate potential alternatives, including low energy, no chemical and phosphorus recovery technologies.

Around £120 million investment in AMP6 to remove phosphorus from over 100 sewage treatment works will help ensure we invest in technologies capable of delivering effective solutions, whilst saving costs.

Change the market for the better

In March 2016, we announced our joint venture, Water Plus, with United Utilities which combines our non-household retail businesses, centrally located in Stoke-on-Trent. With the non-household retail market in England opening for competition in 2017, this joint venture will combine the complementary skills of both companies, including sales, customer service, business strategy and credit management, to deliver an attractive proposition for large and small business customers across England and Scotland. Bringing our businesses together creates synergies to provide an efficient and cost-effective operation focused on improved customer service and growth.

Creating an awesome place to work

This year we launched our first ever Wellbeing Programme, proactively investing in the health and wellbeing of our colleagues resulting in benefits such as higher levels of staff engagement, improved productivity and reduced absence to name a few. Employee support for the programme has been very high and throughout the year we have undertaken a number of initiatives, including healthy heart days, skin check clinics, healthy eating promotion, skipping challenges and wellbeing kiosks. Our biggest success so far has been our Pedometer Challenge which was held in December 2015 and saw 20% of the business taking part. For more information about our Wellbeing Programme please see page 63.

Progress against our Outcome Delivery Incentives

We continue to make progress against our ODIs and financial KPIs.

1. Embed customers at the heart of all we do

Internal sewer flooding		External sewer flooding		Minutes without supply	
Actual	804	Actual	7,142	Actual	11.17
Reward/Penalty	1,014	Reward	7,452	Reward	12
		Penalty	7,639	Penalty	14.5
Rate of Reward/Penalty (per incident)	£42,280 ¹	Rate of Reward/Penalty (per incident)	£19,779 ¹	Rate of Reward/Penalty (per minute)	£1.10m ¹
Why we measure it		Why we measure it		Why we measure it	
To ensure we do everything we can to prevent flooding of customers' homes or businesses. It is one of our customers' most important priorities.		To ensure we do everything we can to prevent flooding of customers' homes or businesses. It is one of our customers' most important priorities.		Our customers value water being there when they need it. This performance commitment ensures we are driving down the impact of any interruptions to supply across our network to minimise the impact on customers.	
Progress in the year		Progress in the year		Progress in the year	
We are reporting a performance of 804 internal incidents against our		We are reporting a performance of 7,142 external incidents against our		We interrupted customers' supplies for an average of 11.17 minutes	
Strategic report					

committed performance level
of 1,014 incidents.

committed performance level
of 7,639 incidents.

(11m 10s) in 2015/16. We are
ahead of our performance
commitment of 13.6 minutes
(13m 36s).

2. Drive operational excellence and continuous innovation

Improvements to river water quality		Number of pollution incidents		Successful catchment management schemes	
Actual	0	Actual	293	Actual	0
Reward/Penalty	233	Reward	374	Reward Penalty/Reward	12
		Penalty	457	Reward Cap	21
Rate of Penalty/Reward (per unit)	£150,000 ¹	Rate of Reward/Penalty (per incident)	£53,900 ¹	Rate of Penalty/Reward (per scheme)	£1.03m ¹
Why we measure it		Why we measure it		Why we measure it	
We have statutory obligations to deliver, but our customers told us that we should do more where we can. This performance commitment ensures we meet our obligations and drives us to deliver more where it is possible.		Minimising the impact our activity has on the environment is a key concern for our customers. This performance commitment ensures we drive to improve performance in this area.		Our customers want us to look for new and innovative ways to improve water quality, whilst working in partnership with other stakeholders to deliver wider benefits. This performance commitment focuses on how our approaches are encouraging farmers and land owners to change their behaviour and practices.	
Progress in the year		Progress in the year		Progress in the year	
There are no individual schemes that were due to be completed in 2015/16; but progress has been made against a number of deliverables which will be completed during 2016/17.		We are reporting 293 category three incidents against a committed performance level of 429; this is 136 ahead of target and 81 incidents ahead of our reward dead-band of 374 incidents.		We have made progress increasing our internal resources and agreeing a suite of performance indicators to demonstrate successful engagement and change in practice. As planned, no schemes have been fully delivered during 2015/16. Schemes are on track to be delivered in 2018/19.	

3. Invest responsibly for sustainable growth

See our Regulated Water and Waste Water performance review on pages 28 to 35.

4. Create an awesome place to work

Lost time incidents per 100,000 hrs worked

Severn Trent Water Limited	0.25 2014/15:	0.21
Business Services	0.17 2014/15:	0.30
SIM – Customer experience	Not yet defined by Ofwat	
83.7 SIM score		

Why we measure it

Providing good quality service to our customers is key and the Service Incentive Mechanism ('SIM') provides us with a regular opportunity to understand our performance and implement initiatives to improve the quality of service we provide, but also deliver value for money.

Progress in the year

We have seen improvements in quantitative areas of our business although we have been inconsistent in our qualitative performance which has meant that we have reported a SIM score of 83.7 for 2015/16 against our original upper quartile target:

Complaints about water quality

Actual 13,941

Reward 9,992

Penalty 11,900

Rate of Reward/Penalty (per complaint) £900¹

Why we measure it

Customers value the aesthetic quality of their water. This performance commitment is designed to ensure we manage our network to minimise the number of events that cause discolouration, taste or odour problems.

Progress in the year

In 2015, whilst we reduced the number of drinking water quality complaints from 14,339 to 13,941, we did not achieve our committed performance level of 11,900.

Progress against our financial KPIs

Group revenue	£1,786.9m	2014/15:	£1,801.3m
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Group underlying PBIT	£522.8m	2014/15:	£540.3m
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Underlying earnings per share	108.7p	2014/15:	107.2p
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Asset Stewardship – coliform failures

Actual 5

Penalty 7

Rate of Penalty £463,000¹

Why we measure it

The presence of coliforms in our drinking water is unacceptable so we continually monitor our works to ensure they are not being detected.

Progress in the year

During 2015 we detected coliforms at five water treatment works sites, which is better than our committed performance level of less than eight works with coliform detections. This is an improvement on our performance in 2014 where we identified 13 water treatment works with failures.

Leakage

Actual 434

Reward/Penalty 444

SEVERNTRENT_AR16

Rate of Reward/Penalty (per megalitre per day) £123,000¹

Why we measure it

Customers see leakage as a waste of a key resource; our customers want us to reduce our level of leakage as a priority.

Progress in the year

Our outturn position for 2015/16 was a total of 434 MI/day. We have achieved our committed performance level of 444 MI/day.

Severn Trent engagement score² 52%

Notes

- 1 In 2012/13 prices after tax.
- 2 New engagement index used for the Group in 2015/16 to support benchmarking and gain better insight about us as an employer. UK benchmark 50%.

Key

Actual

Severn Trent Actual Performance 2015/16

Regulated

Regulated Water and Waste Water business model

Our regulated water and waste water business works within five year planning cycles that are determined by our economic regulator, Ofwat. Each of these periods is called an Asset Management Plan ('AMP') and allows us to fund our investment programme and cover our operating costs. This was the first year of AMP6.

Our prices and asset base are adjusted by inflation each year. Under certain circumstances, for example where there is a material change in costs due to factors that are beyond our control, we can request a price review during the AMP.

The framework on which we build our activities consists of a package of 45 performance commitments that are largely unique to us and agreed with Ofwat. Of these, 33 Outcome Delivery Incentives ('ODIs') reward us for doing the right thing for customers, improving services and being more efficient, or conversely penalise us for failing to do so.

This is consistent with our own strategic framework, which focuses on embedding customers at the heart of all we do; driving operational excellence and continuous innovation; investing responsibly for sustainable growth; changing the market for the better; and creating an awesome place to work.

The resources and relationships critical to our success

Read more on page 31

Our value chain

Water is collected

We pay the Environment Agency and Natural Resources Wales for the water we collect from reservoirs, rivers and underground aquifers across our region.

Water is cleaned

Our 133 groundwater and 22 surface water treatment works clean raw water to the highest standards making it safe to drink.

Clean water is distributed

A 47,000 km network of pipes and enclosed storage reservoirs bring a continuous supply of clean water right to our customers' taps.

Waste water is treated and returned to the environment

Waste water is carefully screened, filtered and treated in our 1,027 sewage treatment works to meet stringent environmental standards. We pay the Environment Agency and Natural Resources Wales annual consent fees to return the treated water to the water system.

Waste water is collected

Our 92,000 km of sewers and pumping stations collect waste water from homes and businesses from outside properties and drains.

Customers enjoy our services

We serve 4.3 million businesses and households with a safe, reliable supply of water and collect waste water 24 hours a day, 365 days a year.

Investment and maintenance Read more on Page 32

Associated risks Read more on Page 31

Regulated Water and Waste Water business performance review

Critical to our success

Putting customers first

We serve 4.3 million households and businesses in the heart of the UK, in an area stretching from the Bristol Channel to the Humber, and from mid-Wales to the East Midlands. Our customers consume almost 2 billion litres of water every day and rely on us to collect almost as much waste water – some 1.4 billion litres daily.

Customers are at the heart of all we do. They trust us to ensure that their water is not only available 24 hours a day, but is also always safe to drink.

During the year, we have increased our water quality standards compliance to 99.96%, an improvement on 99.94% in 2014. We also reduced the number of pollution incidents and made significant reductions in both internal and external sewer flooding incidents.

Our customers pay the lowest combined water and waste water bills in Britain, at £329 p.a. in 2015/16 (2014/15: £333). We also continuously work hard to help our vulnerable customers who have difficulty paying their bills, through a number of schemes. More details can be found on page 32.

Our employees

We are firmly committed in our purpose to serve our communities and to build a lasting water legacy. In order to do this, we need to 'create an awesome place to work' for our colleagues and as part of this, we recognise that diversity and inclusion are important for our success. We need our workforce to reflect the customers and communities we serve, so that we can better understand and respond to their needs.

There are several aspects to this. For one, it means encouraging and celebrating diversity in all of its forms including gender, race, national origin, disability status and social background. Secondly, to help us make meaningful progress, we have prioritised three key areas: women in operational leadership positions; women and BAME (Black, Asian and Minority Ethnic) people in engineering positions; and BAME people in technical operator positions.

We are also driving a better working environment for our colleagues through our enhanced training and development initiatives such as our Awesome Leaders Programme.

What a big difference the Big Difference Scheme can make

One of our customers had been diagnosed with breast cancer, and as her partner suffered from dementia and was unable to work, when her sickness pay from her employer ceased, the couple were worried about how they would manage future payments. They had paid all but £40 of their water charges, and therefore their application for a trust fund grant had been declined. The Trustees identified that they were eligible for the Big Difference Scheme and referred them successfully. At a difficult time, they were delighted to hear that Severn Trent were able to ease their financial burden and reduce their bills for 2016/17.

Regulatory framework

Ofwat, the industry's economic regulator, sets limits on the prices we can charge our customers during each five year AMP period. Ofwat was founded at the time the industry was privatised and since then has incentivised companies to deliver better services at a lower cost, whilst ensuring efficient companies are financeable.

Standards for water, waste water and the environment are consistent across the European Union. In England, the Department for the Environment, Food and Rural Affairs (Defra) sets the overall water and sewerage policy framework. In Wales the policy framework is set by the Welsh Government.

We also work closely with a variety of other public bodies:

- The Consumer Council for Water speaks on behalf of all water consumers in England and Wales. As such, it advises consumers and takes up complaints on their behalf.
- The Environment Agency allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it has been used by our customers and treated by us.
- Natural Resources Wales is the environmental regulator in Wales. It ensures that Wales' natural resources are sustainably maintained, enhanced and used.
- Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, with particular responsibility for freshwater and marine ecologies.
- The Health and Safety Executive helps us to eliminate dangers to our employees and customers.
- The Drinking Water Inspectorate (DWI) provides independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers. The DWI's remit includes water quality audits, a regulatory strategy to further improve drinking water, enforcement processes and science and policy.

Associated risks

Each phase of the value chain on page 29 presents risks as well as opportunities. It is our job to maximise opportunities while anticipating and mitigating the associated potential and existing risks.

Water is collected

Key asset failure could result in injuries, damage to property and /or disruption of water supply.

Principal risk ref 7 and 8

Read more **Pages 51 and 52**

Water is cleaned

During this phase, a failure of key assets or processes may cause a decline in water quality or disrupt our supply to customers.

The use of potentially hazardous chemicals or processes may also result in injuries.

Principal risk ref 6 and 7

Read more **Page 51**

Principal risk ref 8

Read more **Pages 52**

Clean water is distributed

Distribution performance could fall below the required standards, resulting in poor customer service and increasing the risk of leakage from our network.

Principal risk ref 1 and 6

Read more **Pages 48 and 51**

Customers enjoy our services

A failure to improve or maintain our performance could result in customer disappointment.

Principal risk ref 1

Read more **Page 48**

Waste water is collected

Sewer flooding could be the result of failing to deal effectively with customer waste.

Principal risk ref 7

Read more **Page 51**

Waste water is treated and returned to the environment

Principal risk ref 7

Read more **Page 51**

Operational failures during this phase could result in damage to the local environment.

Potentially hazardous processes and substances may result in people being injured.

Principal risk ref 8

Read more **Page 52**

Principal risk ref 8

Read more **Page 52**

Investment and maintenance

With a wholesale capital programme for the year of almost £500 million, our average spend was £113 per connected property. Expenditure encompassed finding and fixing more leaks, reducing the number of pollution incidents and improving our water and waste water treatment plants. Additional upgrades to our sewer network also reduced incidents of sewer flooding.

We funded this programme of essential work through customer bills, the profits we generated from being efficient and through borrowings from capital markets.

The amounts we invest in improving and maintaining our networks, together with the other costs of operating the business, form the total expenditure of the business ('Totex'). Part of our Totex is included in the calculation of current year prices and the remainder is added to our asset base, called the Regulated Capital Value ('RCV').

During AMP6, we aim to increase returns to our shareholders through the potential created by Outcome Delivery Incentives ('ODIs'). The ODI framework means that if we deliver higher service levels where our customers value it most, we are rewarded for a year. In 2015/16 we laid the foundation for potential rewards via ODI outperformance.

Regulated Water and Waste Water business performance

We are firmly committed to delivering even better value for money, improved services and a healthier environment between 2015 and 2020.

We aim to inspire trust among our customers by maintaining and expanding a water system on which they know they can rely upon: clean, safe, reliable and responsive to their needs.

In this section, we explain how our regulated business performed during the last 12 months, as well as the actions we're taking to achieve success during this AMP.

Embedding customers at the heart of all we do

Severn Trent customers pay the lowest average combined water and waste water bills in Britain and will continue to do so throughout AMP6. Our average combined bill in 2015/16 was £329 (2014/15: £333), which equates to a 1.2% reduction. Our challenge is to strike the right balance between keeping bills affordable for today's generation and investing in our network and assets to ensure they remain affordable for future generations.

We have worked to help our customers who have difficulty in paying. Whilst we didn't meet our target, we were able to assist 24,110 customers through a variety of schemes. In some cases, through our new social tariff, the Big Difference Scheme, we have been able to provide reductions of up to 90% for qualifying customers. Through

carefully selected third party organisations, we also make available debt management advice to help our customers who are in difficulty get back on track.

In 1997, the Severn Trent Trust Fund was established to provide assistance for those in the most financial difficulty. This independent body aids people in arrears with their water bills and can also provide help with essential household bills or costs. Since its incorporation we have donated more than £56 million for the benefit of 550,000 people across our region who have fallen behind with their payments. This financial year, we have donated £3.5 million to the Fund.

In order to keep bills affordable, where possible we work to ensure that everyone who can pay, does, so they don't increase the burden on others. During the year we reduced our level of bad debts to 1.5% of turnover, one of the best performances in the sector.

In 2015/16 we began a more in-depth engagement with our customers on a range of issues, such as bill design and how we communicate. This included a survey of over 15,000 respondents, involving a much wider cross-section of our customers than we've ever reached before, achieved through more frequent and effective communication.

We have listened to our customers' comments and have made our billing information simpler and introduced more convenient ways to pay.

In response to feedback that customers wanted greater availability and accessibility of communications channels, we broadened access, setting up a webchat facility that has so far engaged in over 100,000 chats. We expanded our Twitter feed to be a 24/7 operation to better suit customers' needs.

We have also committed to investigate the underlying causes of complaints and act on them in anticipation of problems. This effort is paying off. This year, household written complaints were down by 29%.

Enhancing customer experience through the intelligent use of customer data, current and future technologies will be an important part of our approach during AMP6. We're continuing to invest in and develop systems, which will draw together the key elements of customer insights, people, processes and systems to provide a consistent experience to our customers regardless of their choice of channel. Increasing our knowledge of each customer will help us to predict their needs, so we can offer them a more personalised service. This will also support our colleagues to resolve more queries first time.

Owat's Service Incentive Mechanism ('SIM') is an important indicator of how good our customer service is. The SIM score has two elements – qualitative and quantitative. This year SIM is based on household customers only and the overall score calculation is weighted at 75% qualitative and 25% quantitative. We are reporting a company SIM score of 83.7.

Investing responsibly

We hope to continue the strong start we've made to the current regulatory period, and plans are now in place to improve our performance further throughout AMP6.

Our £300 million Birmingham Resilience project, due for completion in 2020, is our, and the sector's, biggest single capital investment scheme for this AMP. It will create a second major source of water for the UK's second largest city. Once operational, the new, state-of-the-art facility will supplement water flowing through the existing Elan Valley Aqueduct, a Victorian landmark. Having this alternative source in place will enable us to divert supply in order to carry out maintenance and repairs to the full 74 mile length of the aqueduct. This restoration and modernisation will keep the aqueduct going for at least another century, creating a lasting legacy for the next generation and ensuring the security of Birmingham's water supply.

We share our customers' desires for a cleaner, greener future that protects and improves our environment for generations to come. During the year, we invested £91 million towards our targets on pollution, environmental compliance, biodiversity and sustainable sewage treatment. This forms part of a larger £250 million programme for AMP6 that will help ensure our assets are not preventing compliance with the Water Framework Directive.

In 2015, to expand our water catchment management programme, we recruited eight new agricultural advisers. These experts, together with other environmental colleagues, work closely with farmers throughout the Severn Trent region to promote better land management. With help from our agricultural advisers, more farmers are now using acceptable substitutes or channelling their contaminated water to prevent it joining streams and rivers. This initiative not only helps the environment, but also, by reducing the run-off of pesticides into our natural raw water sources, helps to reduce our treatment costs.

Our performance commitment score for Asset Stewardship Environmental Compliance was 97.51% for the year. This fell just short of 100% compliance, largely as a result of the time it takes to see the required flow conditions to confirm the improvements we have made.

Globally there is increased focus on mitigating the risk of climate change. During the year, we reduced our overall Severn Trent Water Limited carbon emissions to 484 kilotonnes of CO₂e, a reduction of 1%, compared to 2014/15 (491 kilotonnes). Despite this reduction however, we have not met our stretching ODI target for the year. More information on our greenhouse gas impact can be found on page 61.

Renewable energy is an important part of our approach to sustainability. We will be investing up to £190 million to reach our 2020 target of producing the equivalent of half of our energy needs from renewable sources. We use a range of technologies such as anaerobic digestion of sewage sludge, food waste and crops as well as wind turbines, hydropower and solar panels. We lead the industry in this effort.

We remain on target to deliver our renewables commitment. This year we have invested in solar arrays at over 30 sites, erected two new wind turbines and we have started construction on our second food waste anaerobic digestion site at Roundhill, Staffordshire. We are also investing in Thermal Hydrolysis Process technology to extract even more energy from our sewage sludge before we recycle it to agricultural land. More on our renewable energy initiatives can be found in the Business Services performance review on page 36.

1 We conducted a mini competition for the Birmingham Resilience Project to get the best prices from our One Supply Chain to procure a new tunnel boring machine, outperforming our 20% efficiency target.

2015/16 household written complaints down 29%

Driving operational excellence and continuous improvement

For our customers, being able to rely on the quality of the water we supply to their homes and businesses is their highest priority.

To improve water quality, we have made substantial investment in our water treatment facilities. During the year, a total of £72 million was targeted at reducing water quality complaints, compliance with drinking water quality standards and reducing coliforms. Improvements include the installation of eight ultraviolet sterilisers at groundwater works, as part of our wider operational effectiveness programme. We have undertaken the sector's most rigorous levels of testing, with sampling for coliform bacteria done as frequently as every 10 to 15 minutes at our critical sites. During 2015, we improved drinking water quality standards to 99.96%, which was below our target, but an improvement on 99.94% in 2014/15. We have also seen an improvement in coliform detection, down to five sites this year, compared to 13 sites the year before. The incident at Castle Donington in March 2016 however shows that there remains much work to be done to consistently deliver the services our customers rightly deserve.

Discolouration, while usually harmless, can be off-putting for our customers. More often than not, it is caused by changes in flow, which can loosen harmless iron sediments from within the pipes. During the year, we increased our pipe cleaning programme from 1,000km in 2014/15 to 1,500km in 2015/16. This helped to reduce complaints about water discolouration. We still had more than 7,000 discolouration contacts in 2015/16, so we recognise that we have more to do to meet our targets.

We have reduced total leakage and have achieved our regulatory commitment for the fifth year running. Our 'Valuing Every Drop' programme has been part of this success. It informs customers of the challenges we all face due to greater variability in weather patterns and more frequent episodes of extreme weather. Our shared goal

with customers is to reduce unnecessary usage and to do everything we reasonably can to fix leaks as quickly as possible.

This year we set a target of meeting 70% of fixed visible leakage, where safe to do so, in 24 hours. Whilst we improved to 53%, we have more to do to meet this challenging commitment.

Over the course of the year, customers experienced an average of 11 minutes 10 seconds without supply, compared to an average of 9 minutes 54 seconds the year before.

Although rare, a sewer flooding is one of the worst things that can happen to a household. Whether it involves a backup within the property itself or an overflow from beyond the perimeter, the upheaval and damage can have a significant and unpleasant impact. We therefore plan to increase our spend targeted at reducing such events, from £110 million in AMP5 to the current £135 million.

In 2015/16 we accelerated our investment in flood prevention and mitigation, and as a result, we were able to gain a better understanding of the cause of sewer floods and how best to prevent them in future. Looking at a decade of data, we also identified 'hotspots' throughout the region and have focused our investment and efforts in those locations.

Thanks to these efforts, Severn Trent had 31% fewer internal sewer floods, down from 1,168 in 2014/15 to 804 in 2015/16 and a 28% drop in external flooding during the year, down from 9,896 in 2014/15 to 7,142 in 2015/16. These improvements were ahead of target, and built on the advances already made in the previous year.

We have reduced sewer blockages by 4%, which has been achieved in part through education programmes that help customers understand how they can prevent blockages, 75% of which are caused by customers putting the wrong items down the sink or toilet. Every year it costs us £10 million to clean over 700km of sewers, so helping customers understand how they can help prevent blockages also lessens the cost that is borne by them.

- 1 As a reminder to our employees that even one injury is too many, a Goal Zero Clock is now available on every desktop to keep everyone aware of their role in perpetuating our safety culture, and to report any safety incidents as they occur.
- 2 Our new lime plant at Frankley was installed as part of a much wider programme to improve water supply to customers in Birmingham. The plant was designed and constructed off-site, reducing on-site work from three months to two weeks.

The Environment Agency has provisionally assessed our overall environmental performance at 4*. If confirmed, this would be the second time in the past three years. We have also increased our efforts in preventing pollution. During the course of the year our less serious spills (classified by the Environment Agency as category 3) were down by 21%, while more serious incidents (categories 1 & 2) were reduced by 80%.

Throughout 2015/16, we have sought to enlist customer support to involve them more closely in what we do. That is why we launched a number of customer focused apps. These include 'In My Street,' which provides alerts to people of local water repair work and gives them the opportunity to adapt their travel and domestic arrangements accordingly, which Utility Week cited as among the sector's best. Another app, 'Track My Job', supplies real-time updates on repairs, which means that customers can keep constant focus on the latest situation around any of the jobs or issues that they've raised with us.

Creating an awesome place to work

Safety is an ongoing priority, which we have embedded into daily working life as well as safety in our supply chain. We have made improvements in a number of areas, but have fallen short of where we need to be in others. Our year end Lost Time Injury ('LTI') rate was 0.25 across both Severn Trent Water Limited and our supply chain. This is slightly worse than the previous year's LTI of 0.21 per 100,000 hours worked. Overall accidents reduced by 25% this year.

At Severn Trent, a core value is to 'create an awesome place to work'. For our employees that means being part of an organisation that celebrates diversity and individual thinking, provides recognition and reward whenever it is due and offers opportunities for advancement and job enrichment through professional and personal development. During the past year, we have made progress in all of these aspects of working life.

During the year, we delivered more than 15,000 training days in our UK water business. We undertook a comprehensive review of personal development plans for all senior leaders and line managers and devised tailored development programmes. On the technical side, we've provided training to all our staff on the importance of protecting drinking water quality.

Our new recognition scheme, 'Our Brilliant People' provides a new, online way of recognising individuals' exemplary performance instantly throughout the Company. So far, we have had 14,764 such recognitions.

Our initiatives for greater involvement, recognition and empowerment are working. In 2015 we reviewed and replaced our existing employee surveys into a single global survey to give us new insights into employee engagement and thinking. For its first year we are delighted that response rates have remained strong with the overall response rate at 80%. Our highest performing areas for 2015/16 were health and safety; customer focus; diversity and inclusion and corporate social responsibility. We remain determined to further improve our scores next year.

We take a long term view of our business and are active in seeking out tomorrow's talent – particularly among women and BAME candidates for jobs in engineering and technical operations roles. We recognise that diversity and inclusion are important for success and have always made them a business imperative. Our Severn Trent Water Limited workforce remains slightly more diverse than the sector average, with female employees accounting for 30.3% of the total compared with 30% across the industry. 7.64% of our employees are BAME against an industry average of 6%. More information on diversity can be found within the Nominations Committee report and our Corporate Responsibility report on pages 81 and 63 respectively. Further information on human rights issues for the Group can be found on page 87.

Outlook

Only one year into AMP6, we can already see how the new regulatory framework is delivering better outcomes for our customers, our communities and for the environment. Our other stakeholders – investors and employees – are also benefiting, as ODI performance and a growing RCV provide new gains and new opportunities.

The investments we are currently making are yielding improved water and waste water services throughout our region for today's customers, and we intend to continue improving our services so that tomorrow's customers can also reap the benefits for generations to come.

Only one year into AMP6, we can already see how adherence to the new regulatory framework is delivering better outcomes for our customers, our communities and for the environment.

Compliance with drinking water quality standards 99.96% 2014: 99.94%

BUSINESS SERVICES

Business Services business model

Severn Trent's Business Services portfolio allows us to apply our water and waste water services knowledge to create and deliver services to UK and international municipal, industrial and commercial customers.

Business Services has had a strong year delivering revenue of £674.6 million and underlying PBIT of £38.2 million.

In July 2015, we completed the disposal of our Water Purification business to Industrie De Nora S.P.A. in a transaction valued at US\$99 million (£61.9 million).

Head start

In April 2017, the non-household retail market will open up to competition in England. At this point non-household customers (including businesses, charities, and public sector organisations) will be able to choose their water and waste water retailer who will provide billing services and general customer service. The existing water and sewerage companies will continue to provide the wholesale service, including water treatment, water distribution, waste water collection through the sewers and waste water treatment, to the retailers and non-household customers.

The resources and relationships critical to our success

Read more on Our value chain Page 31

Our value chain

Identify and develop opportunities

Identify and develop opportunities in Business Services' markets.

Create products and services

Create products and services that help our clients manage their water and energy needs.

Maximise our return

Maximise our return on investment through long term contracts and service agreements and cross dissemination of our products.

Build strong and respected brands

Build strong and respected brands that are customer focused and recognised across our sectors.

Operating services

Read more on Page 39

Renewable energy

Read more on Page 39

Associated risks

Read more on Page 40

Business Services performance review

Market opening is an important development in the water industry, arguably the biggest since privatisation, and in March 2016 we were delighted to announce our joint venture with United Utilities to create a dedicated business to compete in this market. We believe the business will bring together our strengths and also deliver efficiencies that will result in an exciting offer for customers and represent greater value for money.

The new business, Water Plus, will operate with its own dedicated management team from its new location in Stoke-on-Trent and we are well underway with preparations for establishing the new business and transferring employees into it.

Establishing a new market for the retailing of water and waste water services is a major undertaking and we are working hard on preparations. Naturally, the non-household retail business is undergoing major change but our wholesale business is impacted too as it will be serving multiple retailers in the future through new processes and relationships. We have established internal programmes to ensure that we make the necessary changes to business processes, establish new roles where necessary and equip our people with the skills that they will need.

Meanwhile, we have continued to trade independently as Severn Trent Services in Scotland where the market is already open to competition. Our team have had a good year and have grown our market share profitably by retaining our existing customers and gaining new ones in the face of stiff competition. The contracts with several important existing customers, including Sainsbury's and Debenhams, came up for renewal this year and we were delighted to be able to retain their business through new contracts. It was particularly pleasing that our outstanding customer service was a major factor in securing these renewals.

We were delighted to secure new customers including Boots and the Mitchells & Butlers chain of pubs and restaurants which combined, comprises a total of 387 sites in Scotland. We have increased from 388 to 1,451 sites in total. We have also started to participate in the SME sector which includes smaller businesses and have made some good initial inroads.

Equally important are the lessons we have learned from the experience. We now have a better idea of what works, and what doesn't, when selling our water supply services on a competitive basis. These lessons are serving us well and we will take them into the joint venture as we prepare to compete for the bigger combined Scottish and English non-household retail market in 2017.

Building on success

In our Operating Services business in the UK, our 25 year, £1 billion operation and maintenance contract with the UK Ministry of Defence ('MoD') is now in its twelfth year. After more than a decade of working closely together, the new focus that our Business Services structure brings has enabled us successfully to bring Group knowledge and expertise to bear for the benefit of our customers. Consequently, we are delivering operational services better than ever before and this year we have improved on all of our agreed operational key performance indicators including those on water quality, waste water compliance and environmental impact. Importantly, in line with our corporate strategy, we have focused heavily on understanding our customers' needs and working together in partnership with them. We have seen improved feedback from our customers and have delivered a great improvement in our customer service measure, Net Promoter Score ('NPS'), which has moved from -35 in November 2014 to +36 in March 2016 for the MoD. We will be looking to build on this success as the MoD continues to review its infrastructure.

We have completed the first year of our contract with the Coal Authority. Our role is to monitor and maintain water levels in disused mines to prevent flooding and to treat the iron-laden water that is pumped from the mines to ensure it is safe to return to the water courses. Whilst we have been successful on many elements of the programme, there have been others where our performance has not met expectations. We have worked with the Coal Authority to develop an improvement plan which we are in the process of delivering. We are committed to improving our delivery and strengthening our relationship with the Coal Authority.

Also in the UK, our water hygiene businesses continue to perform in line with expectations.

In March 2016 we were delighted to announce our joint venture, Water Plus, with United Utilities to compete in the non-household retail market.

We are on track to invest up to £190 million in self-generation and renewables during AMP6.

Coleshill food waste plant

Our food waste plant at Coleshill has completed its first full year of operation, transforming 48,000 tonnes of food waste into more than 18,000 MWh of electricity and approximately 30,000 tonnes of biofertiliser for agricultural use.

We are now well into the process of fully optimising the plant, for example, during the year we have significantly improved the efficiency of the site by cleverly scheduling the plant's mixers. This has reduced the energy required to process the food waste by 700 kWh per day, which is a 10% efficiency improvement, saving over £20,000 per year.

Our design, build and operate services businesses in Italy and Ireland are also managed from the UK and both have met sales and profit targets. In Italy, the market remains challenging and we have addressed issues with our cost base through an organisational restructure and we continue to win profitable new business.

In our Operating Services business in the US, we have had a year of significant change. We have set the business up on an independent footing following the disposal of our Water Purification business in 2015. The new management team has focused heavily on customer service, new business development and operational excellence. We have achieved our targeted contract renewal rate of 85% plus for this year and established a healthy new business pipeline. In total we have won US\$14 million in new business this year. The highlight was winning the contract to provide waste water treatment services to Oklahoma City, from January 2017. This five year contract (which may be renewed for two further five year periods) is worth US\$14 million in annual revenue and we believe it is the biggest contract to have been awarded this year. This is our second largest contract behind our 10 year US\$23 million annual revenue contract with the city of Bridgeport, Connecticut which continues to perform well.

Our operational and health and safety programmes are working well with improvements across the board in our operational measures. We've seen a reduction in water quality and waste water quality issues and an improvement in our reportable health and safety incidents. We will continue to focus on strengthening our regulatory compliance process through staff training, process improvement and audit.

We have worked hard to improve our commercial approach. We have addressed our costs and focused on delivering better margins and we are pleased to have seen profits grow during the year. We continue with our operational and cost improvement programmes and are investing in new finance systems which will be operational this year. The business is looking forward to building on a successful year of transformation.

Greener energy

Last year we continued to build our renewable energy business and generated the equivalent of 33% of our own energy use. We remain on target to self-generate energy equivalent to 50% of what we use by 2020.

We've invested in solar energy this year and were able to install 16MW capacity on 30 sites. This was an important achievement in the timescales available before incentive reductions and on all installations we delivered our promise of double digit returns.

Our food waste plant at Coleshill has completed its first year of operation successfully and has met its targets. We have transformed 48,000 tonnes of food waste into more than 18,000MWh of electricity and approximately 30,000 tonnes of biofertiliser for agricultural use. More information on our Coleshill food waste plant is shown in the above case study.

In 2015/16, we started construction of our second plant at Roundhill, Staffordshire, which we expect to bring on-line in early 2017.

We also completed our planned windpower investment with the two additional installations at our waste water treatment works in Lichfield and Stoke Bardolph.

We continue to maintain our focus on generating energy from sewage sludge. At Minworth, we operate one of the largest sewage plants in Europe and it's our biggest generator of energy. There we inject the biogas we produce.

directly into the national grid where it can be used for heating and cooking as well as electricity generation. This has proven to be very successful and we are exploring other opportunities to utilise this technology. We have improved our operational effectiveness on the site by improving our processes and have generated 10% improvement. Again, we're looking at opportunities to apply what we've learnt to other sites. We are also investing in our plant to install Thermal Hydrolysis Process technology ('THP') which generates more gas from the sewage by treating it at higher temperatures and pressures.

In addition to renewable generation, we have several energy usage reduction initiatives in place ranging from investment in new more efficient equipment, improving the efficiency of our operating processes, and importantly, changing attitudes and behaviours on energy conservation.

All-in-all this remains a very exciting area for us and we will continue to explore new opportunities. We are on-track to invest up to £190 million (including investment by our regulated business), in self-generation and renewables during the course of AMP6 to deliver our target of self-generating the equivalent of half of our needs by 2020.

For further information, please see our Corporate Responsibility report on pages 54 to 63.

Associated risks

Severn Trent Business Services delivered revenue of £675 million and a profit of £38 million.

We achieved this performance in the face of several associated risks that we continue to address.

Processes

Hazardous processes may cause injuries to our people.

Principal risk ref 8

Read more **Page 52**

Failures

Failure of products or treatment processes may cause environmental damage and a short-fall in regulatory compliance.

Principal risk ref 4 and 8

Read more **Pages 50 and 52**

Changes

Regulatory or political change may lead to decreased demand for our services.

Competition

We may be unable to take advantage of the opening up of the UK retail market to competition.

Principal risk ref 2

Read more **Page 49**

Energy

We may be exposed to increased volatility in energy prices.

Opposition

Local opposition to our plans may affect our infrastructure efforts or our ability to generate sufficient renewable energy to achieve our targets.

Financial review

The Group has delivered strong financial results in the first year of the new AMP. Our Regulated Water and Waste Water business has performed well, with reduced operating costs helping to offset the impact of the lower prices we agreed in the final determination. Business Services has delivered growth in both sales and underlying PBIT this year and has made good progress in renewable energy generation and with the formation of the joint venture, Water Plus, we have made good progress in getting ready for non-household retail competition in England.

We saw the benefits of our rebalanced financing strategy, increasing the proportion of our debt that is at floating rates, which has helped to deliver a £30.7 million reduction in financing costs year on year. Our effective interest rate for the year was 4.5%.

Our underlying tax rate was 18.5% (2014/15: 17.6%).

A brief summary of our financial performance for the year is as follows:

- Group turnover from continuing operations was £1,786.9 million (2014/15: £1,801.3 million), a decrease of £14.4 million or 0.8% reflecting primarily £31 million lower regulated revenues following the agreed 1.5% price reduction.
- Underlying PBIT¹ of £522.8 million (2014/15: £540.3 million) was £17.5 million lower as the reduction in turnover in Regulated Water and Waste Water was partially offset by lower operating costs in the regulated business and increased operating profits in our non-regulated business.
- Reported Group PBIT¹ was £523.8 million (2014/15: £521.6 million).
- We recorded an exceptional credit of £1.0 million from the release of a prior year provision (2014/15: charge of £18.7 million).
- Net finance costs were £209.3 million (2014/15: £240.0 million).

¹ PBIT is profit before interest and tax; underlying PBIT excludes exceptional items as set out in note 8

Changes to segmental presentation

The Group is now organised into two main business segments, Regulated Water and Waste Water and Business Services:

- Regulated Water and Waste Water comprises Severn Trent Water Limited's wholesale operations and household retail activities and related support functions.
- Business Services comprises the Operating Services businesses in the US, UK, Ireland and Italy; the Group's renewable energy business and Severn Trent Water Limited's non-household retail business.

The Water Purification business, which was sold on 2 July 2015, has been treated as a discontinued operation.

The tables below reconcile our results for the year ended 31 March 2016 under the old segmental basis (Severn Trent Water, Severn Trent Services, and Corporate and other) to the new basis.

Regulated Water and Waste Water	Severn Trent Water £m	Renewable energy (regulated) £m	Non-household retail £m	Additional inter- segment sales £m	Regulated Water and Waste Water £m
Total sales	1,550.2	(17.5)	(391.3)	364.7	1,506.1
Underlying PBIT	520.3	(17.6)	(10.6)	—	492.1

Business Services	Severn Trent Services £m	Renewable energy (regulated and non-regulated) £m	Non-household retail £m	Additional inter-segment sales £m	Business Services £m
Total sales	233.2	34.0	391.3	16.1	674.6
Underlying PBIT	10.9	16.9	10.6	–	38.2

Corporate and other	Corporate and other (old basis) £m	Renewable energy (non-regulated) £m	Corporate and other (new basis) £m
Total sales	11.7	(8.5)	3.2
Underlying PBIT	(8.6)	0.7	(7.9)

The new segments reflect the way we organise and manage the Group. Our renewable energy business, including the electricity and gas-generating assets owned by Severn Trent Water Limited's regulated business, is now all managed in Business Services. We transferred management responsibility for non-household retail to Business Services, in preparation for further competition in these activities from April 2017. This created a clear separation between our regulated wholesale and non-regulated retail activities.

On 3 May 2016 the Competition and Markets Authority ('CMA') announced clearance of the proposal to form the Water Plus joint venture with United Utilities PLC. On that date the disposal of the non-household retail activities to Water Plus became highly probable and these activities were reclassified as a discontinued operation and equity accounted. However, as this transaction was still subject to CMA approval at 31 March 2016, the results of the non-household retail activities are included in continuing operations in these financial statements.

Comparative financial information for 2014/15 on the new basis is not available across all segments and so the commentary that follows describes year on year performance on the old basis.

Regulated Water and Waste Water

Turnover for the new Regulated Water and Waste Water segment was £1,506.1 million and underlying PBIT was £492.1 million.

On a like for like basis, turnover decreased by £31.0 million. The price reduction in our Final Determination reduced turnover by £30.2 million. This was partially offset by growth from new customers and consumption increases of £6.7 million. Tariff mix and other effects reduced turnover by £7.5 million. Underlying PBIT decreased by £18.7 million as lower operational costs partially offset the decline in turnover.

Within our 2015/16 revenue, there is around £11.5 million of over-billing against the Final Determination as a result of higher consumption and growth in our customer base; this, together with a small penalty of about £0.5 million for being outside the forecasting corridor, will be returned to customers through adjusted bills in 2017/18.

	New basis	Old basis			
	2016 £m	2016 £m	2015 £m	Better/(worse) £m	%
Turnover	1,506.1	1,550.2	1,581.2	(31.0)	(2.0)
Net labour costs	(135.1)	(142.1)	(156.0)	13.9	8.9
Hired and contracted costs	(157.2)	(172.3)	(163.8)	(8.5)	(5.2)
Bad debts	(20.3)	(23.7)	(28.4)	4.7	16.5

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	New basis	Old basis			
	2016 £m	2016 £m	2015 £m	Better/(worse) £m	%
Power	(89.1)	(61.8)	(63.9)	2.1	3.3
Other costs	(179.2)	(193.8)	(196.4)	2.6	1.3
	(580.9)	(593.7)	(608.5)	14.8	2.4
Infrastructure maintenance	(126.0)	(126.0)	(134.8)	8.8	6.5
Depreciation	(307.1)	(310.2)	(298.9)	(11.3)	(3.8)
Underlying PBIT	492.1	520.3	539.0	(18.7)	(3.5)
Adjustment for new segmental basis		(28.2)			
		492.1			

Net labour costs were 8.9% lower. The benefits of the reorganisation carried out at the end of 2014/15 and the closure of the defined benefit pension scheme to future accrual more than offset the costs of the new employee incentive scheme.

Hired and contracted costs increased by £8.5 million. This is partly due to costs incurred in preparation for market opening including an increase in contributions to Open Water. In addition, we have seen an increase in distribution and tankering costs in our waste business and have paid a bonus to our supply chain for support on delivering our strong ODI performance.

Bad debt charges improved to 1.5% of turnover – down from 1.8% in 2014/15 as a result of improved collection performance on amounts billed in the year and better management of aged debt balances. The provision level against our household debt is typically higher than for non-household debt and we therefore expect that after the transfer of our non-household business to Water Plus, this ratio will increase.

Power costs decreased by £2.1 million mainly due to the benefit of a full year of biogas to grid generation. We continue to make good progress on our renewable energy generation, and self-generated the equivalent of 33% of gross consumption in the year, providing an increasingly effective hedge against energy price volatility.

Material and other costs were £2.6 million lower year on year. Higher costs in particular on business rates and abortive capital write offs were more than offset by the £4.4 million refund from the Environment Agency at half year, and second half gains on property disposals were in line with those for the first half.

Depreciation increased by £11.3 million, primarily due to the growing asset base and an accelerated charge of £3.6 million arising from the decommissioning of older assets as part of our water quality improvement programme. Infrastructure maintenance expenditure was £8.8 million lower due to a lower level of activity at the start of the year, and improved efficiencies in delivering the programme, as highlighted in our interim results.

Return on Regulatory Equity ('RoRE')

A key indicator of the performance of the regulated business is the Return on Regulatory Equity. Outperformance against the Final Determination for Totex, ODIs and financing is included in RoRE.

Profits reported under IFRS do not reflect all of the regulatory impacts in the year of performance and may reflect the impacts of performance in previous years.

Severn Trent Water's RoRE for the year ended 31 March 2016 is set out in the following table:

	% ¹
Base return ²	5.7
Totex outperformance ³	0.7
ODI outperformance ⁴	0.7
Financing outperformance ⁵	1.4
Other ⁶	(0.1)
Regulatory return for the year	8.4

1 Based on RCV of £7,324 million in 2012/13 prices

2 Per Final Determination

3 Company share of Totex outperformance in the year

4 Company assessment of performance, subject to confirmation by Ofwat review process in Autumn 2016

5 Based on actual financing cost and actual gearing

6 Includes non-household revenue, land sales and disposals, other income and the Wholesale Revenue Forecasting Incentive Mechanism

Severn Trent Water's Totex benefit to RoRE, after taking account of sharing with customers was £19 million in 2012/13 prices after tax.

Our assessment of performance on our Outcome Delivery Incentives ('ODI's) will be published in Severn Trent Water Limited's Annual Performance Report in July 2016. We earned a net reward for performance in 2015/16 of £23.2 million before tax at 2012/13 prices, which is subject to the Ofwat review process in Autumn 2016. All of this relates to 'in AMP' measures, which will be reflected in increased prices that we will set for 2017/18.

Severn Trent Water's financing costs in 2015/16 were £40 million lower than the Final Determination in 2012/13 prices after tax. This is due to the impact of lower inflation on our index-linked debt and nominal interest rates achieved lower than assumed in the Final Determination – a consequence of low market interest rates and savings arising from our AMP6 financing activities. In addition, we have a lower debt requirement than assumed in the Final Determination.

Business Services

Turnover for the new Business Services segment was £674.6 million and underlying PBIT was £38.2 million.

Turnover and underlying PBIT on a like for like basis at actual exchange rates and on a constant currency basis are shown below:

	2016 £m	2015 £m	Increase/(decrease) %
Turnover			
As reported	233.2	216.3	7.8%
Impact of exchange rate fluctuations	–	8.3	
Constant currency	233.2	224.6	3.8%
Underlying PBIT			
As reported	10.7	9.7	10.3%
Impact of exchange rate fluctuations	–	(0.1)	
Constant currency	10.7	9.6	11.5%

The results above exclude the Water Purification business, which was classified as a discontinued operation in 2014/15.

In our Operating Services business we saw good growth in turnover, up 3.8% on a constant currency basis to £233.2 million, mainly due to contract gains and additional work in our UK business. Underlying PBIT was up £1.1 million to £10.7 million with higher profits across all regions.

Corporate and other

Corporate overheads totalled £10.6 million (2014/15: £13.4 million). Our other businesses generated a net profit of £2.4 million (2014/15: £1.2 million).

Exceptional items before tax

There was an exceptional operating credit of £1.0 million arising from the release of a provision originally recorded as an exceptional charge (2014/15: charge of £18.7 million).

Net finance costs

The Group's net finance costs were £209.3 million, down from £240.0 million in the prior year. The reduction resulted from the actions we took at the end of 2014/15 to increase our exposure to floating rates, lower costs achieved on new floating rate debt and lower finance costs on our index-linked debt as a result of lower inflation in the year. Finance costs capitalised were £3.3 million lower mainly due to the lower finance cost incurred.

The effective interest rate, including index-linked debt, for the year ended 31 March 2016 was 4.5% (2014/15: 5.4%). The effective cash cost of interest (excluding the RPI uplift on index-linked debt) was 4.2% (2014/15: 4.9%).

The Group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 4.3 times (2014/15: 3.7 times) by profit before interest, tax, depreciation and exceptional items, and 2.7 times (2014/15: 2.4 times) by underlying PBIT.

Gains/(losses) on financial instruments

The Group uses financial derivatives solely to hedge risks associated with its normal business activities including:

- exchange rate exposure on borrowings denominated in foreign currencies;
- interest rate exposure on floating rate borrowings; and
- exposure to increases in electricity prices.

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the criteria for cash flow hedge accounting are met, the changes in value are taken to the income statement. If the risk that is being hedged does not impact the income statement in the same period, then an accounting mismatch arises from the hedging activities and there is a net charge or credit to the income statement.

Where derivatives are held to their full term mismatches will net out over the life of the instrument. The changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the Group presents adjusted earnings figures that exclude these non-cash items. In exceptional circumstances the Group may terminate swap contracts before their maturity date. The payments or receipts arising from the cancellations are charged or credited against the liability or asset on the balance sheet, and amounts previously recognised in reserves are recycled through the income statement.

The Group holds interest rate swaps with a principal of £518.1 million and cross currency swaps with a sterling principal of £98.3 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to gains/(losses) on financial instruments in the

income statement. During the year there was a credit of £53.8 million (2014/15 charge of £183.4 million in relation to these instruments).

An analysis of the amounts charged to the income statement in the period is presented in note 12 to the financial statements.

The Group manages its electricity costs through a combination of self generation, forward price contracts and financial derivatives. The Group has fixed around 37% of the estimated wholesale energy usage for 2016/17.

Taxation

The total tax credit for the year was £9.7 million (2014/15: charge of £32.7 million).

The current tax charge for 2015/16 was £55.2 million (2014/15: £37.8 million). The deferred tax charge before exceptional tax was £13.7 million (2014/15: credit of £5.1 million).

There was an exceptional deferred tax credit of £78.6 million arising from the change in tax rates (2014/15: nil). This was a result of the Finance Act 2015 being enacted in the current year, reducing the corporation tax rate from 20% to 18% with effect from 1 April 2020.

See note 13 for further detail.

The underlying effective rate of current tax on continuing operations, excluding prior year credits, exceptional tax credits and tax on exceptional items and financial instruments, calculated on profit from continuing operations before tax, exceptional items before tax and gains/(losses) on financial instruments was 18.5% (2014/15: 17.6%).

Reported Group profit for the period and earnings per share

After a loss of £0.7 million (2014/15: profit of £4.7 million) from discontinued operations, reported Group profit for the period was £331.3 million (2014/15: £120.2 million). Profit before interest and tax was broadly flat year on year. Net finance costs were £30.7 million lower. Amounts charged to the income statement relating to financial instruments improved by £141.2 million. Tax charged excluding exceptional tax was £36.2 million higher before an exceptional deferred tax credit of £78.6 million arising from the change in corporation tax rate to 18%.

Underlying basic earnings per share (from continuing operations, before exceptional items, gains/(losses) on financial instruments, current tax on gains/(losses) on exceptional items and financial instruments and deferred tax) was 108.7 pence (2014/15: 107.2 pence) (see note 15). Lower financing costs largely offset the lower underlying PBIT and higher current tax charge.

Basic earnings per share were 139.8 pence (2014/15: 49.9 pence).

Group cash flow

	2016 £m	2015 £m
Cash generated from operations	797.5	760.1
Net capital expenditure	(410.0)	(416.1)
Net interest paid	(189.6)	(218.2)
Payment to close out interest rate swaps	–	(139.2)
Tax received	11.5	10.5
Tax paid	(44.9)	(39.1)
Other cash flows	–	(1.4)
Free cash flow	164.5	(43.4)
Disposal of subsidiaries	45.7	–

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	2016 £m	2015 £m
Dividends	(197.0)	(196.9)
Net purchase of shares	(89.8)	(16.7)
Change in net debt from cash flows	(76.6)	(257.0)
Non-cash movements	5.8	(48.1)
Change in net debt	(70.8)	(305.1)
Net debt at 1 April	(4,752.6)	(4,447.5)
Net debt at 31 March	(4,823.4)	(4,752.6)
Net debt comprises:		
Cash and cash equivalents	55.2	176.7
Bank loans	(1,249.8)	(1,279.2)
Other loans	(3,539.7)	(3,467.5)
Finance leases	(117.2)	(180.0)
Cross currency swaps	28.1	(2.6)
	(4,823.4)	(4,752.6)

Net debt at 31 March 2016 was £4,823.4 million (2014/15: £4,752.6 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 82.6% (2014/15: 86.1%). Net debt, expressed as a percentage of RCV at 31 March 2016 of £7,829 million was 61.6% (2014/15: 61.4%).

The fair value of net debt at 31 March 2016 is estimated to be £5,686.4 million (2014/15: £5,645.4 million) compared to the book value of £4,823.4 million (2014/15: £4,752.6 million). The difference between the book value and fair value of debt arises from fixed rate and index-linked debt where the interest rate on the debt is higher than prevailing market rates at the year end.

Treasury management and liquidity

The Group's principal treasury management objectives are:

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise counterparty credit exposure risk;
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The Group continues to ensure it has adequate liquidity to support business requirements and provide headroom for downside risk. At 31 March 2016 the Group had £55.2 million (2014/15: £176.7 million) in cash and cash equivalents and committed undrawn facilities amounting to £875 million (2014/15: £745 million).

The Group is funded for its projected investment and cash flow needs up to at least January 2018.

Cash is invested in deposits with financial institutions benefiting from high credit ratings and the list of counterparties is reviewed regularly.

In November 2015 Severn Trent Water Limited completed its first US Private Placement debt issue raising the equivalent of £471 million at competitive pricing with maturities ranging from 11 to 15 years. The proceeds were received in March 2016 and were used to repay the remaining £396 million of our €700 million bond.

The Group's policy for the management of interest rate risk requires that not less than 40% of the Group's borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. Going forward, the Group intends to manage its existing debt portfolio and future debt issuance to increase the proportion of debt which is at floating rates. At 31 March 2016, interest rates for 56% (2014/15: 67%) of the Group's net debt of £4,823.4 million were fixed.

The Group's long term credit ratings are:

Long term ratings	Severn Trent Plc	Severn Trent Water Limited
Moody's	Baa1	A3
Standard & Poor's	BBB-	BBB+

The outlook is stable for Standard & Poor's, negative for Moody's.

Treasury policy and operations

Our treasury affairs are managed centrally and in accordance with our Treasury Procedures Manual and Policy Statement. The treasury operation's role is to manage liquidity, funding, investment and our financial risk, including risk from volatility in interest and (to a lesser extent) currency rates and counterparty credit risk. The Board determines matters of treasury policy and its approval is required for certain treasury transactions. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary.

Our strategy is to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability. Our principal operating subsidiary, Severn Trent Water Limited, is a long term business characterised by multi-year investment programmes. Our strategic funding objectives reflect this and the liquidity position and availability of committed funding are essential to meeting our objectives and obligations. We therefore aim for a balance of long term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group also seeks to maintain an investment grade credit rating and a flexible and sustainable balance sheet structure.

We use financial derivatives solely to manage risks associated with our normal business activities. We do not hold or issue derivative financial instruments for financial trading.

Except for debt raised in foreign currency, which is fully hedged, our business does not involve significant exposure to foreign exchange transactions. We have investments in various assets denominated in foreign currencies, principally the US dollar and the euro. Our current policy is to hedge an element of the currency translation risk associated with certain foreign currency denominated assets.

The Group issues notes in foreign currency under its Euro Medium Term Note ('EMTN') programme and uses cross currency swaps to convert the proceeds to sterling. The effect of these swaps is that interest and principal payments on the borrowings are denominated in sterling and hence the currency risk is eliminated. The foreign currency notes and the cross currency swaps are recorded in the balance sheet at their fair values and the changes in fair values are taken to gains/(losses) on financial instruments in the income statement. Since the terms of the swaps closely match those of the underlying notes, such changes tend to be broadly equal and opposite.

Pensions

The Group operates two defined benefit pension schemes for its UK employees, of which the UK Severn Trent Pension Scheme ('STPS') is by far the largest. The most recent formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2013 for both schemes. As a result, deficit reduction contributions of

£40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and £12 million p.a. in subsequent years to 2024/25 were agreed. Further payments of £8 million p.a. through an asset backed funding arrangement will also continue to 31 March 2032. The next triennial valuation, as at 31 March 2016, is underway.

As previously announced, the defined benefit schemes closed to future accrual on 31 March 2015. On 1 April 2015, members of the defined benefit schemes were transferred to the defined contribution Severn Trent Group Personal Pension Scheme, which was opened on 1 April 2012.

The key actuarial assumptions for the defined benefit schemes have been updated for these accounts. On an IAS 19 basis, the estimated net position of the schemes was a deficit of £309.5 million as at 31 March 2016. This compares to a deficit of £468.9 million as at 31 March 2015. The movements in the net deficit can be summarised as follows:

	2016 £m	2015 £m
Present value at 1 April 2015	(468.9)	(348.3)
Change in actuarial assumptions	194.2	(336.8)
Asset (under)/outperformance	(45.9)	193.4
Contributions in excess of income statement charge	11.1	22.8
Present value at 31 March 2016	(309.5)	(468.9)

The funding level has increased to 86.8% (2014/15: 81.7%).

Accounting policies and presentation of the financial statements

Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards that have been endorsed by the European Union. The Company financial statements are prepared in accordance with FRS 101.

Risk management

Our approach to risk

Managing risk is all about understanding the uncertainties surrounding the achievement of our aims and objectives. Therefore, risk management describes the activities performed within our organisation to identify, assess and control events which may impact on our aims and objectives. We also appreciate that uncertainty can manifest itself as both negative and positive impacts, hence our goal is to minimise these threats and maximise the opportunities for the benefit of our customers, people, contractors and key stakeholders.

The Board has overall accountability for ensuring that risk is effectively managed across the Group. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of the Group. The management of risk is embedded in our everyday business activities, with employees encouraged to play their part.

On behalf of the Board, the Audit Committee assesses the effectiveness of the Group's Enterprise Risk Management ('ERM') process and Internal Controls to identify, assess, mitigate and manage risk. Internal Audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

The Executive Committee reviews strategic objectives and assesses the levels of risk in achieving these objectives. This 'top down' risk process helps to ensure the 'bottom up' ERM process is aligned to current strategy and objectives.

Across the Group, we manage risks within the overall governance framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with a holistic view of effective risk management.

Within Severn Trent Water Limited, our approach reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of our Severn Trent Water Limited business is such that there are some significant inherent risks, as illustrated on pages 48 to 53. We aim to have a strong control framework in place to enable us to understand and manage these risks in accordance with our risk tolerance and appetite.

The ERM process

The Board

- Sets strategy and determines regulatory outcomes
- Sets business plan objectives
- Defines risk appetite

ERM team

- Monitors performance
- Assesses ERM maturity across the Group
- Provides challenge and insight
- Reports to Executive Committee, Audit Committee and Board

Operational teams

- Identify and assess risks
- Set risk target position
- Identify risk improvement actions

In our non-regulated businesses we take a more commercial approach to risk. However, we recognise that we provide products and services for clients who operate in regulated environments. As a result, for risks that could impact on our clients' regulated services, we take a similar approach to risk as in our own regulated business. The risks inherent in our non-regulated business are illustrated on pages 48 to 53.

Our Enterprise Risk Management process

We use an established ERM process across the Group to assess and manage our significant risks, which are linked to our corporate objectives, core processes, key dependencies, stakeholder expectations and legal and regulatory obligations. The process is controlled by the central ERM team and underpinned by standardised tools and methodology to ensure consistency. ERM Champions and Co-ordinators operate throughout the business, with support and challenge from the ERM team, to identify and assess risks in their business units quarterly against a defined set of criteria considering the likelihood of occurrence and potential financial and reputational impacts. The potential causes and subsequent impact of the risks are documented to enable the corresponding mitigating controls to reduce the likelihood and impact to be assessed. This assessment allows us to put in place effective mitigation strategies to remediate defective controls or implement additional controls.

This information is combined to form a consolidated view of risk across the Group and allows the risks to be prioritised. Our significant risks, in terms of likelihood and impact, form our Group risk profile which is reported to the Executive Committee for review and challenge ahead of final review and approval by the Audit Committee and Board half-yearly. In addition, individual risks or specific risk topics are also discussed by the Board during the year.

On a quarterly basis, the status of open risk mitigation actions across the Group risk profile and level of ERM maturity in each business unit is reported into the Executive Committee by the central ERM team. Where necessary improvement plans are agreed to ensure ERM is fully embedded and effective.

An overview of accountability for our ERM process is illustrated in the diagram opposite.

Risk appetite

The Board keeps under ongoing review the relationship between our strategic ambitions and the management of risk.

The ERM process establishes target risk positions for each of our significant risks. The Board formally discusses the progress towards this position and the mitigating actions being undertaken every six months.

Financial risks

Like all businesses, we need to plan future funding in line with business needs. This is part of our normal business planning process (see Principal Risk 3).

The Board receives regular updates relating to funding, solvency and liquidity matters via the Treasury Committee so we can respond quickly to any changes in our ability to secure financing (see Principal Risk 11). The pension fund Trustees and the Company regularly monitor our pension deficit, with advice from investment managers and advisers. An annual pension fund review paper is produced for the Board to apprise them of fund performance and proposed initiatives to manage down pension liabilities and further improve investment returns (see Principal Risk 10).

The ERM process and relevant risk assessments are factored into the stress testing to assess the Group's prospects as part of our Viability Statement.

Risk management in practice

Every day we collect, treat and safely return to the environment, 1.4 billion litres of waste water. We use the remaining sludge from the treatment process to generate energy by using anaerobic digesters (see pages 39 and 40) and once this has been completed we safely dispose of the biosolids, a by-product of the process, by selling them for use by the agricultural industry as natural fertiliser.

If there was ever an issue concerning the quality or safety of the biosolids, and we could no longer dispose of them in this way, we would have to use alternatives such as landfill and/or reopen the Severn Trent Water incinerators that are not currently in use. Not only are these alternatives costly for us, but they are less environmentally sound and fail to utilise the nutrients still present in the biosolids.

That's why, in order to reduce the likelihood of this happening, we have successfully achieved Biosolids Assurance Scheme ('BAS') accreditation to ensure the quality and viability of our biosolids product for use in agriculture. BAS combines legislative and non-legislative requirements, along with best practice, to ensure operational consistency and hence demonstrate transparency in the delivery of nutrients to agriculture. The investment in Thermal Hydrolysis Process ('THP') technology will help to generate more energy from the sewage treatment process but also reduce the quality of the bio solids by-product we have to dispose of, further reducing our exposure to this risk.

Long Term Viability Statement

The Directors' assessment of the Group's current financial position is set out in the Financial review on pages 41 to 45 and their assessment of the Group's principal risks is set out in the Principal risks section on pages 48 to 53.

The Company's principal operating subsidiary is Severn Trent Water Limited, which is a regulated long term business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to secure that water companies are able to finance their appointed activities.

Ofwat meets this obligation by setting price controls for five year Asset Management Periods ('AMPs'). This mechanism reduces the potential for variability in revenues from the regulated business. The current AMP runs until March 2020.

The Group has an established process to assess its prospects. The Board undertakes a detailed assessment of the Group's strategy on an annual basis and the output from this assessment sets the framework for the Group's medium term plan which is updated annually.

The plan assessed the Group's prospects and considered the potential impacts of the principal risks and uncertainties. Stress tests were performed to assess the potential impacts of combinations of those risks and uncertainties. The plan also considered the mitigating actions that might be taken to reduce the impact of such risks and uncertainties and their likely effectiveness.

The Group's investment programmes are largely funded through access to debt markets. The Group's strategic funding objectives reflect the long term nature of the Severn Trent Water Limited business and the Group seeks to obtain a balance of long term funding at the best possible economic cost. The Group's Treasury Policy requires that it maintains sufficient liquidity to cover cash flow requirements for a rolling period of 18 months in order to mitigate the risk of restricted access to capital markets. The Group's debt maturity profile is actively managed by the Group Treasury department to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 15 years.

Bearing in mind the long term nature of the Group's business; the enduring demand for its services; the nature of the Group's established planning process and the changing nature of the regulation of the water industry in England and Wales, the Directors have determined that three years is an appropriate period over which to assess the Group's prospects and make its Viability Statement.

In making its assessment the Board has made the following key assumptions:

- Any period in which the Group is unable to access capital markets to raise finance during the period under review will be shorter than 18 months.
- There will not be a catastrophic disruption to our drinking water supplies arising from external factors during any such period of market disruption.

The Directors have assessed the viability of the Company over a three year period to 31 March 2019, taking into account the Company's current position and principal risks. Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2019.

Going Concern Statement

In preparing the financial statements the Directors considered the Company's ability to meet its debts as they fall due for a period of one year from the date of this report. This was carried out in conjunction with the consideration of the Viability Statement above.

On this basis the Directors considered it appropriate to adopt the Going Concern basis in preparing the financial statements.

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These have been categorised across:

- customer perception;
- legal and regulatory environment;

- operations, assets and people; and
- financial risks.

For each risk we state what it means for us and what we are doing to manage it.

Movement in net risk exposure

Customer perception

1. What is the risk?

We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Embed customers at the heart of all we do

Link to our values (page 12)

We put our customers first

We are passionate about what we do

We act with integrity

Performance commitments

ODIs 24-27

What does it mean for us?

We are a regulated utility providing essential services to our customers. We recognise that our customers increasingly expect more from us and demand an improved and more consistent experience. As other industries improve their levels of service, the bar continues to be raised.

Failure to deliver the service that customers expect will lead to customer dissatisfaction. This may result in financial penalties under Ofwat's Service Incentive Mechanism and associated ODI outturn.

What are we doing to manage the risk?

We have continued to focus on driving change to embed customers at the heart of what we do. We have developed six core household customer journeys so we understand customer needs and expectations. We have delivered some quick wins to augment our existing offering; Track My Job, In My Street, In My Area and SMS appointment reminders.

Providing the high quality service that our customers demand means we need the right processes, systems and resources. As part of becoming a digitally savvy organisation we are improving our web offering and digital self-service channels. We are also giving customers more choice in the way that they interact with us by introducing new contact channels such as Facebook, and ensuring our current channels are efficient and effective, for example we have invested in a strategic webchat capability to ensure we can offer this service to reach a broader audience.

We know that providing great customer service needs the right resource so we have introduced a new performance and quality framework for our contact centre staff and undertaken capability assessments to identify and close any training gaps.

To help make sure we continue to improve our service in line with our customer's expectations, we survey thousands of customers each month through our Rant & Rave tool. This gives us direct feedback on their experience of contacting us, and enables us to improve our service, spot trends and react to our customers needs. We are continuing to extend our 'voice of the customer' approach to capture feedback from more interactions across more of our business. We have used this feedback to develop a SIM forecast tool so we can predict our ODI performance for our qualitative element.

2

What is the risk?

We may be unable to take full advantage of the opportunities presented by the opening up of the non-household retail market to competition.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Change the market for the better

Link to our values (page 12)

We are passionate about what we do

Performance commitments

N/A

What does it mean for us?

Competition will give non-household customers increased choice and will encourage companies to provide a better service. If we fail to keep pace with change or fail to recognise the needs of our business customers, we may lose customers to our competitors. We may fail to successfully grow our business by being unable to develop sufficiently attractive services to win new customers.

What are we doing to manage the risk?

We are positioning our business to succeed in this market and are actively preparing for the introduction of competition to non-household retail in England. The change programmes to govern and manage the adaption of our wholesale and retail businesses are well underway and on track for 'Shadow Operation' which commences in October 2016, and acts as a dress rehearsal for full market opening in April 2017. In February 2016, the Board signed the first of three 'Letters of Assurance' confirming to the Secretary of State for the Environment, Food and Rural Affairs that we are on track for market opening.

In March 2016, we announced a proposed joint venture with United Utilities to form a combined non-household retail business. The joint venture will combine the complementary skills and capabilities of Severn Trent and United Utilities to improve our competitive offering for customers, increase efficiency and enhance value. The introduction of competition into the non-household retail market presents us with an exciting opportunity to combine our expertise for the benefit of customers and shareholders.

We are developing a control framework to establish the protocols, policies, systems, guidance and training necessary for the operation of separate wholesale and retail business units and to ensure ongoing compliance with the relevant legislation, including competition law.

Movement in net risk exposure

Legal and regulatory environment

3. What is the risk?

We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.

Which part of Severn Trent is affected?

Severn Trent Water Limited

Link to how we're achieving our strategy (page 20)

Change the market for the better

Investing responsibly for sustainable growth

Link to our values (page 12)

N/A

Performance commitments

N/A

What does it mean for us?

Severn Trent Water Limited operates in a highly regulated environment. Whilst we are broadly content with the direction of changes proposed for our industry, there remains a risk that future changes could have a significant impact on Severn Trent Water Limited.

What are we doing to manage the risk?

Severn Trent has always contributed to the debate about our industry's future, including through our series of Changing Course publications. We will continue to be an active participant in these conversations, so we can help shape thinking about how to best serve our customers in the future.

We have contributed to the establishment of Market Operator Services Limited, the body which will help to facilitate competition in the non-household retail market.

We continue to actively participate in discussions with Ofwat regarding the development of the regulatory environment and our response to the Water 2020 consultation was submitted in February 2016. Engagement with our peers, other regulators, UK Government departments and other stakeholders, including the Welsh Government, helps us to influence the direction of regulatory policy where possible and put forward our own case for change in a constructive way.

Movement in net risk exposure

Principal risks

4. What is the risk?

The regulatory landscape is complex and subject to ongoing change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation leading to the risk of non-compliance.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Drive operational excellence and continuous innovation

Change the market for the better

Investing responsibly for sustainable growth

Link to our values (page 12)

We act with integrity

We protect our environment

Performance commitments

ODIs 1-4, 19-23, 30-43

What does it mean for us?

Our policies and processes must reflect the current legal and regulatory environment and all relevant employees must be kept aware of new requirements. Due to the spread of our operations, and changes in activity and organisational structure, this is not always straightforward. The Group as a whole may face censure for non-compliance in an individual group company or a specific region in which we operate.

What are we doing to manage the risk?

Our governance framework and related policies and internal controls ensure our ongoing compliance with all applicable laws and regulations.

The forthcoming introduction of non-household retail competition means we need to refresh our policy framework. We are developing a control framework to establish the protocols, policies, systems, guidance and training necessary for the operation of separate wholesale and retail business units and to ensure ongoing compliance with the relevant legislation including competition law.

Changes to the legal and regulatory environment are captured as 'emerging risks' through our ERM process with the necessary owners and actions identified to ensure compliance when the changes come into effect.

Movement in net risk exposure

Operations, assets and people

5. What is the risk?

We may experience loss of data or interruptions to our key business systems as a result of cyber threats.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Link to our values (page 12)

We put our customers first

Performance commitments

ODIs 1-4, 5-18, 19-23, 24-37

What does it mean for us?

The risks arising from loss of one or more of our major systems or corruption of data held in those systems could have far reaching effects on our business. We have recognised the increasing threats posed by the possibility of cyber attacks on our systems and data. Whilst this threat can never be eliminated and will continue to evolve, we are focused on the need to maintain effective mitigation.

What are we doing to manage the risk?

We recognise that the cyber threat to the business is constantly evolving and one which we need to monitor and act on in a timely manner.

Using guidance from the Centre for Protection of Critical National Infrastructure ('CPNI') we have improved both our technology controls (security event alerting, enhanced email and web filtering, vulnerability management and advanced threat management solutions all installed in the last 12 months) and training and awareness (cyber security incorporated into security and awareness training, cyber roadshows to raise awareness and online training).

We have also participated in a Government led cyber exercise for the water industry and recently delivered a company-wide exercise simulating a cyber attack and subsequent widespread power loss incident. Regular penetration testing of our corporate and customer websites is completed by cyber security specialists to identify any vulnerabilities and the resilience of our systems through regularly tested disaster recovery plans are in place.

Whilst progress has been made during the year to ensure we are better prepared, due to the rapidly evolving nature and complexity of the threat, this work will continue. Ongoing monitoring and reviews will ensure that our mitigating controls and plans continue to protect us and our customers.

Movement in net risk exposure

Legal and regulatory environment

6. What is the risk?

We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.

Which part of Severn Trent is affected?

Severn Trent Water Limited

Link to how we're achieving our strategy (page 20)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Investing responsibly for sustainable growth

Link to our values (page 12)

We put our customers first

We are passionate about what we do

We protect our environment

Performance commitments

ODIs 1-45

What does it mean for us?

If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties, either within the current price review period or applied to the next price review.

Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.

We need to ensure that our customers can trust and place confidence in the operational performance data we publish. Our data assurance needs to be robust to confirm the accuracy and integrity of this information.

What are we doing to manage the risk?

Our business plan for 2015-2020 includes considerable investment in our assets to improve the resilience of our networks, reduce interruptions and improve the service that our customers receive. We recognise areas where our performance is not as consistent as we would like and are committed to improving these areas.

Under our Cleanest Water Plan we have undertaken a significant amount of work at our water treatment works, boreholes and reservoirs, inspecting the sites and increasing our maintenance and capital replacement as well as formalising our processes, standards and operating procedures involved in delivering clean water.

We remain committed to investing in continuous improvement activities such as our Value Every Drop programme, which has reduced our time to process and react to leaks. We have also reduced total leakage and have achieved our regulatory commitment for the fifth year running.

We continued to work to reduce the impact on our customers when things unfortunately do go wrong, for example by faster despatch of emergency tankers and providing our employees with a refresh of incident management training.

To improve our waste water performance we have trialled different ways of engaging with customers to raise awareness of the problems caused by putting the wrong things down our sewers. We are also investing in capital solutions to enable us to protect properties at risk of sewer flooding.

Movement in net risk exposure

7. What is the risk?

Failure of certain key assets or processes may result in inability to provide a continuous supply of clean water and safely take waste water away within our area.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Investing responsibly for sustainable growth

Link to our values (page 12)

We put our customers first

We are passionate about what we do

Performance commitments

ODIs 1-4, 5-18, 19-23

What does it mean for us?

Some of our assets are critical to the provision of water to large populations for which we require alternative means of supply.

Examples include failure of one of our reservoirs or water treatment works. These assets are regularly inspected and maintained and our assessment of the overall condition of these assets is good.

Another example is our IT and telephony systems which are critical to our operations and failure of these systems, for example our remote monitoring system, could have a significant effect.

What are we doing to manage the risk?

During the year, a total of £72 million was devoted to reducing water quality complaints, achieving compliance with water quality standards and reducing coliforms. Under our Cleanest Water Plan we have undertaken a significant amount of work at our water treatment works, boreholes and reservoirs, inspecting the sites and increasing our maintenance and capital replacement as well as formalising our processes, standards and operating procedures involved in delivering clean water.

We've launched our Operational Effectiveness Programme to ensure maximum asset performance.

We're on track to create a suite of 18 major water treatment works that are uniformed and systematic in how they're run. Consistent, undeviating processes that define how we work, will help us to produce a high quality product, regardless of which site it comes from. It will also help us to shave off unnecessary costs.

Our Proactive Asset Management programme has begun to look into how we can better use information about our network and assets to prevent failures in the first place, reducing impacts on service levels but also being more cost-effective rather than carrying out reactive repairs. Our 2015-2020 business plan includes substantial investment in some of our largest strategic assets such as the Elan Valley and Derwent Valley Aqueducts, one of the major elements of which is the £300 million investment in one of our largest ever capital schemes to improve the resilience of our water supply to Birmingham.

We continue to maintain and test our 'Being prepared framework' to ensure our business continuity arrangements are fit for purpose and the Group can react quickly to safeguard our critical operations.

In addition to investing in resilience improvements to our network we also have assurance plans in place to monitor, inspect and maintain our most critical assets and to ensure clean water is always available to our customers and we will always be able to safely take their waste water away.

We will continue to make significant investment into our network and processes but we accept there is always a risk of unexpected failures, the recent Castle Donington incident being a prime example (see page 17). How we respond to these and learn from them is vital in keeping the likelihood of unexpected failures as low as possible.

Movement in net risk exposure

Principal risks

8. What is the risk?

Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public as well as negatively impact our local and wider environment.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Drive operational excellence and continuous innovation

Investing responsibly for sustainable growth

Create an awesome place to work

Link to our values (page 12)

We protect our environment

We act with integrity

Performance commitments

ODIs 30-41, 42 & 43

What does it mean for us?

The nature of our assets, operations and business are such that threats to the safety of our employees, contractors, customers and the wider public exist. Operational failures or negligence could result in damage to the environment.

We are responsible for a large estate of assets and have to secure these from unauthorised access to ensure our operations are not impacted nor the safety of the public compromised.

What are we doing to manage the risk?

Our 2015–2020 business plan includes substantial investment in community schemes to ensure the risk of failure at key points along our Elan Valley Aqueduct, that could cause substantial damage and endanger the safety of the public, is further reduced.

We have a well established Health, Safety and Wellbeing framework to ensure all of our operations and processes are conducted in compliance with health and safety legislation and in the interests of the safety of our people and contractors. Our Goal Zero initiative clearly establishes our target that no one should be injured or made unwell as a result of what we do.

There are a number of performance commitments we have made to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance. During the year, we invested £91 million towards our targets on pollution, environmental compliance, biodiversity and sustainable sewage treatment. Continuing our strong track record of delivery from last year, we have provisionally been rated 4* by the Environment Agency.

We recognise the impact our operations have on the wider environment and we want to reduce our carbon footprint by seeking lower carbon ways of operating our business and generating renewable energy. Our target is to increase the amount of renewable energy we generate and to invest in ways to make our processes more energy efficient, such that by 2020, 50% of the energy we use will be from renewable sources.

Movement in net risk exposure

9. What is the risk?

We are unable to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or are unable to successfully plan for future water resource supply and demand due to climate change.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Drive operational excellence and continuous innovation

Investing responsibly for sustainable growth

Link to our values (page 12)

We protect our environment

Performance commitments

ODIs 1-4, 5-18, 19-23, 42-43

What does it mean for us?

Climate change (hotter and drier summers, wetter winters and increased storminess) could result in an inability to meet customer demand, lower river levels, decreased raw water quality, flooding of our water or waste water works, sewer capacity being exceeded and increased land movement. Climate change could also be a contributing factor for principal risks 1, 6, 7 and 8 detailed above.

There are also some potential opportunities that climate change presents for us, including reduced leakage, aquifer recharge and increased biological treatment. It is important that we understand these opportunities to maximise the benefits.

What are we doing to manage the risk?

Our climate change adaption report sets out our strategy for coping with future changes to our climate.

It's important to note that we don't consider climate change risks in isolation and we view them alongside all the challenges we face. To that effect a large number of our current objectives and targets agreed as part of our performance commitments will increase our resilience against climate change, including reducing leakage, improving water efficiency, reducing properties prone to low pressure, protecting prone properties/areas from sewer flooding and increasing the resilience of our water supply and water and waste water works.

We are also adapting to climate change through innovation, with 21 catchment management projects and a doubling of our sustainable urban drainage ('SUDs') projects planned for this AMP.

Our own impact and contribution to climate change cannot be ignored and, as outlined in principal risk 8 above, there are a number of ways in which we are addressing our impact on the environment.

Movement in net risk exposure

Financial risks

10. What is the risk?

Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Investing responsibly for sustainable growth

Link to our values (page 12)

N/A

Performance commitments

N/A

What does it mean for us?

We already provide significant funding but could be called upon to provide more money to reduce pension deficits in our defined benefit schemes.

What are we doing to manage the risk?

We regularly revalue our schemes and monitor our investment performance and will continue to work closely with our third party advisers to ensure that the schemes are managed effectively.

During the year the Risk Monitoring and Assessment Committee ('RMAC') was formed, comprising representation from the Company and Trustees. The Committee focuses on monitoring investment performance, reviewing scheme risks and operates as a forum for the Company and Trustees to collaborate in taking action to minimise the scheme deficit.

Closure during the year of the main defined benefit scheme to future contributions by members was a major milestone and will help to cap future growth of the deficit (defined benefit schemes having been closed to new members in 2006).

Movement in net risk exposure

11. What is the risk?

We are unable to fund the business sufficiently in order to meet our liabilities as they fall due.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (page 20)

Investing responsibly for sustainable growth

Link to our values (page 12)

N/A

Performance commitments

N/A

What does it mean for us?

We must ensure sufficient liquidity is available to meet our near term financial commitments. We have a significant funding requirement in AMP6, to fund our investment programme and refinance maturing debt. This is a well-controlled risk, but it is important that we maintain these high standards to mitigate this risk.

What are we doing to manage the risk?

The risk is managed by our Treasury Committee and their associated policies and procedures through detailed cash flow forecasting, access to committed banking facilities, use of diverse lending sources including bonds, US Private Placement, European Investment Bank and other bank loans to spread risk, early refinancing of bonds and other maturing debt (to manage refinancing risk), interest rate monitoring and analysis of the impact interest rates could have on credit metrics and loan covenants.

The Treasury Committee regularly reports to the Board to enable us to respond quickly to changes in our ability to secure financing.

See our Viability Statement on page 47.

Movement in net risk exposure

For full list of all ODIs and the details of each see www.severntrent.com

Corporate responsibility report

Building Trust

Our approach to Corporate Responsibility aligns with our strategic framework. To build trust, serve our communities and leave a lasting water legacy we must make sustainable choices and act responsibly in a way that demonstrates our values.

Gordon Fryett
Chairman of the Corporate Responsibility Committee

Our Corporate Responsibility framework

Our purpose

To serve our communities and build a lasting water legacy

Our vision

To be the most trusted water company by 2020

Underpinned by our Corporate Responsibility Commitment

By adopting responsible business practices and making sustainable choices we will be able to meet our purpose and fulfil our business strategy.

Our ambitions

The nature of what we do means that we have an important role to play in protecting water as a precious resource and the wider environment. We have identified two stretching ambitions which will help us to achieve both our vision and purpose.

Ambition One

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

Ambition Two

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

Our values

Through our company values we will deliver commitments expected of a leading, socially responsible company. We also expect our suppliers to support our values.

We put our customers first	We are passionate about what we do	We act with integrity	We protect our environment	We are inspired to create an awesome company
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Our responsible commitments and our performance against them

Our Corporate Responsibility framework is centred around the issues that are most important to our customers and the most material issues underpinning our performance as a sustainable business. These have been identified through extensive stakeholder consultations undertaken throughout PR14 to develop our ODIs. We have two ambitions which we want to excel in, and our company values provide key areas of focus. Each commitment has tough measures associated with it and are subject to a rigorous ongoing review to ensure they remain appropriately challenging. We will continue to develop our metrics where required.

Objective	Our commitment	How we are measuring our performance	15/16 RAG***	This year's performance	2015/16 target	2020 target
Ambition One: We will make our region the most water efficient in the UK	We will provide 1,000 of our business customers with water efficiency devices and personal advice, working with our wholesale suppliers to reduce consumption	Number of efficiency interventions we have carried out for our business customers, including audits, educational sessions and bespoke advice		54	50	1,000
	We will empower our customers to save up to 25Ml/d by 2020	Water efficiency level achieved		4.32Ml/d	5Ml/d	25Ml/d
	We will improve understanding of our services through education	Number of customers we have educated from 2015 to 2020		117,728	155,000	700,000 (cumulative over AMP6)
Ambition Two: We will play a leading role to help make our region's rivers even healthier	We will work with landowners and partner organisations to reduce agricultural run-off in our region's rivers	Positive engagement with land managers in targeted areas by end of AMP6		4%	4%	80%
	We will do our fair share to achieve Water Framework Directive good ecological status in our region's failing water bodies, where it is cost-effective to do so	Number of Water Framework Directive classification improvement points (as monitored by the Environment Agency)		0	0	233 (cumulative over AMP6)
	We will improve biodiversity in our region by improving at least 75 hectares of Sites of Special Scientific Interest (SSSI)	Number of hectares improved from unfavourable or deteriorating condition using Natural England's database of SSSIs		0	0	75
We put our customers first	We provide a service to our customers that is good value for money	% of customers who rate our service value for money in an independent quarterly survey		57.5%	57%	55%
	We help our customers who are in genuine need and struggling to pay their bills	Number of customers we help each year through social tariffs		24,110	35,000	50,000

SEVERTRENT_AR16

Objective	Our commitment	How we are measuring our performance	15/16 RAG***	This year's performance	2015/16 target	2020 target
		and assistance schemes				
We are passionate about what we do	Our employees are passionate about what we do	Group % engagement score from our annual employee survey		52%	50%	–
We act with integrity	We involve our customers in our plans, and we're honest about how they think we're doing	We will invite the independent Water Forum to review and comment on our annual performance	–	4 Water Forum meetings held this year	–	–
We protect our environment	We do everything we can to prevent polluting the environment	Number of Environment Agency Category 1 & 2 incidents (Calendar year metric)		2	>8	0
	We reduce our carbon footprint	% reduction in Group carbon emissions (scope 1 and 2)		8%	4%	19%
We are inspired to create an awesome company	Our colleagues and community are not hurt or made unwell by the work we do	STW – LTI rate		0.25	0.18	–
		Business Services – LTI rate	–	0.17	–	–
	We believe a diverse and inclusive workforce is a key factor in being a successful business	STW – Total workforce % Female		30.3%	30%**	–
		Group – Total workforce % Female		28.95%	–	–
		STW – Total workforce % BAME		7.64%	6.0%**	–
		Group – Total workforce % BAME		13.86%	–	–
Our suppliers support our values	We are a responsible payer	% invoices paid on time (12 month financial year average)		96.4%	95%	95%

* Global benchmark from Aon Hewitt

** Business in the community industry benchmark 2014

*** Against target

On track

Slightly off track

Off track

Our ambitions

In order to achieve our vision of being the most trusted water company by 2020, we will demonstrate environmental leadership wherever we operate. The nature of what we do means that we have an important role to play in protecting and sustaining water as a natural resource and the environment as a whole. We take water from rivers and aquifers, transport it over large distances to our customers, and return treated waste water to rivers in our region. In the future, our ability to achieve this will be challenged by matters such as maintaining the resilience of our supplies, ensuring we continue to source water sustainably, meeting tightening environmental standards, coping with extreme weather and meeting the demand from the additional 1.6 million people expected to be living in our region over the next 25 years. We are committed to meeting these challenges, which form the basis of our two ambitions, and will help us to achieve our vision and purpose as set out in this report.

Water efficiency achieved this year

4.32 MI/d

Customers educated

117,728

in 2015/16

Ambition One: We will make our region the most water efficient in the UK

We aim to do this through providing advice, equipment and education.

We will empower our customers to save up to 25MI/d by 2020

We know water efficiency is important to our customers and we are committed to helping them to become more water efficient and have set ourselves an ambitious target to help them save 25 mega litres per day (MI/d) by 2020. Through helping our customers and by continuing to reduce leakage we want to make our region the most water efficient in the UK.

We will provide 1,000 of our business customers with water efficiency devices and personal advice, working with our wholesale suppliers to reduce consumption

As part of our standard service to our key corporate customers, we engage with them on water efficiency discussions and also conduct site audits to help them manage their water consumption and costs. In 2015/16 we provided this advice to 20 of our key corporate customers and conducted 54 site audits, including ASDA, Next and several large universities, and completed 280 water efficiency audits with smaller businesses in Nottingham. In addition to this, we are working to provide third party consultancy, at no cost to customers, in key parts of our region. This is a joint engagement between our wholesale and retail teams. We are developing a segmented customer approach to engagement depending on their size and water efficiency needs.

We will improve understanding of our services through education

Our customers told us they want to better understand what we do. This year we set up our new Community Relationship Team who are focused on delivering two key messages: the importance of water efficiency, and ensuring our drains remain clean and blockage free. This work is really important in protecting our environment and our customers from pollutants and external and internal flooding. In 2015/16, through a number of partnerships including local universities and City Councils, we have been able to educate 117,728 customers, a number which we anticipate will increase substantially. These partnerships are mutually beneficial; preventing blockages proactively in both our customers' networks and ours. Through education and training packages on water efficiency we also enable customers with the potential to reduce their water usage and therefore water bills.

New water efficiency home check programme

This year we launched our new water efficiency home check programme, starting in the Rugby area. Customers in and around the area can sign up for a free home check, where Severn Trent contractors, PN Daly, visit the customer's home and fit free water saving devices, offer advice on how they can save water and check for simple leaks. This free service will help customers save water, energy and money. So far we've completed 5,590 home checks and we aim to deliver more in the future.

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

We aim to achieve this through working with landowners and partner organisations, achieving good ecological status and improving biodiversity.

We will work with landowners and partner organisations to reduce agricultural run-off into our region's rivers

Partnerships such as those with Wye & Usk Foundation, Trent Rivers Trust, Severn Rivers Trust, Catchment Sensitive Farming and Nottinghamshire Wildlife Trust have been key to helping us deliver our AMP6 catchment ambitions. Through these partnerships we are reducing agricultural run-off, such as pesticides getting into the water and polluting it, therefore improving river water quality, reducing treatment costs and improving the river environment as a whole. Our catchment team, alongside a range of moorland partners, have been successful in securing €16 million of EU support to deliver our targets in the Bamford catchment.

Newly recruited agricultural advisers will play a vital role in engaging with farmers across 27 catchments, which is a core part of our catchment scheme delivery. The team have received a pleasing number of Severn Trent Environmental Protection Scheme ('STEPS') applications during their first farmer grant applicant window. The work is aimed at improving water quality in our catchments. Applicants have ranged from improved pesticide handling facilities to rainwater harvesting equipment. STEPS grants will be available to farmers in priority catchments annually until 2020. In 2016/17 we will continue to focus on farmer engagement specifically in groundwater catchments, setting up and running 'Farmers as Producers of Clean Water' and metaldehyde product substitution schemes in our surface water catchments.

We will do our fair share to achieve Water Framework Directive ('WFD') good ecological status in our region's failing water bodies, where it is cost-effective to do so

In AMP6 we will be delivering our largest ever environmental improvement programme, spending over £300 million to deliver improvements to rivers throughout our region, a programme which is supported by our customers who wanted to see us do more to improve river water quality.

Our investment programme seeks to contribute our fair share of the improvements needed to get targeted river lengths within our region to 'good ecological status', to support the WFD objective to get all water bodies (lakes, rivers etc) to this status. The majority of improvements are targeted at sewage treatment works to produce a higher quality effluent, which will in turn help improve river water quality. This investment will deliver new or improved assets onsite and involve complex capital schemes. We have worked closely with the Environment Agency in order to optimise the environmental benefits of our programme. We are also reducing abstractions by 85Ml/d from sources that are no longer environmentally sustainable.

We will improve biodiversity in our region by improving at least 75 hectares of Sites of Special Scientific Interest ('SSSIs')

Planning has been our primary focus this year to date, identifying all 11 SSSIs and Special Areas of Conservation that Severn Trent will be improving over AMP6, allocating specific projects to be undertaken to either improve or stop deterioration at each site and setting up monitoring processes. We have been working closely with Natural England to determine a methodology for capturing improved biodiversity and clarifying the details of our performance commitment, with the support of our customer challenge group, the Water Forum.

Farmers engaged with since Agricultural Advisers in place (October 2015)

762

WatersideCare

Working with our project partners Keep Britain Tidy, the Environment Agency and the Canal and River Trust, we are proud to be supporting the WatersideCare volunteers to breathe new life into their local rivers and canals. There are over 50 community groups in the Midlands who work hard to improve their local environment by clearing litter from river stretches, increasing awareness of the effects of pollution, managing invasive species and monitoring their local aquatic environment. At the end of the fifth year of the partnership, they have cleared 7,606 bags of litter, removed 1,130 bulky items from waterways, reported 48 suspected misconnections and 15 environmental crimes, giving an impressive 30,481 hours of their time to their local waterways.

Innovation in integrated water management

In Tyseley, Birmingham, we're leading on the creation of a community scale, model site, to demonstrate the practicality and societal benefits of integrated water management. Working with the community and a range of partners we are trialling a number of innovative measures including new water efficiency products and rain water harvesting for toilet flushing to reduce water consumption and our customers' bills. The outcomes will influence our investment elsewhere to ultimately benefit all our customers.

We put our customers first

Customers are at the heart of all we do and this means putting them first. We invest time to listen to our customers. We work hard to design an experience they expect and translate it into our business plans. We put our customers and communities first, aim to provide a service that is value for money, help our customers who struggle to pay their bills and to make a positive difference through volunteering.

We put our customers and communities first when carrying out our work

We recognise that planned and unplanned work on our networks can cause disruption. In February 2015 we launched 'Customers and Communities First', our guide to help our colleagues and one of our supply chain partners deliver a great customer experience every time they carry out planned work. It explains what we need to do and who we need to engage with before work begins, during and after our work is complete. We seek feedback from our customers at the end of every scheme to ensure we successfully learn from experiences, sharing areas for improvement and best practice.

We provide a service to our customers that is good value for money

Our customers pay the lowest combined water and waste water bills in the UK, and will continue to do so in AMP6. However, our research shows that customers want more than just low bills, they expect us to make a positive difference especially when it comes to our investments and the environment. Operating efficiently, we are able to do both of these things and provide good value for money to customers. In an independent quarterly study of our customer base, 57.5% of our customers consider us good or very good value for money.

We help our customers who are in genuine need and struggling to pay their bills

We work hard to ensure our bills are affordable, but we understand that some customers may need additional assistance. We can help customers through a review of their account and support through one of our affordability schemes such as metering, Watersure and our new social tariff, the Big Difference Scheme. We launched the Big Difference Scheme, in April 2015, which offers between a 10% and 90% reduction to the average bills.

In 2015/16, we assisted 24,110 customers. Our target was 35,000, however, in the early part of the year application volumes were lower than expected, due in part to challenges engaging with the customers who need our support. We also believe that the perceived social stigma associated with seeking financial support may be

affecting applications. We have new engagement plans in place for 2016/17 and are determined to support more of our customers who need it the most.

Severn Trent Trust Fund provides assistance to those in the most financial difficulty. For more information on the support we offer our customers, see page 30.

Our people make a positive difference in the community through volunteering

In February 2016, we launched our programme of activity 'Love Our Network', focusing on volunteering, education and network vigilance under the headings of 'Love to Care', 'Love to Share' and 'Always Aware'. We have worked with our employees and our newly established employee community panels, to steer our approach to volunteering throughout the business. Following a vote by our employees, we support two charities; continuing our support with WaterAid and a new partnership with Make-A-Wish Foundation. In addition to this, we will support national set piece fundraising events, and local teams will be able to select the causes they wish to raise funds for, volunteer or do team building activities for. All employees have two days paid volunteering leave available to them per annum. We encourage volunteering in support of our two CR ambitions around water efficiency and healthier rivers and ensure that all volunteering activities are conducted in a safe manner.

Number of customers we've helped this year.

24,110

Number of customers we aim to help each year during AMP6

50,000

We act with integrity

Being trusted means always doing the right thing for our customers, communities, investors, regulators and colleagues. This means that we will never tolerate fraud, bribery or corruption – and that we only ever work with suppliers and partners who care about this as much as we do.

Our employees are not afraid to stand up for what's right

We believe it is important that employees feel able to speak up and are confident they can raise issues and concerns, whatever the nature. Openness and transparency are both key to this, and form part of how we want to do business. Sometimes, however, that isn't enough, and this is where our Whistleblowing Policy comes into play. The process is easily accessed, widely communicated and acted upon.

We involve our customers in our plans, and we're honest about how they think we're doing

We will invite the independent Water Forum to review and comment on our annual performance.

The Water Forum is an independently chaired, multi-stakeholder group that has a continuing role to challenge whether we are delivering our commitments to our customers, and how we communicate that performance. Over the past year the key areas of focus have been how we measure and share our AMP6 performance and the development of our assurance plan and risk statement. In both areas the Water Forum were invited to challenge our proposals and the insight they provided shaped our final approach. To gain greater understanding of our customers, Water Forum members were invited to attend customer research focus groups undertaken as part of the non-household retail tariff review programme. This will enable members to comment on the outputs of our research that will form part of our submission to Ofwat in July 2016. We are developing a new performance report that is aimed towards our household customers and will share our performance in a clear and accessible format. This is the first year it will be published and we will work to develop it throughout the AMP.

We make a constructive contribution to developing sustainable and resilient water and waste water services

We will publish our consultation responses on our website. We report annually on the initiatives we have taken to contribute.

We have been at the forefront of contributing to the Government's policy debate regarding the long term structure and regulation of the water industry. In our two most recent publications, Changing Course and Charting a Sustainable Course, we have developed and published ideas ranging from customer empowerment, affordability, resilience, flooding and drainage, sustaining the environment and the role of competition and markets.

We are committed to working with all key stakeholders to ensure that we promote a constructive and engaging debate about the future of the water sector. Responding to public consultations is a key component of this debate and it is essential that we use these opportunities to share our views and to seek to shape the outcome. We also believe that it is imperative that our customers can see what we are saying and how we are working to safeguard these essential services for today and tomorrow. We achieve this by publishing our responses to consultations on our website so that customers can read and understand the issues that affect them.

Performance management based on behaviours

Our employees live our values

Ensuring our employees 'Do the Right Thing' and act with integrity forms a crucial part of our performance management framework which is called 'Inspiring Great Performance', with behaviours making up 50% of our performance rating. Inspiring Great Performance details our behaviour models and the behaviours you need to be a great colleague within Severn Trent. We truly want everyone to be the best they can be and to reach their full potential and Inspiring Great Performance is at the heart of helping everyone to do just this.

We protect our environment

Acting responsibly and sensitively towards the environment and taking environmental issues seriously is key to how we are judged as a company and as an industry. Our environmental responsibilities extend far beyond the treatment of water and waste water to keep our rivers clean. We aim to play a leading role in promoting water as a vital resource, mitigate our environmental impact and to work with suppliers and partners to achieve this. It is also important that we engage constructively with regulators and other stakeholders to ensure a sustainable water industry. In our CR report, we focus on preventing pollutions and reducing our carbon footprint.

We do everything we can to prevent polluting the environment

Cleaning waste water means that we have to deal with unpleasant or dangerous substances that, if discharged to a watercourse untreated, could cause a serious pollution event. In 2015 we had two serious pollutions. This is a significant improvement on our 2014 performance where there were eight serious pollutions. This reduction has been achieved through continued investment in high risk assets, improving our operational processes and investigating third party sources of pollution entering our network. Our highest risk of pollution continues to be sewer blockages, resulting in sewage entering watercourses. In 2016, we will be installing over 500 monitors at high risk locations to detect the formation of blockages, in order to proactively resolve the issue before a pollution is caused. Our goal is to have zero serious pollutions (Environment Agency Category 1 or 2) by 2019.

We have been awarded a provisional environmental performance rating of 4* by the Environment Agency.

We reduce our carbon footprint

We are reducing our carbon emissions year on year, primarily by being more energy efficient and generating more renewable energy. We've seen a consistent reduction since 2002 when we began publicly reporting on our greenhouse gas emissions.

We have held the Carbon Trust Standard since 2009 in recognition of consistent emission reductions and effective carbon management processes. Our performance against the standard is in the top 15% of all organisations. We have seen a year on year improvement in our Carbon Disclosure Project ('CDP') score. CDP request information about climate change from companies each year on behalf of investors and score each company on the quality and completeness of their responses. This year we were recognised in the carbon disclosure leadership index for the first time (99/100), for demonstrating a considerable improvement from our previous CDP submission (2014: 85/100). This is largely due to our updated climate change risk assessment and the adaptation action report.

Reduction in Group carbon emissions since 2014/15

8%

Journey towards sustainable transport

We own a fleet of approximately 2,700 vehicles and in October 2015 we tendered for new vehicles that are industry leading on CO₂ emissions and fuel efficiency. We measure the weekly statistics from these vehicles including CO₂, miles driven, fuel used and empty miles. In 2012/13 we also purchased three Euromec electric vehicles for ground maintenance, which we will continue to purchase through AMP6.

Climate change adaptation – Future Proofing

This year we conducted a thorough analysis of the risks that climate change poses to us and our adaptation actions.

The main risks posed by climate change are:

- increased pressure on our water resources and the higher costs associated with meeting our customers' needs;

- higher levels of rainfall mean run-off exceeds the capacity of our sewer systems and our storage capacity; and
- decrease in raw water quality as a result of run-off from fields carrying pollutants such as pesticides.

To deal with these risks, we are investing to improve our resilience, including £300 million in a scheme to provide an alternative water supply to Birmingham. This allows us to carry out vital improvement work to the robust but ageing Victorian aqueduct that brings the city's supplies from mid-Wales. Liv Garfield, Severn Trent Chief Executive, said: "We're looking forward to delivering our plans for 2015 to 2020. Climate change presents a big challenge to us, yet it is a challenge that we can respond positively to." The full report, which details the actions taken to adapt to climate change and to improve resilience, is available at: www.stwater.co.uk/environment/adapting-to-climate-change.

During the year, we increased renewable energy generation from food waste, energy crop, sewage sludge, wind and solar power. Generating an equivalent of 33% of Severn Trent Water Limited's electricity needs, we continue to lead the UK water industry, with an aim of building on this position by generating the equivalent of 50% of our electricity needs by 2020. For more information see our Business Services performance review on pages 36 to 40.

Over the long term we aim to reduce our carbon emissions and increase our renewable energy generation. We plan to continue to reduce our emissions within Severn Trent Water Limited by a further 5% between 2015 and 2020, primarily by reducing our energy use and to continue to increase our renewable energy generation mainly within Business Services. Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tonnes CO ₂ e) * ('GHG')	2015/16	2014/15	2013/14
Emissions from combustion of fuel and operation of facilities (Scope 1)	156,979	169,211	169,844
Emissions from electricity purchased for own use (Scope 2)	337,028	357,756	330,679
Total Annual Gross Operational Emissions	494,008	526,968	500,523
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	45,085	38,878	21,672
Total Annual Net Operational Emissions	448,923	488,090	478,851

Annual GHG intensity ratio (t CO ₂ /unit)	2015/16	2014/15	2013/14
Operational GHG emissions of Severn Trent per £m turnover	270.7	276.0	269.6

The GHG data we report is reported internally during the year to the Corporate Responsibility Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs.

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), the year ended 31 March 2016. For Severn Trent Water Limited, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 10' (released April 2016). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. For Severn Trent Services, we have used the latest Defra emissions factors which include the relevant conversion factors for overseas electricity. For continuity, we have used the same global warming potential values throughout the three years of our reporting in this Annual Report and Accounts.

* Severn Trent Water Limited accounts for 98% of our total Group emissions

We are inspired to create an awesome company

Our people are essential to achieving success. We aim to create an awesome place to work for our employees in part by looking after their health, safety and wellbeing and encouraging diversity and inclusiveness.

Our colleagues and community are not hurt or made unwell by the work we do

Our vision for health, safety and wellbeing is that – ‘no one gets hurt or is made unwell by what we do’. We are working with the business to develop a road map to Goal Zero to set out exactly what we need to do to achieve our vision between now and 2017. A major focus this year has been on compliance with our health, safety and wellbeing (‘HSW’) standards and developing action plans to drive further improvements. This activity is complemented by regular ‘Thinking Out Loud’ campaigns, where our people submit their ideas on how to encourage everyone to follow our HSW standards, every time and every day. We also seek to ensure that members of the public are not injured as a result of our work. The ‘Love Our Network’ app was launched as a trial in January 2015, facilitating easy reporting of network issues and therefore protecting our communities from slips, trips and falls.

We are investing in the wellbeing of our colleagues to help them provide the best service they can

This year we launched our first ever Wellbeing Programme, focussing our efforts on mental health. The programme has received really positive engagement and we have seen a steady decline in absence due to mental health. For more information, please see our case study on page 25.

We believe a diverse and inclusive workforce is a key factor in being a successful business

As a customer focused organisation, we need our workforce to reflect the customers and communities we serve to ensure we understand and can respond to their needs.

We have prioritised three key areas: women in operational leadership positions, women and BAME (Black, Asian and Minority Ethnic) people in engineering positions and BAME people in technical operator positions. This year we have worked to ensure that our workplace is not only diverse but that it also inclusive and our colleagues feel that they can be themselves at work, for example recognising major faith days. We continue to work with Business Disability Forum to support disability at work.

Our approach to diversity and inclusion has seen a steady development in recent years, as evidenced with a silver classification from Business in the Community ‘BITC’ following its 2015 diversity survey.

2015/16 has seen us visit a busy schedule of school career events, raising awareness of our career opportunities and providing employability support across our region.

Digital first

Visit our online annual report to find out more: ar2016.severntrent.com

Our suppliers support our values

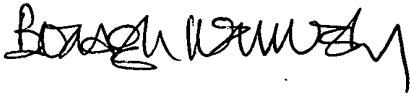
We want our supply chain to both live by and reflect our values and as such require all suppliers to sign up to ‘Doing The Right Thing’ – our Code of Conduct.

It’s also important to us that we are a responsible payer, and that’s why throughout 2015/16 we have worked hard to improve our payment to terms, part of which has involved bringing more suppliers onto self-bill to ensure a quicker ‘procure to pay’ process. This year we paid 96.4% of our invoices on time.

We are committed to improving the sustainability and resilience of our supply chain, which will form an area of focus going forward. 2016/17 will see further developments and initiatives focusing on collaborative working with our suppliers, to identify and manage both environmental and social elements we could improve in line with our core values and Corporate Responsibility framework.

The strategic report, as set out from the inside front cover through to page 63, has been approved by the Board.

SEVERNTRENT_AR16

A handwritten signature in black ink, appearing to read 'Bronagh Kennedy', with a stylized flourish at the end.

By order of the Board

Bronagh Kennedy

Group General Counsel and Company Secretary

23 May 2016

Governance report

Governance

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Chairman's letter

Andrew Duff
Chairman

UK Corporate Governance Code Compliance Statement

The version of the Corporate Governance Code applicable to the current reporting period is the September 2014 UK Corporate Governance Code (the 'Code'). The Code is available on the Financial Reporting Council's website (www.frc.org.uk).

Severn Trent Plc was compliant with all relevant provisions of the Code except that in relation to Code provision C.3.5, for part of the year, the review of the adequacy of arrangements of the Company's whistleblowing procedures fell within the remit of the Corporate Responsibility ('CR') Committee, rather than the Audit Committee. This divergence from the Code was addressed in October 2015. The Terms of Reference of the Audit Committee have been updated to reflect this change and can be found on our website (www.severntrent.com).

Both the Audit Committee and the CR Committee review reports on all whistleblowing allegations at their meetings.

Dear Shareholder

I am pleased to introduce our Governance report for 2016 on behalf of your Board in accordance with the September 2014 UK Corporate Governance Code (the 'Code'). Severn Trent has complied with all relevant provisions at the year end, having expanded the remit of the Audit Committee to consider the adequacy of whistleblowing arrangements (this was formerly a matter for the Corporate Responsibility ('CR') Committee) as detailed on page 86.

My role, together with the Board, is to ensure that Severn Trent operates to the highest standards of corporate governance within a well-developed framework to effectively deliver the Group's strategic objectives and to meet its obligations to the Company's stakeholders. Ultimately, effective governance is integral to the successful delivery of our business objectives. It requires that the Board has access to timely, relevant and robust information, so it can run the business effectively and promote the long term success of the Company in the best interest of all stakeholders. We also have clearly defined values and standards of behaviour which we expect from everyone who works for Severn Trent.

My focus continues to be on maintaining a strong, value adding team, with a broad range of professional backgrounds, skills and perspectives. In March 2016, the Board announced the appointment of Emma FitzGerald as an Executive Director to the Boards of Severn Trent Plc and Severn Trent Water Limited (together 'the Board'), with effect from 1 April 2016.

Following year end, we announced that our longest serving Non-Executive Directors, Martin Lamb and Gordon Fryett, would retire from the Board after the Annual General Meeting. I would like to thank Martin and Gordon for their valuable contribution to the Board during their tenure. At this time, we announced the appointment of Kevin Beeston to the Board as a Non-Executive Director, with effect from 1 June 2016, and the appointment of Dominique Reiniche to the Board as a Non-Executive Director, with effect from 20 July 2016.

Kevin will succeed Martin as Senior Independent Non-Executive Director and will become a member of the Audit, Remuneration and Nominations Committees. Dominique will succeed Gordon as a Non-Executive Director and become a member of the Corporate Responsibility and Nominations Committees. Dr. Angela Strank will succeed Gordon as Chair of the Corporate Responsibility Committee.

As can be seen from their biographies on page 67, Kevin and Dominique have a wealth of experience to bring to the Board.

At Severn Trent we have a broad and diverse range of skills and perspectives around the boardroom table, further details of which can be found on pages 66 and 67. As at the date of this report, our Board consists of nine

Directors. Our Non-Executive Directors continue to bring extensive experience, diversity and challenge to the Board. I firmly believe that we will continue to deliver value and achieve sustainable growth for our Company through the successful mix of good governance, a clear strategy with a supporting business plan, effective risk management and a strong organisational structure with the right culture in place to execute it.

This Annual Report remains the principal means of reporting to our shareholders on the Board's governance policies and therefore I welcome this opportunity to set out how the main and supporting principles of good corporate governance, as set out in the Code, the FRC Listing Rules and Disclosure and Transparency Rules, have been applied in practice. For more information on our Corporate Responsibility activities, please refer to our new Corporate Responsibility report which can be found on pages 54 to 63.

I would like to encourage our shareholders to attend our Annual General Meeting. We welcome the opportunity to meet with you and I hope you will take the opportunity to do so this year.

Andrew Duff
Chairman

Board of Directors

Committee membership key

Audit Committee

Corporate Responsibility Committee

Executive Committee

Nominations Committee

Remuneration Committee

Treasury Committee

1. Martin Lamb BSc MBA (56)

Senior Independent Non-Executive Director

Appointed to the Board on 29 February 2008

Martin brings extensive experience to the Board of managing and developing large engineering businesses in all parts of the world. His strong engineering expertise, commercial acumen, experience of managing complex projects, and familiarity with current market pressures leave him well placed to add value to the Severn Trent business. In May 2014, Martin left the Board of IMI plc having served as Chief Executive for 13 years and after 33 years with the Company. On 1 March 2014, Martin was appointed Chairman of Evoqua Water Technologies and on 14 January 2015, he was appointed Non-Executive Director of Mercia Technologies plc. On 24 April 2015, Martin was appointed Chairman of Rotork Plc. Previously Martin was a Non-Executive Director of Spectris Plc.

External appointments

- Chairman of Evoqua Water Technologies LLC
- Chairman of Rotork Plc
- Non-Executive Director of Mercia Technologies plc
- Member of the Advisory Board of AEA Investors Management (UK) Limited

2. John Coghlan BCom, ACA (58)

Independent Non-Executive Director

Appointed to the Board on 23 May 2014

Chairman of the Audit and Treasury Committees

John is a chartered accountant and has a valuable background in financial and general management across a variety of sectors. Currently, John is also a Non-Executive Director of Associated British Ports Companies, and a Non-Executive Director and Chairman of the Remuneration Committee of Lavendon Group plc. Previously, John was a Director of Exel Plc for 11 years to 2006, where he was Deputy Chief Executive and Group Finance Director. Since 2006, John has been a Non-Executive Director of various publicly-quoted and private equity-owned companies.

External appointments

- Non-Executive Director of Associated British Ports Companies
- Non-Executive Director and Chairman of the Remuneration Committee of Lavendon Group plc
- Chairman of Freight Transport Association Ireland Limited

3. James Bowling BA (Hons) Econ, ACA (47)

Chief Financial Officer

Appointed to the Board on 1 April 2015

James is a chartered accountant, having started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the Board. Prior to joining Severn Trent, James was interim Chief Financial Officer of Shire plc, where he had been since 2005, first as Head of Group Reporting and from 2008 as Group Financial Controller. Prior to joining Shire, James spent nine years at Ford Motor Company in various finance roles of increasing responsibility.

4. Dr. Angela Strank BSc PhD (63)

Independent Non-Executive Director

Appointed to the Board on 24 January 2014

Angela brings a wealth of strategic, technical and commercial experience to the Board. Angela is Head of Downstream Technology and Group Chief Scientist at BP plc. She is a member of the Downstream Executive Leadership Team. Angela is responsible for enabling delivery of the Downstream strategic agenda through the development of differentiated technology advantage across the refining, fuels, lubricants and petrochemicals businesses. Since joining BP in 1982, she has held many senior leadership roles around the world in business development, commercial and technology, including in 2012, Vice-President and Head of the Chief Executive's Office. In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology in recognition of pioneering UK women in business and industry. Her track record and experience in strategy, operations, technology and transformational change are a complementary addition to the Board's skill set.

External appointments

- Board Governor, University of Manchester

5. Olivia Garfield BA (Hons) (40)

Chief Executive

Appointed to the Board on 11 April 2014

Olivia (Liv) brings to the Board a wealth of experience managing customer service delivery and complex infrastructure and organisations in a regulated environment. Before joining Severn Trent, Liv was Chief Executive Officer of Openreach, part of the BT Group, where she spearheaded and oversaw the commercial roll-out of fibre broadband to two thirds of the country. She joined BT in 2002 and held the pivotal roles of Group Director of Strategy and Regulation, Managing Director Commercial and Brands, Global Services and UK Customer Services Director. From 1998 to 2002, Liv worked for Accenture as a consultant in the Communications and High Tech Market Unit, designing and implementing business change solutions across a number of industry sectors.

External appointments

- Director of Water Plus Limited – joint venture with United Utilities

6. Gordon Fryett (62)

Independent Non-Executive Director

Appointed to the Board on 1 July 2009
Chairman of the Corporate Responsibility Committee

Gordon has extensive experience working in and with international businesses, managing significant capital expenditure. His in-depth retail expertise at both executive and operational level in a customer-facing, highly competitive environment enables him to bring substantial experience and expertise to the Board and the Corporate Responsibility Committee. Gordon held the position of Group Property Director at Tesco plc until his retirement in November 2013. He previously held a number of senior roles within the Tesco Group, including Operations Director, International Support Director and CEO Republic of Ireland.

External appointments

- Alumnus of INSEAD
- Non-Executive Director of W&J Linney Limited

Strong leadership

7. Andrew Duff BSc FEI (57)

Non-Executive Chairman

Appointed to the Board on 10 May 2010 and Chairman on 20 July 2010
Chairman of the Nominations Committee

Andrew's extensive experience of international and regulated business, strategic management and customer service in high profile, dynamic environments has equipped him well for the role of Chairman of the Group. Andrew spent 16 years at BP in marketing, strategy and oil trading. He joined National Power in 1998 and the Board of Innogy plc upon its demerger from National Power in 2000. He played a leading role in its restructuring and transformation through the opening of competition in energy markets culminating in its subsequent sale to RWE in 2003. He became CEO of the successor Company and a member of the RWE Group Executive Committee. He was a Non-Executive Director of Wolseley Plc from July 2004 until November 2013. Andrew was appointed Non-Executive Deputy Chairman of Elementis plc on 1 April 2014 and became Non-Executive Chairman of Elementis plc on 24 April 2014.

External appointments

- Non-Executive Chairman and Chairman of the Nomination Committee of Elementis plc
- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support and Earth Trust
- Fellow of the Energy Institute

8. The Hon. Philip Remnant CBE FCA MA (61)

Independent Non-Executive Director

Appointed to the Board on 31 March 2014
Chairman of the Remuneration Committee

Philip is a senior investment banker and brings substantial advisory and regulatory experience to the Board. A chartered accountant, he is Senior Independent Director of Prudential Plc and Chairman of M&G Group Limited, Deputy Chairman of the Takeover Panel, Senior Independent Director of UK Financial Investments Limited and

Chairman of City of London Investment Trust plc. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010. He served on the Board of Northern Rock plc from 2008 to 2010 and from 2007 to 2012 was Chairman of the Shareholder Executive.

External appointments

- Senior Independent Director and member of the Audit, Nomination and Remuneration Committees of Prudential Plc
- Chairman of M&G Group Limited
- Deputy Chairman of the Takeover Panel
- Non-Executive Director of UK Financial Investments Limited
- Non-Executive Chairman of City of London Investment Trust plc
- Governor of Goodenough College
- Director and Trustee of St Paul's Cathedral Foundation

9. Emma FitzGerald MA, DPhil Oxon, MBA (49)

Managing Director, Wholesale Operations

Appointed to the Board on 1 April 2016

Emma joined Severn Trent in July 2015 as Managing Director, Wholesale Operations. Emma was previously CEO of Gas Distribution at National Grid. Until 1 December 2015, she was a Non-Executive Director of Alent Plc. Prior to joining National Grid, she pursued a 20 year career with Royal Dutch Shell where she held a variety of technical, strategic and general management positions based in Asia and Europe, including Vice President Global Retail Network and Managing Director of Shell China/Hong Kong Lubricants based in Beijing. Emma's experience and expertise brings a huge amount of value in ensuring the delivery of the commitments we have made in our business plan.

External appointments

- The Windsor Leadership Trust – Company Vice President and Trustee
- BUPA – Association Member

10. Dominique Reiniche MBA (60)

Independent Non-Executive Director

To be appointed to the Board with effect from 20 July 2016

Dominique has a wealth of operational experience in Europe and has international consumer marketing and innovation experience. Dominique is Independent Vice Chairman of CHR Hansen Holdings A/S and also a Non-Executive Director of Mondi Plc, Paypal (Europe) and AXA SA. Dominique started her career with Procter & Gamble AG before moving to Kraft Jacobs Suchard AG as Director of Marketing and Strategy where she was also a member of the Executive Committee. Dominique previously held a number of senior roles at Coca-Cola Enterprises and at Coca-Cola Company, including President – Western Europe, President – Europe and Chairman – Europe. Until December 2015, Dominique was a Non-Executive Director of Peugeot-Citroen SA.

External appointments

- Non-Executive Director of Mondi Plc

- Non-Executive Director of Paypal (Europe)
- Non-Executive Director of AXA SA
- Independent Vice Chairman of CHR Hansen Holdings A/S

11. Kevin Beeston FCMA (53)

Independent Non-Executive Director

Appointed to the Board with effect from 1 June 2016

Kevin has a wealth of commercial, financial and high level management experience. Kevin is Chairman of Taylor Wimpey plc and Equiniti plc and also a Non-Executive Director of The Football Association Premier League Limited. Previously Kevin spent 25 years at Serco plc, where he held the roles of Finance Director, Chief Executive and finally Chairman until 2010. Kevin was previously Chairman of Domestic & General Limited and Partnerships in Care Limited and a Non-Executive Director of IMI plc.

External appointments

- Chairman of Taylor Wimpey plc
- Chairman of Equiniti plc
- Non-Executive Director of The Football Association Premier League Limited

Executive Committee

1. Dr. Tony Ballance BSc (Hons), MA (Econ), PhD (51)

Director, Strategy and Regulation

Tony's extensive experience in utility policy and regulation leaves him ideally placed to lead the Company's strategic and regulatory work. Prior to joining Severn Trent he held the posts of Chief Economist for Ofwat, Director of London Economics and Director of Stone and Webster Consultants.

External appointments

- Trustee, the National Forest Company
- Member of Water UK Council

2. Sarah Bentley BSc (Hons), Management Science with Computing (44)

Chief Customer Officer

Sarah joined Severn Trent in December 2014 as the Chief Customer Officer, responsible for household customers, Group IS and Group Transformation. She previously worked for Accenture as Managing Director of their £3 billion global digital business focused on digital marketing, mobility and analytics for customers, employees and the enterprise. Prior to Accenture, Sarah was CEO of Datapoint, an Alchemy backed company delivering CRM services, and Senior Vice President of eLoyalty, a global CRM and marketing consultancy. She was SVP of the European Business, led the sales and operations activity in North America and ran eLoyalty Ventures L.L.C. working in Silicon Valley, Austin and New York.

External appointments

- Twizzletwig Limited – Director
- Twizzletwig Limited – Secretary

3. Emma FitzGerald MA, DPhil Oxon, MBA (49)

Managing Director, Wholesale Operations

Please see full biography on page 67.

4. Evelyn Dickey BSc (Hons) (53)

Director of Human Resources

Evelyn joined Severn Trent in November 2006. Evelyn has extensive HR experience leading design and delivery of major change programmes, business restructuring, employee relations, resourcing, executive remuneration, organisational capability and performance management initiatives. Before joining Severn Trent, Evelyn worked in HR consultancy and as HR Director (HR Operations) for Boots the Chemist.

External appointments

- Non-Executive Director, Nuclear Decommissioning Authority

5. Olivia Garfield BA (Hons) (40)

Chief Executive

Please see full biography on page 66.

6. Martin Kane BSc, CEng, CEnv, MICE, MIWEM, FIW (63)

Chief Engineer

Martin joined Severn Trent Water in 1975 and was appointed Chief Engineer in July 2014. He has held various senior roles giving him an extensive and unique understanding of the design, construction and operation of water and waste water treatment plants, water distribution networks and sewerage systems. Martin was Director of Customer Relations, Severn Trent Plc, from May 2006 until January 2012, and Chief Executive Officer of Severn Trent Services until July 2014.

External appointments

- Member of the Boards of Utilities and Service Industries Training Limited
- Trustee of International Society for Trenchless Technology

7. Bronagh Kennedy BA (Hons) (52)

Group General Counsel and Company Secretary

Bronagh joined Severn Trent in June 2011. Bronagh is a solicitor and was previously Group Company Secretary and General Counsel at Mitchells & Butlers, where she worked for 15 years. Prior to that, she was a Senior Associate at Allen & Overy. She is a member of the GC100 Group.

8. James Bowling BA (Hons) Econ, ACA (47)

Chief Financial Officer

Please see full biography on page 66.

9. Helen Miles CIMA (45)

Group Commercial Director

Helen joined Severn Trent in November 2014 as the Chief Commercial Officer and brings with her a breadth of commercial experience having worked within regulated businesses and sectors across Telecoms, Leisure and Banking. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business. As an experienced finance professional, Helen was previously Chief Financial Officer for Openreach, part of BT Group plc, and has extensive experience of delivering major business transformation across the Group. Prior to BT Group, Helen worked in a variety of sectors and organisations such as Bass Taverns, Barclays Bank, Compass Group and HSBC.

10. Andy Smith BTech (Hons) (55)

Managing Director, Business Services

Andy was appointed to the role of MD, Business Services on its creation in 2014 having previously been responsible for the drinking water business within Severn Trent Water. Andy brings to the role a broad range of executive and operational expertise gained from diverse sectors. He has worked in the UK and overseas with global businesses such as BP, Mars and Pepsi in both engineering, HR and operational management roles. Previously he has served as a member of the Board at Severn Trent Plc and at Boots Group Plc.

External appointments

- Non-Executive Director, Chairman of the Remuneration Committee and Member of the Audit and Nominations Committees of Diploma PLC

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Committee membership key

Audit Committee

Corporate Responsibility Committee

Executive Committee

Nominations Committee

Remuneration Committee

Treasury Committee

Governance report

Group Authorisation Arrangements

The Group Authorisation Arrangements ('GAA') are the framework through which the Severn Trent Plc Board authorises the right people, at the right level, to take important decisions to effectively control and manage legal, financial and administrative decisions throughout the Group. These arrangements are reviewed annually, with the last review undertaken in March 2016.

The flow of authority is from the Severn Trent Plc Board to the Chief Executive and the Severn Trent Executive Committee. In respect of certain decisions, the delegated authority is subject to an obligation to work with specialist business service areas (such as Tax, Treasury, Group Finance and Company Secretariat), which provides additional expertise and a Group-wide perspective.

Governance of subsidiaries

The membership of the Board of the listed Company, Severn Trent Plc, is the same as that of its regulated subsidiary, Severn Trent Water Limited. This structure was implemented in 2007 to ensure that the highest standards of corporate governance were applied at the regulated subsidiary level and to promulgate greater visibility and supervision of Severn Trent Water Limited by the Severn Trent Plc Board. Severn Trent Water Limited also complies with the UK Corporate Governance Code (the 'Code') to ensure the highest standards of governance.

The two companies operate as distinct legal entities. The Boards comply with the Severn Trent Plc Board governance framework and the respective Matters Reserved to the Board. They are assisted through the management of separate agendas, meetings and minutes by Company Secretariat and advised in their meetings by the Company Secretary, where appropriate.

Subsidiary Company Boards are managed through designated governance processes. In particular, the relationships between Severn Trent Water Limited and our other businesses such as Severn Trent Business Services are monitored and controlled to ensure that regulatory requirements and obligations under competition law are complied with in respect of all transactions between them, or with third parties.

Introduction

Our Board is responsible to our stakeholders for ensuring the sound running of the Company in accordance with best practice corporate governance. The Code sets out five key principles: **Leadership, Effectiveness, Accountability, Relations with Shareholders and Remuneration**. This report is structured against each of these principles which, together with the Nominations Committee report, Audit Committee report and Remuneration Committee report, set out on pages 79 to 81, 82 to 85 and 89 to 101 respectively, describe how we have complied with the relevant provisions of the Code throughout the year.

1 Code principle: Leadership

Charter of Expectations

In November 2014, the Severn Trent Charter of Expectations was adopted to promote and implement best practice corporate governance. The Charter sets out the role profiles and expectations of all key positions on the Group's Boards (together referred to as the 'Board'), and Board Committees, and also reflects the Board's responsibility for setting the tone for the Group's culture, values and behaviour.

In accordance with provision A.2.1 of the Code, there is a clear division of responsibilities between the roles of Chairman and Chief Executive. These are clearly established, set out in writing and agreed by the Board in the Charter of Expectations.

The Charter of Expectations is also used to assist in the ongoing annual assessment of the effectiveness of the Board and its Committees, and that of individual Directors, and is available on our website (www.severntrent.com).

Governance framework

The Board is responsible to all stakeholders, including its shareholders, for the approval and delivery of the Group's strategic objectives. It ensures that the necessary financial, technical and human resources are in place for the Company to meet its objectives. The Board leads the Group within a framework of prudent and effective controls which enable risk to be assessed and managed.

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives is delegated to the Chief Executive who is supported by the Severn Trent Executive Committee ('STEC').

The Group's principal decision-making body is the Board. In line with the Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations in line with their Terms of Reference. The Terms of Reference of each Committee comply with the provisions of the Code and have been updated to take account of best practice as part of their annual review in March 2016. The sub-committee structure is detailed in the governance framework overleaf and key responsibilities are set out on page 71.

Governance framework

CHAIRMAN – Andrew Duff

Leads our unified Board, ensuring that the principles and processes of the Board are maintained in line with our Code of Conduct and Charter of Expectations.

BOARD

The Board's role is to: understand and meet its obligations to the Company's stakeholders; lead the Group within a framework of prudent and effective controls which enable risk to be assessed and managed; approve the Group's strategic objectives and ensure that sufficient resources are available to enable it to meet those objectives; and monitor and review the operating and financial performance of the Group. It has responsibility and accountability for the long term success of the Group.

BOARD COMMITTEES

AUDIT COMMITTEE

Chair – John Coghlan

The Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of Internal Controls, Risk Management and the internal and external Auditors. It also reviews the adequacy of the Company's whistleblowing arrangements.

More information can be found on page 82.

TREASURY COMMITTEE*

Chair – John Coghlan

The Treasury Committee provides oversight of treasury activities in implementing the policies, funding and treasury risk management plan approved by the Board. These include inter alia: the measurement and management of risks in respect of interest rates; funding; counterparty credit; liquidity and treasury operations; funding proposals; relationship with rating agencies; debt investor relations; bank relationship management; and treasury internal controls.

REMUNERATION COMMITTEE

Chair – Philip Remnant

On behalf of the Board, the Remuneration Committee determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chairman of the Board.

More information can be found on page 89.

CORPORATE RESPONSIBILITY COMMITTEE

Chair – Gordon Fryett

The Corporate Responsibility Committee provides guidance and direction to the Company's corporate responsibility and sustainability programme based on our values. It also reviews the Group's non-financial risks and opportunities.

More information can be found on page 86.

NOMINATIONS COMMITTEE

Chair – Andrew Duff

The Nominations Committee assists the Board by keeping the structure, size, composition and succession needs of the Board under review. It also assists the Board on issues of Directors' conflicts of interest and independence.

More information can be found on page 79.

CEO – Liv Garfield

Delegated responsibility for the development and implementation of the Group's strategy and overall commercial objectives.

Responsible for the day-to-day management of the business and the communication of Board agreed objectives to employees.

SEVERN TRENT EXECUTIVE COMMITTEE ('STEC')

Chair – Liv Garfield

STEC operates under the direction and authority of the CEO overseeing the development and execution of strategy. It also has accountability for achieving financial and operational performance.

EXECUTIVE SUB-COMMITTEE

DISCLOSURE COMMITTEE

Chair – James Bowling

The Disclosure Committee oversees the Company's compliance with its disclosure obligations and considers the materiality, accuracy, reliability and timeliness of information disclosed.

More information on Board and Committee membership, can be found on page 66.

Each Board Committee has written Terms of Reference reviewed annually and approved by the Board, which are available on the Company's website.

* Membership of the Treasury Committee includes Head of Group Treasury

Indicates membership of each Committee, including gender.

Key responsibilities

Chairman – Andrew Duff	- Leads our unified Board and is responsible for its effectiveness. - Responsible for setting agendas for Board meetings and for the timely dissemination of information to the Board, in consultation with CEO, CFO and the Company Secretary. - Responsible for scrutinising the performance of the Executive Committee. - Facilitates contribution from our Directors. - Ensures effective communication with our shareholders and other stakeholders.
Chief Executive ('CEO') – Liv Garfield	- Responsible for the overall commercial objectives of the Group. - Develops and implements the Group's strategy, as approved by the Board. - Promotes and conducts the affairs of the Group with the highest standards of integrity, probity and corporate governance.
Chief Financial Officer ('CFO') – James Bowling	- Manages the Group's financial affairs. - Supports the CEO in the implementation and achievement of the Group's strategic objectives.
Senior Independent Non-Executive Director (‘SID’) – Martin Lamb	In addition to his responsibilities as a NED, Martin Lamb: - Supports the Chairman in delivery of his objectives. - Is available to all shareholders should they have a concern, in the event the normal channels of Chairman, CEO and CFO have failed to resolve. - Leads the appraisal of the Chairman's performance with the Non-Executive Directors. - Together with the Nominations Committee, is responsible for ensuring that an orderly succession planning process is in place for the Board.
Independent Non-Executive Directors ('NEDs') – John Coghlan, Gordon Fryett, Dr. Angela Strank, Philip Remnant	- Constructively challenge our Executive Directors in all areas. - Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. - Satisfy themselves on the integrity of financial information and the effectiveness of financial controls and risk management systems. - Responsible for determining appropriate levels of remuneration of Executive Directors. - Scrutinise the performance of the Executive Committee.
Executive Director – Emma FitzGerald	- Responsible for the Group's wholesale business. - Supports the CEO in the implementation and achievement of the Group's strategic objectives.
Group General Counsel and Company Secretary – Bronagh Kennedy	- Acts as Secretary to our Board and its Committees, ensuring sound information flows to the Board and between senior management and the Non-Executive Directors. - Responsible for advising the Board on all corporate governance matters. - Facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements. - Responsible for compliance with Board procedures. - Co-ordinates the performance evaluation of the Board. - Provides advice and services to the Board.

In accordance with provision A.2.1 of the Code, there is a clear division of responsibilities between the roles of Chairman and Chief Executive.

Additional information on the role of the Board, its Committees and further information in relation to each of the roles outlined above, can be found on the corporate governance section of our website.

Biographical details of each member of the Board can be found on pages 66 and 67.

Formal schedule of Matters Reserved to the Plc Board

The processes in place regarding the Board's tasks and activities and the matters specifically reserved for the Board's decision-making, the role of and the authority delegated to the CEO, the accountability of the CEO for that authority, and guidance on managing the relationship between the Board and the CEO are documented. These processes are reviewed annually.

The Board has reserved the following matters for its own consideration:

- Strategy and Management;
- Structure and Capital;
- Financial Reporting and Controls;
- Internal Controls;
- Contracts and Policies;
- Board Membership and other appointments, including the appointment of the Chief Executive, Directors and the Company Secretary;
- Remuneration;
- Delegation of Authority including the GAA which sets out the Group's delegated approval limits; and
- The approval or adoption of documents, including the Annual Report and Accounts, required to be made by the Board, or by the Company's GAA, constitutional documents, statute or external regulation.

More information on the GAA can be found on page 69.

Board meetings

Forward plan

Each year the Chairman, and respective Committee Chairmen, work with the Company Secretary to develop and agree a forward agenda for Board and Committee meetings for the year ahead. The purpose of the forward agenda is to ensure that proper oversight of key areas of responsibility are scheduled regularly and that sufficient time is allocated during the year for the Board to fully consider strategic matters.

Papers, including minutes of Board and Committee meetings held since the previous meeting, are circulated approximately a week in advance of each meeting.

The table overleaf sets out the main matters considered by the Board in 2015/16 at its scheduled Board meetings. The Board's agenda is normally structured, in accordance with the identified requirements of the forward agenda plan, as follows:

- Performance review (including health and safety, operational, customer and financial matters);
- Bi-annual Enterprise Risk Management review;
- Strategic items;
- Matters for approval;
- Matters to note;
- Governance and regulatory matters; and
- Committee reports.

The Board monitors the performance and customer service standards of the regulated water and waste water business at every meeting and receives monthly updates on performance against all ODIs, including those listed

on page 26 and 27 of the strategic report. The Board also regularly discusses reports on capital efficiency and asset management.

The Board annually reviews and approves all financial results announcements, the Annual Report and Accounts, dividend payments and all changes to the composition of the Board and its Committees.

Board activities

Topic	Activities/Discussion	Link to our values (page 12)
Customers	- Discussion and review of performance and engagement reports at each meeting. - Approach in respect of social tariffs and support for vulnerable customers.	We put our customers first
Shareholders	Review and discussion of feedback following stakeholder meetings with CEO and CFO, investor roadshows, conferences and Capital Markets Day.	We act with integrity
Strategy	Review and discussion of shareholder feedback in advance of the Annual General Meeting.	We are passionate about what we do
Environment, Health & Safety	- Discussion and review of health and safety performance at every meeting. - Discussion and review of environmental matters.	We protect our environment
Governance & Risk	- Review of Severn Trent's governance framework. - Review of the GAA. - Board Committee reports. - Board and Committee effectiveness review – including the Board, its Committees, individual Directors and conflicts of interest. - Annual review of Terms of Reference for all Board Committees. - Tender of external Auditor. More information on the tender can be found on page 84. - Review of the effectiveness of the Group's Internal Controls and Risk Management processes. - Bi-annual Enterprise Risk Management review. - Regular governance report provided by the Company Secretary, including annual review of compliance with the Code. - Bi-annual review of the Group's disclosure requirements.	We act with integrity
Financial	- Review of annual performance, including approval of full year, half year results and trading updates. - Distributions to shareholders. - Annual Report and Accounts. - Treasury funding arrangements. - Group Budget 2015/16, medium term financial plan and regulated business ODIs. - Review of the Group's financial performance against budget and forecast.	We act with integrity
Regulation	- Regulatory business discussions at every meeting. - Engagement with regulators, including relationship mapping. - Discussion and review of water quality updates.	We act with integrity We put our customers first
Employees & Leadership	Discussion and review of employee engagement across the Group from the results of the QUEST survey.	We are inspired to create an awesome company

Topic	Activities/Discussion	Link to our values (page 12)
	- Discussion and review of talent development and succession planning across the Group. - Annual pension fund review. - Review the composition and succession of the Board and its Committees.	
Ethics	Discussion and review of the Group's ethics culture.	We act with integrity

The attendance of members at Board meetings during the year was as follows:

Director	Meetings attended
Andrew Duff	7/7
James Bowling	7/7
John Coghlan	7/7
Gordon Fryett	6/7
Liv Garfield	7/7
Martin Lamb	6/7
Philip Remnant	7/7
Dr. Angela Strank	7/7

Where a Director was unable to attend a Board or Committee meeting, in each case the Director concerned was provided with all relevant papers and provided comments on the matters to be considered to the Chairman.

No concerns were raised in relation to the commitment of any Director as part of this year's Board effectiveness review.

Emma FitzGerald was appointed to the Board on 1 April 2016.

Attendance at Board and Committee meetings

Seven scheduled Board meetings were planned and held during the year. The table opposite shows attendance levels at the Board meetings held during the year.

Board Committee meetings 2015/16

In addition to the standing Committees of the Board, there were ad hoc Committee meetings of the Board convened throughout the year to consider such matters as the deregulation of the non-household retail market, our joint venture with United Utilities, Severn Trent Plc's preliminary and interim results, quarterly management statements and regulatory disclosures.

Independent advice

Directors have access to independent professional advice at the Company's expense on any matter relating to their responsibilities. There is an agreed procedure enabling them to do so, which is managed by the Company Secretary. No such independent advice was sought during the financial year.

2 Code principle: Effectiveness

Our Board's composition

As at the date of this report, the Board consisted of nine Directors. A table listing the composition of the Board for the year ended 31 March 2016 is set out opposite.

Independence of NEDs

The independence of Non-Executive Directors is formally reviewed by the Nominations Committee on an annual basis, which makes a recommendation to the Board in relation to the reappointment of Directors at the Company's Annual General Meeting.

In the event of a situational conflict arising, the Board has a documented authorisation process in place, ensuring that either the Director does not attend the meeting or participate in discussion in respect of any matter where a situational conflict exists.

An annual review of conflicts is carried out alongside a review of our Gifts and Hospitality Register, and is incorporated into the year end process of verifying Directors' interests. Half yearly reports are also made available to the Board detailing all Directors' conflicts and Directors are reminded of their obligations to disclose any potential conflicts.

During its last review in November 2015, the Board considered all external commitments and skillsets required, including those set out in the Code. No Director had a material interest in any contract of significance with the Company or any of its subsidiary undertakings, at any time during the year.

The Board considers that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director. In accordance with the Code, all the Directors, with the exception of Martin Lamb and Gordon Fryett, will retire at this year's AGM and submit themselves for appointment or reappointment by the shareholders. Each of the Non-Executive Directors, seeking appointment or reappointment are considered to be independent in character and judgment.

Appointments to our Board and its Committees

The Board, through the Nominations Committee, has in place formal, rigorous and transparent procedures for the appointment of new Directors to the Board. In March 2016, the Board announced the appointment of Emma FitzGerald, Managing Director of Wholesale Operations and Executive Committee member, to the Board, with effect from 1 April 2016. Following year end, the Board also announced the appointments of Kevin Beeston to the Board, with effect from 1 June 2016, and Dominique Reiniche to the Board as a Non-Executive Director, with effect from 20 July 2016. Further information in relation to these appointments and the work of the Nominations Committee can be found on pages 79 to 81.

Board Strategy Day

In addition to formal meetings, in November 2015 the Board attended a full day strategy session along with the Executive Committee to consider areas of future value creation across the Group, including:

- Opportunities for wider upstream competition enabled through Water 2020 and changes arising from the Water Act 2014.
- Review of growth strategies across our portfolio of businesses.
- Long term scenarios and options for the asset strategy of our regulated business.
- The future of flood defences and how this could impact Severn Trent.

In advance of a formal recommendation for a Non-Executive Director appointment to the Board, the proposed, final candidate attended an individual preappointment meeting with Ofwat.

Terms and conditions of appointment

The terms and conditions of appointment of the Directors are available for inspection by any person at the Company's registered office during normal business hours. They will also be made available before and during the AGM.

In accordance with the Code, any term beyond six years for a Non-Executive Director is subject to rigorous review and takes into account the need for progressive refreshing of the Board.

Evaluation of the Board

The effectiveness of the Board is reviewed at least annually and an independent externally facilitated review is conducted every three years. A full externally facilitated Board evaluation exercise was last conducted in 2015 and reported on in our 2014/15 Annual Report and Accounts.

A summary of the actions taken following the 2015 review can be found below.

Area for further focus identified in 2015 external review	Actions taken
Allocation of agenda time to agreed key strategic priorities also including length and format of Board papers.	Company Secretariat conducted a review of strategy topics to be considered at Board meetings throughout the year. The length and format of Board papers were also reviewed, with best practice guidance implemented by Directors and report writers.
Mentoring, talent management and succession planning below Executive Committee level.	Discussion and review of talent and succession across the Group at July and November Board meetings.
Enhance KPIs to reflect risks and operational performance against new AMP6 regulatory requirements.	Instead of reporting against KPIs as in AMP5, we now report performance against ODIs at each meeting of STEC and the Board. We also report on the moving annual performance and provide updated targets for the year at each meeting.

In February 2016, the Board conducted an internally facilitated review of its effectiveness, including a review of the Board, its Committees and individual Directors in the context of the Company's Charter of Expectations. Emma FitzGerald, Kevin Beeston and Dominique Reiniche had not been appointed to the Board at this time. This evaluation process was led by the Chairman and the Company Secretary through a series of one-to-one meetings and discussions. Separate meetings were held to consider the effectiveness of the Chairman, led by our Senior Independent Non-Executive Director, Martin Lamb.

The findings of the evaluation were discussed and reviewed by the Nominations Committee and subsequently the Board in March 2016. The evaluation concluded that excellent progress had been made in respect of areas for further focus identified in the 2015 externally facilitated review. It was agreed that talent and succession planning would remain a regular Board agenda topic and that the Board strategy day meeting would be scheduled outside the normal Board meeting calendar. The evaluation also concluded that the Board and its Committees were effective and that each Director made a constructive and valuable contribution to the Board and the running of the Company.

Board Training Sessions 2015/16

Date	Topic	Board attendance
April 2015	Knowledge share with senior management team	88%*
May 2015	Drought response	100%
July 2015	Catchment management	100%
October 2015	Strategic grid management	100%
November 2015	New bill launch	100%
January 2016	Water discolouration – contribution of manganese	100%
March 2016	Developer Services	88%**

* Martin Lamb was unable to attend for this topic.

** Gordon Fryett was unable to attend for this topic.

Directors' resources

An online resource library and Continuing Professional Development ('CPD') repository is available for use by the Directors, which is continuously reviewed and updated. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section, Strategy Day materials and details of Board training sessions. It also includes a further reading section which contains updates and guidance on changes to legislation and corporate governance best practice. The Directors also have access to professional development provided by external bodies and our advisers. CPD requirements were considered, through individual performance review meetings between the Chairman and each Director, as part of the Board effectiveness review in 2015/16.

Training and development

Induction

On appointment to the Board, a Director's induction needs are evaluated and they are provided with a comprehensive and personalised induction pack which includes information on our business model, key operations and processes, how we are regulated, how we are shaping future regulation, strategic plans, financial reports, business plans, information on our governance framework, Directors' roles and responsibilities and legal and regulatory duties.

Meetings are arranged with members of the Executive Committee and with external advisers who provide support to the relevant Board Committees on which the Directors may serve. Visits to operational and office sites across the Group and management presentations are also arranged for Directors appointed to the Board and subsequently throughout the year.

These arrangements have been followed for the induction of Emma FitzGerald.

Ofwat issued a letter to the Company on 19 April 2016 formalising a preappointment meeting process as part of any Non-Executive Director appointment which will also be included in induction programmes going forward. This process was included in the induction of Kevin Beeston and Dominique Reiniche.

Training and Continuing Professional Development

As well as Board agenda items, training sessions in relation to specific topics of interest have been presented to Directors during the year as indicated in the table opposite.

The aim of the training sessions is to continually refresh and expand the Board's knowledge and skills to enable them to effectively fulfil their roles on the Board and its Committees and contribute to discussions on technical and regulatory matters. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further insight into our businesses and management capability.

3 Code principle: Accountability

Charter of Expectations

Our Charter of Expectations sets out the matters for which the Board and key roles are accountable.

'Doing The Right Thing – The Severn Trent Way' ('DTRT')

Every day our employees have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what is safe, doing the right thing for our customers, doing what is right ethically and what is right legally.

It details the values we work by and explains who we are, what we stand for and how we work. It also tells our customers, investors and business partners that they can trust and rely on us. These principles apply to everyone in the Group, no matter where in the world they are based or what they do. It provides a consistent framework for responsible business practices and sets the standards we need to follow in our day-to-day activities.

During the year we have refreshed DTRT, and our Group policies, in preparation for roll-out across the Group in 2016/17 to make sure that everyone in the business understands our expectations in relation to our values and ethical standards. All employees will be given a copy and training sessions will be provided.

Primary investor events

2015/16	
June 15	London Roadshow
June 15	Bank of America Merrill Lynch Utilities Conference
June 15	Private Client Roadshow – London
June 15	Edinburgh Roadshow
June 15	European Roadshow
June 15	RBC Utilities & Infrastructure Reverse Roadshow
September 15	Morgan Stanley Power & Utility Summit
September 15	North American Roadshow
September 15	Private Client Roadshow – London
September 15	Bernstein's 12th Annual Strategic Decisions Conference
November/December 15	London Roadshow
December 15	Edinburgh Roadshow
January 16	Citi European Utilities Conference
February 16	Private Client Roadshow – London
March 16	North American Roadshow
March 16	European Roadshow

4 Code principle: Remuneration

The Board has established a Remuneration Committee. The composition and activities of the Remuneration Committee are described on pages 89 to 101. Our Remuneration Policy has been designed to take into account the Company's strategic objectives both over the short and long term and the external market.

5 Code principle: Relations with Shareholders

Retail shareholder engagement strategy

The Board has an active shareholder engagement strategy, the main elements of which are set out below.

The Annual Report and Accounts is the principal means of communicating with shareholders. The Group has adopted e-communications as an alternative method of sending company information. Following a consultation with shareholders in March 2015, a significant majority of shareholders, 88%, can now view and download the Annual Report online. 12% continue to receive a hard copy. The next consultation will take place in 2018.

Our website (www.severntrent.com) contains an archive of Annual Reports together with other information relevant to investors. This includes comprehensive share price information, financial results, company news and financial calendars. The Company offers a Dividend Reinvestment Plan ('DRIP'). Details of the DRIP are available on our website and the website of Equiniti, our registrar.

Institutional shareholders and analysts

The Board recognises the importance of representing and promoting the interests of its shareholders and that it is accountable to shareholders for the performance and activities of the Company. Various mechanisms have been put in place to ensure it remains in touch with key activities and developments, including:

- monthly update reports on the key shareholder engagement activities carried out by the Executive Committee and the Investor Relations team;
- a monthly report of our shareholder register, outlining the significant buyers and sellers of Severn Trent Plc shares; and
- regular summaries of sector research notes, allowing the Board to understand the key opinions being communicated to investors by analysts.

Presentations are made to shareholders and analysts following the release of the interim and year end results. The Chief Executive and Chief Financial Officer regularly meet shareholders during the year.

The Chairman also meets with shareholders without the Executive Directors on a periodic basis and is available to meet with them at any other time upon request.

In line with the Code, we recognise that the Board has overall responsibility for ensuring that a satisfactory dialogue with shareholders takes place. On a more informal basis, the Chairman, Chief Executive and the Chief Financial Officer regularly report to the Board the views of larger shareholders about the Company.

Our conversations with investors during 2015/16 have focused on how the Company is delivering under the new AMP6 regulatory environment, what changes have been made to achieve this performance and how the Company expects to outperform key aspects of the regulatory Final Determination. Discussion has focused on the areas we believe we have the opportunity to outperform the Return on Regulatory Equity ('RoRE') allowed in our AMP6 Final Determination, notably operational improvements measured through ODIs, efficiency savings and management of Totex, delivery of our renewables programme, the management of our financing as well as the deregulation of the non-household retail market in 2017. During the year, Ofwat published Water 2020 which set out some of its thinking on the direction of our industry for the next regulatory period, AMP7. As a result, there was discussion with investors about the risks and opportunities of Water 2020 discussion topics, including sludge and water trading, the possible move to the Consumer Price Index ('CPI') rather than Retail Price Index ('RPI') as the measure of inflation, and the potential opening of the household retail market.

Looking ahead to 2016/17

We expect to continue our extensive programme of investor events and discussions will continue to focus on how we deliver against our strategic framework and the key elements of outperformance, as well as our ability to deliver returns relative to the RoRE allowed by our Final Determination for AMP6. We also expect to have further discussions with Ofwat on the future direction of our industry, as part of its Water 2020 initiatives. We will continue with our extensive programme of roadshows in the UK, Europe and North America.

AGM

The AGM provides a useful opportunity for all shareholders to provide feedback on performance, management and the way we work in a very direct fashion, through the questions they ask. Shareholders can also meet informally with Directors and senior management before and after the meeting.

The Board encourages shareholders to attend our AGM and to exercise their right to vote. The Notice of Meeting and related papers are sent to shareholders at least 20 working days before the meeting. Separate Resolutions are proposed on each substantially separate issue. All proxy votes received in respect of each Resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated. The poll results from the 2016 AGM will be made available on our website after the meeting.

Our online Annual Report and Accounts

SEVERN TRENT_AR16

Easier, greener and only a click away.

We're always looking to make life easier. Our online Annual Report is designed to help you read the information that matters to you, wherever you may be, whether on the move or at your desktop. It reduces our paper use too, which is kinder to the environment. We hope you like it.

ar2016.severntrent.com

2016 AGM

The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 20 July 2016.

Presentations will be made on the Group's activities and performance, including exhibitions around our key activities, during the year prior to the formal business of the meeting. The Chairs of the Audit, Remuneration, Nominations, Treasury and Corporate Responsibility Committees, together with all other Directors, attend the AGM.

Nominations Committee

Andrew Duff

Chairman of the Nominations Committee

Key areas of focus

In accordance with its Terms of Reference, the key areas of focus of the Nominations Committee in 2015/16 included:

- regularly reviewing the structure, size and composition (including the skills, knowledge, experience, time available and diversity) of the Board;
- reviewing the leadership needs of the Company, both Executive and Non-Executive;
- succession planning considerations for Directors and other senior executives;
- reviewing the results of the annual Board effectiveness exercise;
- annual review of the Company policy on Board level diversity; and
- recommending to the Board the appointment or reappointment by shareholders of Directors at the AGM, in accordance with the Code.

During the year, there were four scheduled meetings of the Nominations Committee. The attendance figures for these meetings are detailed below.

Member of the Nominations Committee	Attendance
Andrew Duff (Chairman)	4/4
John Coghlan	4/4
Gordon Fryett	2/4
Martin Lamb	4/4
Philip Remnant	4/4
Dr. Angela Strank	4/4

In addition to the scheduled meetings of the Committee, there was an ad hoc meeting of the Committee convened during the year to consider Non-Executive Director succession.

Gordon Fryett did not attend two scheduled meetings of the Committee relating to the potential appointment of his successor.

Introduction from the Chairman of the Nominations Committee

I am pleased to introduce the report of the Nominations Committee which details the role of the Committee and the work it has undertaken during the year.

The Nominations Committee is responsible for assisting the Board by keeping the structure, size and composition (including the skills, knowledge, independence, experience and diversity) of the Board under proactive review and to make appropriate recommendations to the Board with respect to any necessary changes.

The Committee reviews the leadership needs of the Group and considers plans for orderly succession for appointments to the Board and to senior management to maintain an appropriate balance of skills and experience within the Company and to ensure progressive refreshment of the Board. The Committee considers the length of service and performance of the Directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interest, including the time available to commit to their duties to the Company.

The full Terms of Reference for the Committee, which were updated during the year, can be found on our website and are also available from the Company Secretary. The letters of appointment for the Non-Executive Directors are made available for inspection at the Company's registered office, during normal business hours.

Succession planning

The Nominations Committee annually reviews the Board's effectiveness and composition in relation to long term succession planning, including the review of plans in place for the orderly and progressive refreshing of the Board. In particular, the Committee considers the balance of skills, experience and independence of the Board when considering new appointments and oversees the preparation of a role specification that is provided to an independent search firm retained to conduct a global search. In addition to the specific skills, knowledge and experience deemed necessary, the specification contains criteria such as:

- a proven track record of creating shareholder value;
- unquestioned integrity and a diversity of experience;
- a commitment to the highest standards of governance;
- having the required time available to devote to the role;
- a strategic focus, an awareness of market leadership and outstanding monitoring skills;
- a preparedness to question, challenge and openly assess; and
- an independent point of view.

The Chairman does not chair any Nominations Committee meetings relating to the appointment of his successor. In these circumstances the Committee is chaired by an Independent Non-Executive Director elected by the remaining members. Directors do not attend any meetings which dealt with the appointment of their successor.

Appointment and reappointment of the Board

In March 2016, the Board announced the appointment of Emma FitzGerald to the Boards of Severn Trent Plc and Severn Trent Water Limited (together 'the Board') as an Executive Director with effect from 1 April 2016. Having proved her capability as a member of the Executive Committee as Managing Director of Wholesale Operations, and taking into account her previous experience as CEO of Gas Distribution at National Grid, her appointment as an internal candidate was recommended to the Board by the Nominations Committee. Emma's appointment broadens the collective experience of the Board, adds a fresh perspective to boardroom discussions and brings a huge amount of value in ensuring the delivery of the commitments we have made in our business plan.

Following year end, the Board announced that Martin Lamb and Gordon Fryett, would retire from the Board after the AGM. The Committee initiated a planned succession process to search for a new Senior Independent Non-Executive Director, to succeed Martin, and a new Non-Executive Director, to succeed Gordon. Korn Ferry Whitehead Mann and The Zygos Partnership were appointed as advisers and provided with a role specification and a detailed brief of the desired candidate profiles. The Committee considered a list of potential candidates and those shortlisted were interviewed by members of the Board. The proposed, final candidates attended individual preappointment meetings with Ofwat ahead of a formal recommendation of appointment being made to the Board. Martin Lamb and Gordon Fryett took no part in any meetings relating to their succession.

Following the process, the Board agreed with the Committee's recommendation that Kevin Beeston join the Board as Non-Executive Director, with effect from 1 June 2016, and that Dominique Reiniche would join the Board as a Non-Executive Director, with effect from 20 July 2016. Kevin will succeed Martin as Senior Independent Non-Executive Director following the conclusion of the AGM and will become a member of the Audit, Remuneration and Nominations Committees. Dominique will succeed Gordon as a Non-Executive Director and become a member of the Corporate Responsibility and Nominations Committees.

Dr. Angela Strank will succeed Gordon as Chair of the Corporate Responsibility Committee following the conclusion of the AGM.

The Committee considers that the Board consists of individuals with the right balance of skills, experience and knowledge to provide strong and effective leadership of the Company. The majority of the Board, excluding the Chairman, are Independent Non-Executive Directors.

In accordance with the requirements of the Code, all members of the Board, with the exception of Martin Lamb and Gordon Fryett, will seek appointment or reappointment at the AGM on 20 July 2016. In February 2016, the Board conducted an internally facilitated review of its effectiveness, including a review of the Board, its Committees and individual members in the context of the Company's Charter of Expectations, as detailed on page 75. The findings of the evaluation concluded that each Director made a constructive and valuable contribution to the Board and the running of the Company. As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. The full list of external appointments held by our Non-Executive Directors can be found in the Board of Directors' biographies on pages 66 to 67. As a result of this review, the Committee did not identify any instances of overboarding. Full details of the internal evaluation can be found on page 75.

The Committee annually considers the time commitment required of its Directors to ensure the successful running of the Company. The Committee considered the reappointment of Directors prior to their recommended approval to shareholders at the AGM. The Non-Executive Directors who have been on the Board for more than six years were subject to particularly rigorous review. The Committee supports and recommends each Director's reappointment to the Board.

Gender diversity as at 31 March 2016

Board	STEC
Senior manager	Graduates
Apprentices	Group
Male	Female

Severn Trent Board diversity figures

Male Female

* Figures as at the date of this report.

Diversity

At Severn Trent, we are committed to supporting diversity and creating an inclusive culture. A diverse organisation, underpinned by meritocracy, will value and benefit from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Nominations Committee reviews the Boards' effectiveness and composition each year and, in particular, considers the balance of skills, experience and independence of the Board. It considers the benefits of all aspects of diversity, but without compromise as to the calibre of Directors, when identifying candidates for appointment. The selection of candidates to join the Board will continue to be made based on merit and the individual's ability to contribute to the effectiveness of the Board, which in turn will be dependent on the pool of candidates available. All Board appointments have been and will continue to be based on merit and must be in the interests of all stakeholders.

The Company continues to engage with executive search firms to ensure the widest possible pool of candidates for Board positions. Executive search firms are briefed of our diversity requirements to ensure an anti-discriminatory long list. In 2015 one search firm did not meet this criteria and was replaced. As and when Board appointment opportunities arise, we make full use of the procedures recommended by the Davies Report and by the Code to support this aspiration.

A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2016 is set out opposite.

As at 31 March 2016, we had two female members on the Board of eight (representing 25%) and six female members out of ten on the Executive Committee (representing 60%). As at the date of this report, (following the appointment of Emma FitzGerald to the Board on 1 April 2016) we had three female members on our Board of nine (representing 33%) and six female members out of ten on the Executive Committee (representing 60%).

Talent management

Severn Trent recognises the importance of developing people, and talent management was a key topic of discussion by the Nominations Committee during the year. In line with our strategy of creating an awesome place to work, we seek to create a culture of empowerment and accountability with a focus on skills, talent and career development.

During the year, the Committee reviewed the bench strength of leadership capability in Severn Trent and the initiatives in place to develop a robust pipeline of talent. In April 2012, Severn Trent implemented a five year talent plan which continued to gain momentum during this financial year. As at the date of this report, we have a total of 47 graduates and 101 apprentices in training. A significant programme of STEM (Science, Technology, Engineering and Maths) activities was undertaken through Engineering UK to further support our future technical talent pipeline and encourage young people to maintain an interest in science and technology courses at schools and universities.

Our Awesome Leaders Development Programme was introduced in 2015 for our team leaders and team managers as we understand the importance of nurturing and developing our internal talent, particularly in relation to succession planning for senior positions within the Company.

Membership and Director attendance during the year ended 31 March 2016

The members of the Committee in 2015/16 were the Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, members of senior management, Director of Human Resources and external advisers may be invited to attend meetings as and when appropriate.

Audit Committee

John Coghlan

Chairman of the Audit Committee

Key areas of focus

In accordance with its Terms of Reference, which were updated during the year, the key areas of focus of the Audit Committee in 2015/16 included:

- financial statements and accounting policies;
- Risk Management and Internal Controls;
- oversight of internal and external audit;
- responsibility for the external Auditor tender, including making a recommendation to the Board for the appointment or reappointment of the Auditor;
- review of the adequacy of the Group's procedures for whistleblowing, reporting fraud and other inappropriate behaviour, including reviewing reports of all allegations at their meetings;
- review of the new Financial Reporting Council ('FRC') reporting requirements on Going Concern and Viability Statements; and
- regulatory reporting obligations of our subsidiary Severn Trent Water Limited.

The Committee reports to the Board on its work and the Committee's performance was included in the review of the Board Committees' effectiveness referred to on page 75.

During the year, there were four scheduled meetings of the Audit Committee. The attendance figures for these meetings are detailed below.

Member of the Audit Committee	Attendance
John Coghlan (Chairman)	4/4
Philip Remnant	4/4
Martin Lamb	4/4

Introduction from the Chairman of the Audit Committee

I am pleased to introduce the report of the Audit Committee which details the role of the Committee and the work it has undertaken during the year.

The Audit Committee is responsible for assisting the Board in discharging its oversight responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the system of Internal Controls and Risk Management. The Committee also has responsibility for overseeing the relationship with our external Auditor, including the assessment of their ongoing objectivity and oversees the assurance of regulatory returns made by Severn Trent Water Limited to Ofwat.

In performing its duties, the Committee has access to the services of the Head of Internal Audit, the Company Secretary and, if required, external professional advisers.

Financial statements and accounting policies

The Committee looked carefully at those aspects of the financial statements which required significant accounting judgments or where there was estimation uncertainty. These areas are explained in note 4 of the financial statements on page 123. The Committee receives detailed reports from both the Chief Financial Officer and the external Auditor on these areas and on any other matters which they believe should be drawn to the attention of the Committee. The Committee also reviews the draft of the external Auditor's report on the financial statements,

with particular reference to those matters reported as carrying risks of material misstatement. The Committee discusses the range of possible treatments both with management and with the external Auditor's and satisfies itself that the judgments made by management are robust and should be supported. The significant issues that the Committee considered in 2015/16 were:

- Determination of the provision for impairment of trade receivables in Severn Trent Water Limited;
The Committee receives information bi-annually on the level of the provision and on any changes in the methodology of calculating the provision.
- The amount of the provisions held for tax liabilities and the calculation of deferred tax balances in relation to infrastructure income;
The Committee received reports from management, setting out the reasons for, and the basis of calculation of, the adjustments to deferred tax in relation to infrastructure income.
- Determination of the amount of the Group's retirement benefit obligations;
The Committee reviewed the assumptions underlying the valuation of the obligations and considered whether the assumptions taken as a whole are appropriate.
- The proposed classification and disclosure of items of income or expenditure as exceptional items;
The Committee reviewed the reasons for classifying items as exceptional and considered whether there were items that had not been treated as exceptional that met the criteria.
- Whether the Group's non-household retail activities, which will be transferred to the Water Plus joint venture with United Utilities, should be treated as a discontinued operation.
The Committee considered the judgment made that the disposal of the non-household retail business was not highly probable at the balance sheet date and, in view of the status of the CMA review at that date, concurred with the judgment not to classify the business as discontinued.

For all of the matters described above the Committee concluded that the treatment adopted in the Group financial statements was appropriate.

The Committee reviewed and challenged the evidence and assumptions underpinning the use of the Going Concern assumption in preparing the accounts and in making the statement made in the Directors' report that the Company is a Going Concern.

Internal Controls

The Committee receives regular reports from Internal Audit and reviews management letters received from the external Auditor.

Identifies principal risks and related controls.

Provides guidance to risk owners on the Board's tolerance for different types of risk.

Reviews the Group's approach to evolving risks.

Reviews the procedures, systems and controls designed to prevent and detect fraud and bribery, including the adequacy of whistleblowing arrangements for the Group.

This was carried out in conjunction with the consideration of the Viability Statement on page 47.

The Committee reviewed the draft results announcements for interim and full year results and the proposed presentations to analysts and paid particular attention to the tone of the announcements and presentations to consider their consistency with the financial statements.

In reviewing the financial statements, the Committee receives input from the Disclosure Committee, a sub-committee of the Executive Committee which is chaired by the Chief Financial Officer.

The Audit Committee reviewed the outcome of the process to confirm that the report and accounts are 'fair, balanced and understandable'. The Disclosure Committee undertook a detailed review of the Annual Report and Accounts prior to making a recommendation to the Board that it could make the fair, balanced and understandable statements contained in the Directors' Responsibility Statement on page 106. Deloitte LLP ('Deloitte') reported to the Committee on its review of the half-year interim results and on its audit of the year end financial statements.

Risk Management

The Audit Committee reviews the Group's Risk Management process and the effectiveness of the system of Internal Controls on behalf of the Board and keeps under review ways in which to enhance the control and assurance arrangements. The Audit Committee receives reports at every meeting from the Chief Financial Officer detailing the significant risks and uncertainties faced by the Group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary.

The Committee reviewed the processes for, and outputs from, our Enterprise Risk Management process, through which the principal risks and related controls are identified. The Committee discussed the approach to documenting the Board's risk appetite and providing guidance to risk owners on the Board's tolerance for different types of risk. In addition, it monitored the ongoing development of our compliance and assurance processes in respect of the key risks.

The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Group have been in place for the year to 31 March 2016 and up to the date of approval of the Annual Report, which is in accordance with the Code and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014 (the 'Guidance'). During its review of risk management during 2015/16, the Board explicitly considered the target position for significant risks. The Board considered whether target risk positions are appropriate and confirmed that suitable timescales are agreed for reaching these target positions.

Internal Controls

The Board is responsible for the Group's Internal Control systems and for reviewing their effectiveness. The Audit Committee regularly monitors and reviews the effectiveness of the systems of Internal Control, including Risk Management, financial, operational and compliance aspects, in accordance with the requirements of the Code and the Guidance, and these systems have been in place for the year ending 31 March 2016 and up to the date of the Annual Report. The Internal Control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

Throughout the year the Committee has received regular reports from Internal Audit covering the Internal Control framework in respect of financial and operating performance, significant projects and for compliance matters, with the key audit findings and the associated management's actions discussed by the Committee. During the year the Committee examined the requirements of the revised UK Corporate Governance Code in relation to the assessment and reporting of longer-term viability and internal control.

Audit Committee

Internal Audit

The Head of Internal Audit and his team report on a day-to-day basis to the Executive Committee.

This work is summarised and reported to the Committee on a regular basis.

The Head of Internal Audit can raise any issues with the Committee or its Chairman at any time during the year.

The Head of Internal Audit and his team report on a day-to-day basis to the Executive Committee on the effectiveness of the Group's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. This work is summarised and reported to the Committee at every meeting and is a key element of the assurance that the Committee receives on the risks and controls in

the Group. The Head of Internal Audit is free to raise any issues with the Committee or its Chairman at any time during the year.

The Internal Audit function is supported via a co-source arrangement with PwC. The Committee believes that this arrangement adds value beyond that of a full Internal Audit function, through greater access to expertise and the ability to independently challenge management.

The effectiveness of the Internal Audit function, the audit plan and budget are reviewed at least annually by the Committee.

The Group's procedures for exercising control and managing risk in relation to financial reporting and preparation of consolidated accounts include:

- the formulation and communication of Group accounting policies which are regularly updated for developments in IFRS and other reporting requirements;
- specification of a set of financial controls that all of the Group's operating businesses are required to implement as a minimum;
- deployment of a Group-wide consolidation system with controls to restrict access and maintain integrity of data;
- recruitment, training and development of appropriately qualified and experienced financial reporting personnel; and
- oversight by the Disclosure Committee, a sub-committee of STEC, of the Group's compliance with its disclosure obligations.

To support these control activities, the Audit Committee receives reports from Internal Audit which provide objective assurance on risk management, governance and control matters. The external Auditor reports significant financial control issues to the Audit Committee.

An independent technical assurer, Jacobs, provides objective assurance in relation to Severn Trent Water Limited's reporting against performance commitments and ODIs in the Annual Performance Report. Deloitte audit the regulatory financial reporting and the price control and additional segmental reporting and provide specific assurance on the additional regulatory information, all of which is included in the Annual Performance Report.

The Committee reviews the procedures, systems and controls designed to prevent and detect fraud and bribery and receives a log of incidents of fraud or bribery every six months, which includes the actions taken to investigate and respond to the incidents. There were no material incidents during the year.

The Audit Committee has not identified nor has been advised of any failings or weaknesses which it has deemed to be significant to the Group during the course of its review of internal control systems in 2015/16.

External Auditor – tender

The Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation Order. As a result, the Committee formally tendered the external audit service during the 2015/16 financial year. The tender was carried out in accordance with the OJEU regulations. Four firms responded to the invitation to tender, including the incumbent Auditor, Deloitte who were first appointed as Auditor for the year ended 31 March 2006. Each firm was provided with access to a virtual data room and meetings with key Directors and Executives. Responses to requests for further information were provided to all firms involved in the tender. Presentations were made to a panel comprising the Audit Committee, the Chairman, the Chief Executive, the Chief Financial Officer and the Group Financial Controller. The proposals received were assessed against pre-determined criteria including Service Team, Service Delivery, Implementation and Value for Money. Following careful consideration, the Committee agreed that, across the criteria as a whole, Deloitte had delivered the best proposal and therefore the Audit Committee recommended to the Board that Deloitte LLP be reappointed as Auditor. The Board is proposing a resolution to the AGM to reappoint Deloitte as Auditor for the year ending 31 March 2017.

There are no contractual obligations to restrict the Committee's choice of external Auditor.

In respect of 2015/16, Deloitte audited all significant subsidiaries of the Group. Annually, the Committee reviews the external Auditor's audit plan and reviews and assesses information provided by them confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. The Committee also reviews their effectiveness, which involves: assessment of the Auditor by the Committee and key Executives; and confirmation that the Auditor meets minimum standards of qualification, independence, expertise, effectiveness and communication. These assessments are carried out prior to the Committee recommending to the Board that the external Auditor be proposed for reappointment at the Company's AGM.

The Audit Partner, currently Kari Hale, is required to rotate after a maximum of five years, 2019/20 being his last financial year.

Details of the amounts paid to Deloitte for audit and non-audit services in 2015/16 are provided in note 5 to the accounts on page 129.

Membership and Director attendance during the year ended 31 March 2016

The members of the Committee in 2015/16 were John Coghlan as Chairman, Philip Remnant and Martin Lamb, whose experience and backgrounds are set out on pages 66 and 67. Only members of the Committee have the right to attend Committee meetings.

The Board is satisfied that all the Committee members have recent and relevant financial experience and that all members of the Committee remain independent.

The Chairman, Chief Executive, Chief Financial Officer, Head of Internal Audit, Group Financial Controller and the external Auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate. The Committee regularly holds private discussions with the Head of Internal Audit and external Auditor separately.

Policy on the provision of non-audit services

The Company has approved a formal policy on the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the external Auditor.

The policy sets out the approach to be taken by the Group when using the services of the external Auditor, including requiring that certain services provided by the external Auditor are pre-approved by the Committee or its Chairman.

It defines the non-audit services that may be provided by the external Auditor and separately sets out those non-audit services which are prohibited, since the independence of the external Auditor could be threatened.

The policy was reviewed by the Committee during this year and the schedule of services that the Auditor may be used for was amended to exclude those services which are not permitted under the FSCs proposed new ethical standard for Auditors. The policy was also amended to prohibit aggregate fees for non-audit services in excess of the audit fee for the year.

Non-audit services where the external Auditor may be used include: audit-related services required by statute or regulation, services related to fraud, Corporate Responsibility report reviews and regulatory support.

The approval of the Committee or its Chairman is always required if a non-audit service provided by the Auditor is expected to cost more than £100,000.

In the course of completing the disposal of the Water Purification business, the purchaser requested an audit of the financial statements of the disposal Group. Since Deloitte had already performed work on some of the companies as part of the Group audit, the most pragmatic and economic solution was for Deloitte to perform this work.

Other assurance services include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water Limited's regulatory reporting requirements to Ofwat. In the previous year, the balance included fees in connection with PR14.

In approving these non-audit fees, the Committee considered the overall ratio of non-audit fees to audit fees and given the scope of work, considered that Deloitte was best placed to perform these services.

Severn Trent Water Limited

The regulated activities carried out by Severn Trent Water Limited also require annual reporting submissions to Ofwat which are reviewed by the Committee. They include an annual submission on Severn Trent Water Limited's regulatory performance and obligations known as the Annual Performance Report, together with a Compliance Statement and a statement that underpins the customer charges made by Severn Trent Water Limited.

In March 2016, the Committee reviewed Severn Trent Water Limited's statement of risks, strengths and weaknesses, which is a requirement of Ofwat's Company Monitoring Framework. This document sets out the process, timeline and assurance framework in place for information published for customers and other stakeholders, including the Annual Performance Report.

Deloitte provides an audit opinion on the regulatory financial reporting and price control segmentation sections of the Annual Performance Report, and assurance of certain aspects of additional regulatory information that is included. The Annual Performance Report also provides an overall picture of performance, covering many aspects which are not financial including performance against Severn Trent Water Limited's commitments and ODIs. Severn Trent Water Limited appoints engineering consultants, Jacobs, to report and provide assurance on those aspects. The Committee receives reports from Jacobs and Deloitte on their work as part of its review of the Annual Performance Report.

Corporate Responsibility Committee

The Committee provides guidance on the Company's Corporate Responsibility ('CR') programme, reviews the Group's key non-financial risks and opportunities and monitors performance against a CR framework.

The Terms of Reference for the Committee can be found on our website (www.severntrent.com) and are also available from the Company Secretary. For part of the year, the review of the adequacy of arrangements of the Company's whistleblowing procedures fell within the remit of the CR Committee. In October 2015 the remit of the Audit Committee was amended to include responsibility for this review. Notwithstanding this change, the CR Committee continues to review all whistleblowing allegations at every meeting. For more information please see page 88.

Gordon Fryett

Chairman of the Corporate Responsibility Committee

Attendance at scheduled Committee meetings

During the year there were four scheduled meetings of the Committee. The attendance figures for these meetings are detailed below.

Members of CR Committee	Meetings attended
Gordon Fryett	4/4
Andrew Duff	4/4
Liv Garfield	4/4
Dr. Angela Strank	4/4

This report provides details of the role of the Corporate Responsibility ('CR') Committee and the work it has undertaken during the year.

Our Corporate Responsibility framework

Our Corporate Responsibility framework is ambitious and underpinned by stretching targets. It is aimed at ensuring responsible business practices in line with our strategic framework, across our whole business. By acting in this way we support our purpose of serving our communities, building a lasting water legacy and achieve our vision to be the most trusted water company by 2020. An underlying premise of our approach to CR is that we can add value to society by the way in which we fulfil our role, not just by what we do.

To monitor performance against our new framework, we have an effective performance management system in place through which the performance of our CR metrics are reported. Internally, quarterly reports are provided to the Executive Committee and to the CR Committee. Externally, annual reports are published on our website, in our Annual Report and Accounts and through selected Environmental, Social and Governance indices.

Our Corporate Responsibility framework

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

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

We put our customers first

We are passionate about what we do

We act with integrity

We protect our environment

We are inspired to create an awesome company

Through our company values we will deliver commitments expected of a leading, socially responsible company. We also expect our suppliers to support our values.

Key areas of focus for 2015/6

The Committee provides Board oversight of our CR framework, strategy and performance relating to our ambitions and essentials. The Committee also regularly reviews reputational risks and non-financial internal audit reports, in addition to any whistleblowing allegations.

Key areas of discussion and review during 2015/16 included the following:

- Our climate change adaptation report. We have delivered significant adaptation action on the ground and have increased our understanding of the risks climate change poses to us, but we still have more to do to build our resilience, which is reflected in our plans going forward.
- Re-launch of our Code of Conduct 'Doing The Right Thing the Severn Trent Way' ('DTRT') and supporting principles and policies as an integral part of the articulation of our strategic framework, particularly our values and our CR essentials, so that they are consistent and mutually reinforcing.
- An update on 'Managing our suppliers responsibly'. Good progress has been made to embed DTRT in our supply chain and progress regarding other aspects of managing our supply chain responsibly will be monitored by the Committee going forward.
- Adoption of our CR framework by Business Services. Wherever possible, consistent CR measures will be used, and although we cannot currently report on all measures across all regions, we will be working towards this for 2016/17.
- An update on the expanded scope of our environmental management systems. New requirements from the Environment Agency regarding environmental permit templates require an expansion of our current scope to cover combined sewer overflows, pumping stations and all sewage treatment works. Key deliverables will include an expanded training programme and assurance against compliance. This will be monitored by the standards maintenance team going forward.
- An update on focus areas for diversity. We are focusing on recruitment of BAME applicants and women into leadership roles.
- A review of external news and trends relevant to Severn Trent such as an update on the political landscape following the general election in May 2015 and Paris COP21 – the United Nations conference on climate change.

Human rights

We have a responsibility to understand our potential impact on human rights and to mitigate or eliminate this impact. We are committed to operating in accordance with the United Nations Global Compact Principles and DTRT supports this commitment. Whilst not having a specific human rights policy, we have Group policies on Human Resources, Anti Bribery and Anti Fraud, Whistleblowing and Procurement. These policies are in turn supported by a broader range of policies within Severn Trent Water Limited and Severn Trent Business Services to support key human rights.

Prevention of child labour and forced labour

We will not condone the use of child labour and forced labour under any circumstances. The highest risk for Severn Trent is through our supply chain, therefore we work with our suppliers to ensure they operate to the same standards we set ourselves. Our Code of Conduct has been built into the procurement tender process as part of the pre-qualification questionnaire template in Severn Trent Water Limited.

Freedom of association and collective bargaining

We recognise the right of all employees to freedom of association and collective bargaining. We seek to promote cooperation between employees, our management team and recognised trade unions. We meet with our trade unions on a quarterly basis at the Company forum, and see real benefit in sharing information with our colleagues and seeking their feedback and suggestions. We believe this fosters a joint understanding of business needs and helps to deliver common solutions aimed at making our business successful.

Whistleblowing

All Severn Trent employees are encouraged to raise concerns at work in the first instance through their line manager, or senior management however, we recognise that employees may feel inhibited in certain circumstances. If this should be the case, employees are encouraged to use our confidential and independent whistleblowing helpline or email service, operated by Safecall, an independent company which specialises in handling concerns at work. The service is available internationally and Safecall provides a translation service, allowing any employee, wherever they are in the world, to access it.

Prevention and detection of bribery and corruption

Our Group-wide Anti Bribery and Anti Fraud Policy prohibits bribery and corruption in all our business dealings, regardless of the country or culture within which we work. Employees identified as high risk through a risk review for Severn Trent Water Limited and all employees of Severn Trent Business Services are required to undertake an online training module and examination to ensure awareness of and compliance with this policy. The Audit Committee carries out an annual review of our systems and controls to detect and prevent bribery and corruption.

Responsible business practices are an integral part of our business strategy, and will be seen throughout our strategic report. For more information about our Corporate Responsibility framework, our ambitions and values, please see our CR report on pages 54.

Remuneration Committee

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The policy framework for remunerating all senior executive managers is consistent with the approach taken for Executive Directors.

Philip Remnant

Chairman of the Remuneration Committee

Dear Shareholder

The new regulatory period, AMP6, brought with it considerable uncertainty, driven by changes to the regulatory regime which shifted the balance of risk and reward. New mechanisms were introduced, such as Outcome Delivery Incentives (ODIs) and total expenditure (Totex), giving companies the opportunity to outperform the regulatory allowance, but at the same time creating a risk of underperformance. I am pleased to report that our executive team has successfully navigated the business through this first year, delivering impressive returns on regulated capital measured by return on regulatory capital value (RoRCV) and return on regulated equity (RoRE). Furthermore, our service levels have continued to improve, with a strong performance on operational metrics against a backdrop of a £4 reduction in our average household bill in 2015/16. This performance is, therefore, reflected in the payments under our incentive plans during the year.

Remuneration for the year under review

The annual bonus payments to the Chief Executive Officer and the Chief Financial Officer for the financial year to 31 March 2016 were 105.8% and 104.0% of base salary respectively, reflecting strong profit growth and performance against our ODIs.

The recruitment awards for the Chief Executive Officer and Chief Financial Officer which were based on RoRCV performance over the three years to 31 March 2016 will vest in full, reflecting outperformance against our Business Plan.

There is a detailed breakdown of the targets set and the payments under the annual bonus and long term incentive plan (LTIP) on pages 96 and 97.

Application of the policy for 2016/17

We operate under the framework approved by shareholders at the 2015 AGM and I set out below a brief overview of how the policy will be applied in the year ahead:

- **Base salaries:** An increase of 2% will be applied to base salaries with effect from 1 July 2016 in line with the average level of increase for the wider workforce.
- **Benefits and pension:** There will be no changes to benefits and pensions during 2016/17.
- **Annual bonus:** Will continue to be based on the same metrics as for 2015/16 (Severn Trent Water (STW) profit before interest and tax (PBIT), STW ODIs, Business Services PBIT, health and safety, and personal objectives). However, the weighting in respect of health and safety will be increased from 5% to 8% with a consequential reduction in the STW PBIT weighting. The Committee considers the forward looking targets to be commercially sensitive but full disclosure of the targets (and performance outcome) will be set out in next year's Remuneration Report. The maximum bonus opportunity remains 120% of salary and 50% of any bonus paid will be deferred in shares for three years.
- **Long term incentives:** Awards worth 150% of base salary for the Chief Executive Officer and 100% for the Chief Financial Officer will be granted in June 2016 (grants worth 125% and 80% of base salary were made in 2015). The award level for the Managing Director, Wholesale Operations is 80% of base salary. The increase in award levels for the Chief Executive Officer and Chief Financial Officer is within our LTIP policy and reflects the strong performance of the Company and individuals, their career progression and the higher RoRE stretch

target for the 2016/17 awards. The performance targets (for the awards to be granted in 2016) will require average RoRE to equal Ofwat's Final Determination (5.65%) for 25% of the award to vest, increasing on a straight line basis to 100% vesting for outperforming the Final Determination by 1.39 times (7.85%). The Committee considers that the 1.39 times Final Determination RoRE stretch target is challenging because it would require very significant outperformance on ODIs, Financing and Totex efficiencies; it is significantly ahead of the current market consensus; and 1.39 times Final Determination would be almost three times the level of outperformance achieved on average, had RoRE applied over AMP5 (1.14 times Final Determination).

Finally, the Chairman's fee increased from £257,000 to £275,000 with effect from 1 April 2016. This reflects the Chairman's strong performance, the fact that the last review was in April 2014 and the desire to move closer to the median of the FTSE 51-150.

Structure of the report

This letter and the Annual Report on Remuneration will be subject to an advisory vote at the 2016 AGM. There is no vote on the Policy Report this year. The Policy Report, set out for reference on the following pages, reflects the Remuneration Policy approved by shareholders in 2015 (supported by 98% of votes cast). It is currently intended that this policy will continue to apply until the 2018 AGM when it will be subject to approval again by shareholders as required under the regulations.

I hope that you remain supportive of our Remuneration Policy and will approve the resolution on the Annual Report on Remuneration at the AGM.

Philip Remnant

Chairman of the Remuneration Committee

Policy Report

This section sets out the Remuneration Policy approved by shareholders at the 2015 AGM. No changes to the Remuneration Policy are proposed this year and therefore there will be no shareholder vote on the policy at the 2016 AGM.

Setting the Remuneration Policy

The Committee sets the Remuneration Policy for Executive Directors and other senior executive managers, taking into account the Company's strategic objectives over the short and the long term and the external market.

The Committee addresses the need to balance risk and reward. The Committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The Committee believes that the incentive schemes are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the Executive Directors so that the long term performance of the business is not compromised by the pursuit of short term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall Company performance.

Linkage to all employee pay

The Committee reviews changes in remuneration arrangements in the workforce generally. It ensures that Executive Director base salary increases are normally aligned to the increases for the rest of the workforce. Furthermore, the annual bonus operates on a broadly similar basis with the bonus schemes operated throughout STW, and all UK employees may participate in the HMRC approved Sharesave Scheme (SAYE). The Company has not directly consulted with employees on the topic of executive remuneration; however, the Committee does consider the general base salary increase, remuneration arrangements and employment conditions for the broader employee group when determining the Remuneration Policy for Executive Directors.

Shareholder views

The Committee engages proactively with the Company's major shareholders and takes their views into account. The Committee reviews any feedback received from shareholders as a result of the AGM process and throughout the rest of the year, and takes into consideration the latest views of investor bodies and their representatives, including the Investment Association, the National Association of Pension Funds¹ and proxy advice agencies such as Institutional Shareholder Services. When any significant changes are proposed to be made to the Remuneration Policy, the Remuneration Committee Chairman discusses these with major shareholders in advance and may offer meetings for more detailed discussion.

Remuneration Policy for the Executive Directors

The following table sets out a summary of each element of the Executive Directors' remuneration packages.

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Salary	To recruit and reward Executive Directors of a suitable calibre for the role and duties required.	Base salaries for individual Directors are reviewed annually by the Committee and normally take effect from 1 July. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size (currently FTSE 51-150) and practice in other water companies), Company performance, affordability and internal relativities. The Company, where appropriate, may set base salary levels below the market reference salary at the time of appointment, with the intention of bringing the base salary levels in line with the market as the individual gains the relevant experience	Details of the current salary levels for the Directors are set out in the Annual Report on Remuneration on page 96.. Any increase to Directors' salaries will generally be no higher than the average increase for the UK workforce. However, a higher increase may be proposed in the event of a role change or promotion, or in other exceptional circumstances.
Benefits	To provide competitive benefits in the market to enable the recruitment and retention of Directors.	A car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. Relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	The value of benefits is based on the cost to the Company and there is no predetermined maximum limit. The range and value of the benefits offered is reviewed periodically.
Pension	To provide pension arrangements comparable with similar companies in the market to enable the recruitment and retention of Directors.	A defined contribution scheme and/or cash supplement in lieu of pension.	Company contribution to a pension scheme and/or cash allowance up to a maximum of 25% of base salary.

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Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Annual bonus	To encourage improved financial and operational performance and align the interests of Directors with shareholders through the partial deferral of payment in shares.	Bonuses are based on financial, operational and personal performance. No more than 20% of the bonus will relate to personal contribution for any Executive Director. 50% of the bonus is paid in cash and 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting). A clawback mechanism applies to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.	Maximum annual bonus 120% of base salary (target annual bonus of 60% of base salary).
LTIP	To encourage strong and sustained improvements in financial performance, in line with the Company's strategy and long term shareholder returns.	Awards are granted annually and are subject to a three year performance condition which requires the Company's RoRE to outperform the target set out in Ofwat's Final Determination. A sliding scale of targets is set. Different targets and/or performance measures may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time. The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting. The award may be structured as a conditional share award (awards may also be settled in cash in certain circumstances). A clawback mechanism applies to allow the recoupment of vested incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross negligence, fraud or gross misconduct.	Maximum limit is 150% of base salary (with 200% being used in exceptional circumstances). The grant level for 2016/17 is 150% of base salary for the Chief Executive Officer, 100% for the Chief Financial Officer and 80% for the Managing Director, Wholesale Operations. Up to 25% of an award may vest for threshold performance
All Employee Share Plans	To encourage widespread employee share ownership to enable employees to share in the success of the business, and to align their interests with those of shareholders.	The Executive Directors are able to participate in HMRC approved all employees share plan on the same terms as other eligible employees.	The maximum limits under the plans are as set by HMRC.

1 Now the Pension and Lifetime Savings Association.

Further details on the variable pay policy

Annual bonus

The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead. Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. Further details on the performance measures and weightings to be used for the forthcoming year are set out in the Annual Report on Remuneration on page 100.

Long term incentives (LTIP)

For LTIP awards granted in 2015 onwards, RoRE will be used to assess performance. Using RoRE to assess long term performance reflects the focus of Ofwat in AMP6 and is consistent with our aim to deliver efficient returns to shareholders. RoRE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value. The Committee believes that the use of RoRE provides a strong alignment between the long term financial and operational performance of the Group and the reward delivered to management.

LTIP awards granted in 2013 and 2014 are subject to a performance condition relating to RoRCV. RoRCV is calculated as current cost operating profit less tax paid divided by our average regulatory capital value. Details of the performance targets applying to the 2013 and 2014 awards are set out in the Annual Report on Remuneration on page 98.

The Committee reserves the discretionary power to adjust the formulaic outturn of the LTIP performance conditions to ensure that the vesting result is reflective of the underlying financial and operational performance of the Company over the performance period. The use of this discretion is expected to be exceptional and the Committee would consult with its major shareholders before making any upwards adjustment. In relation to the awards granted in 2013, there is a cap and collar limiting the extent to which this discretion can be applied (if the vesting result indicated by the performance condition is greater than 50% the Committee may reduce the vesting to a number not less than 50%; and if it is 0% it may increase it to any figure not greater than 50%). This cap and collar approach does not apply to awards granted from 2014 onwards.

In addition, for any awards to vest, the Committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the Group. If the Committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%).

Legacy Share Matching Plan

Until 2013, awards were also made under a Share Matching Plan (SMP). Under the SMP, the Executive Directors could receive up to 0.5 matching shares for each share deferred under the annual bonus plan (the maximum award level was therefore 30% of salary). The matching awards were subject to achievement of a relative total shareholder return performance condition and a financial underpin. At the time of release, participants also receive the value of the dividends which would have been paid on vested shares over the performance period. The outstanding awards will be allowed to pay out under the approved policy, subject to achievement of the performance conditions on which they were granted. None of the Executive Directors hold outstanding awards under this legacy plan.

Remuneration Committee discretion

The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers (see policy on Payments for Loss of Office on page 94), retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for

special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy.

External directorships

Executive Directors are permitted to take on external non-executive directorships, though normally only one other appointment, to bring a further external perspective to the Group and help in the development of key individuals' experience. In order to avoid any conflicts of interest, all appointments are subject to the approval of the Nominations Committee. Executive Directors are permitted to retain the fees arising from one appointment.

Shareholding guidelines

The Company operates shareholding guidelines under which Executive Directors are expected to build and maintain a shareholding in the Company. The Chief Executive Officer is expected to build and maintain a holding of shares to the value of 200% of salary, and other Executive Directors 125% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding guidelines have been met.

Reward scenarios

The bar charts show how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance achievement.

Minimum pay is fixed pay only (i.e. salary + benefits + pension). On-target pay includes fixed pay, a 60% of salary bonus and 50% vesting of the LTIP awards (with grant levels of 150% of salary for the Chief Executive Officer, 100% of salary for the Chief Financial Officer and 80% of salary for the Managing Director, Wholesale Operations). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards. No share price growth has been factored into the chart and all amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2016. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2016. The Executive Directors are also permitted to participate in HMRC approved all employee share plans, on the same terms as other eligible employees, but they have been excluded from the chart for simplicity.

Service contracts and policy on Payments for Loss of Office

The remuneration related elements of the current contracts for Executive Directors are shown in the table below.

Provision	Policy
Notice period	12 months from either party.
Termination payment	Payments for Loss of Office comprise a maximum of 12 months' salary and benefits only.
Mitigation	Any termination payment will not be made automatically but will be subject to both phasing and mitigation (including offset against any earnings from new employment).
Change of control	There are no specific contractual payments or benefits which would be triggered in the event of a change of control of the Company. Outstanding incentive awards would vest in line with the treatment set out below for a good leaver except that the performance and vesting period will end on the date of the change of control.
Annual bonus	The Committee may exercise its discretion to pay a bonus to a departing Executive Director, subject to performance and pro-rated to reflect the proportion of the year worked. The bonus would be paid at the same time as for the other Directors and, if the Executive Director has left employment by that date, it may be paid solely in cash. Any outstanding deferred bonus shares will vest on cessation of employment unless the departure is a result of summary dismissal.

Provision	Policy
LTIP & legacy SMP	The default treatment is that all awards will lapse on cessation of employment. However, an Executive Director will be considered a good leaver in certain prescribed circumstances or by the discretion of the Committee. If an Executive Director is a good leaver, the award will ordinarily vest on the normal vesting date, subject to performance and time pro-rating (as set out below). The Committee also has the discretion to determine that the awards for a good leaver should vest early (e.g. on cessation of employment) subject to performance with time pro-rating (as set out below). For the outstanding awards under the legacy 2005 LTIP (awards granted in 2013 and prior), the time pro-rating is calculated by rounding up to the nearest full year unless otherwise specified. Time pro-rating under the 2014 LTIP (awards granted since 2014) is calculated on a daily basis and under the legacy SMP is rounded up to the nearest month. In exceptional circumstances the Committee may time pro-rate the 2005 LTIP, 2014 LTIP and SMP awards to a lesser extent or not at all. For the recruitment awards granted on appointment to Liv Garfield, James Bowling and Emma FitzGerald, no time pro-rata reduction will be applied in a good leaver situation. This is in recognition of the fact that the expected value of the forfeited awards from their previous employment was significantly higher in each case (with much of it being non-performance related) and which would not have been scaled back for a similar event

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary. Outstanding savings/awards under the SAYE and the legacy Share Incentive Plan (SIP) would be transferred in accordance with the terms of the plans as approved by HMRC.

Approach to recruitment and promotion

The remuneration packages for all new Executive Directors will be set in line with the Company's approved policy. The Committee will take into account, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing the best candidate.

Annual bonuses and long term incentives will be awarded in line with the maximum limits outlined in the policy on page 92. Participation in the bonus plan will normally be pro-rated for the year of joining.

The Committee may make additional cash and/or share based awards if deferred pay is forfeited by an Executive Director on leaving a previous employer. Such awards would take into account the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and any performance conditions. Awards would typically be made under the terms of the LTIP or under the exemptions permitted under the Listing Rules. Non-performance related payments unrelated to the forfeiture of awards, i.e. 'golden hellos', will not be made.

Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted.

Chairman and Non-Executive Directors

The Remuneration Policy for Non-Executive Directors, other than the Chairman, is determined by the Severn Trent Executive Committee. The fee for the Chairman is determined by the Remuneration Committee (without the Chairman present).

Element	Purpose and link to strategy	Operation	Maximum Opportunity
Fee	To recruit and retain Non-Executive Directors of a suitable calibre for the role and duties required.	Base Board fee with additional fees paid for the Senior Independent Director and chairmanship of the Board Committees. The Chairman receives a total fee in respect of his Board duties. Fees are paid monthly. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	Details of the current fee levels for the Directors are set out in the Annual Report on Remuneration on page 101. The fee levels are set subject

Element	Purpose and link to strategy	Operation	Maximum Opportunity
		The fees for the Non-Executive Directors and Chairman are set taking into account the time commitment of the role and market rates in comparable companies. The fees are normally reviewed annually (but not necessarily increased).	to the maximum limits set out in the Articles of Association.

Non-Executive Directors normally serve terms of three years. They do not have service contracts. Instead, they are engaged by letters of appointment which are terminable by either party with no notice period and no compensation in the event of such termination, other than accrued fees and expenses. All of the Directors are subject to annual appointment or reappointment at the AGM with the exception of Martin Lamb and Gordon Fryett who will be retiring from the Board at the 2016 AGM.

Annual Report on Remuneration

This part of the report will be subject to an advisory vote at the AGM. The information on pages 95 to 101 is audited.

Membership of the Remuneration Committee and its advisers

The members of the Committee are listed in the table below. All are independent Non-Executive Directors, as defined under the Governance Code, with the exception of the Company Chairman who was independent on his appointment. During the year ended 31 March 2016, the Committee met five times to discuss key remuneration issues arising, the review and operation of the Company's Remuneration Policy and market updates by its advisers.

Remuneration Committee attendance in 2015/16

Andrew Duff	5/5
Martin Lamb	5/5
Philip Remnant (Chairman of the Remuneration Committee)	5/5
Dr. Angela Strank	5/5

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. The Chief Executive Officer, Director of Human Resources and by invitation the Head of Strategy also attended the Committee meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

To ensure that the Company's remuneration practices are in line with best practice, the Committee has access to advice from New Bridge Street (NBS) (a trading name of Aon Hewitt Limited). NBS is the independent adviser to the Committee and was appointed in 2011. The total fees paid to NBS during the year for services to the Committee were £77,211 excluding VAT (2015: £190,525). NBS also provided advice during the year to the Company on the implementation of its share plans and other technical matters. NBS is a signatory to the Remuneration Consultants Group Code of Conduct and reports directly to the Chairman of the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent.

Directors' emoluments

The single remuneration figure table below sets out the remuneration received by the Directors for 2015/16 (or for performance periods ending in 2015/16 in respect of the long term incentives) and, for the purposes of comparison, for 2014/15.

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£'000	Year ending 31 March 2016							Year ending 31 March 2015						
	Base salary and fees ⁽ⁱ⁾	Benefits in kind ⁽ⁱⁱ⁾	Pension ⁽ⁱⁱⁱ⁾	Annual bonus ^(iv)	Long term incentives ^(v)	Other ^(vi)	Total	Base salary and fees	Benefits in kind	Pension	Annual bonus	Long term incentives ^(vii)	Other	Total
Non-Executive Directors														
Andrew Duff (Chairman)	257.0	–	–	–	–	–	257.0	257.0	–	–	–	–	–	257.0
John Coghlan ^(viii)	66.4	–	–	–	–	–	66.4	54.6	–	–	–	–	0.1	54.7
Gordon Fryett	64.4	–	–	–	–	–	64.4	64.4	–	–	–	–	–	64.4
Martin Lamb	61.4	–	–	–	–	–	61.4	53.2	–	–	–	–	–	53.2
Philip Remnant ^(ix)	66.4	–	–	–	–	–	66.4	54.3	–	–	–	–	0.2	54.5
Dr. Angela Strank	51.4	–	–	–	–	0.1	51.5	51.4	–	–	–	–	0.1	51.5
Executive Directors(x)														
Liv Garfield ^(xi)	610.2	17.1	215.1	702.1	876.0	12.7	2,433.2	610.0	16.6	203.1	405.5	949.9	12.5	2,197.6
James Bowling ^(xii)	400.0	18.8	100.0	416.0	299.9	9.4	1,244.1	–	–	–	–	–	–	–
Total	1,577.2	35.9	315.1	1,118.1	1,175.9	22.2	4,244.4	1,144.9	16.6	203.1	405.5	949.9	12.9	2,732.9

- (i) Base salary for Liv Garfield is shown after the deduction of benefits (£49,995) purchased through the Company's salary sacrifice scheme
- (ii) Benefits include a car allowance of £15,000 per annum, family level private medical insurance, life assurance worth six times base salary and participation in an incapacity benefits scheme
- (iii) Liv Garfield is a member of the defined contribution pension scheme. The figure shown includes £49,995 paid into the scheme by the Company via salary sacrifice; the remainder has been paid as an annual cash supplement in lieu of a pension. James Bowling receives a cash allowance equal to 25% of base salary
- (iv) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to an additional holding period of three years with no further performance conditions attached
- (v) This relates to the vesting of the third tranche of Liv Garfield's recruitment award and the second tranche of James Bowling's recruitment award. The performance condition for these awards was the same as for the 2013 LTIP grant, which was based on RoRCV performance over the three year period to 31 March 2016. The awards vested at 100% and are due to be released following the end of the close period. The value of the shares has been estimated by using the average share price for the period from 1 January 2016 to 31 March 2016 of £21.25
- (vi) For Non-Executive Directors, this figure relates to taxable expenses relating to travel. For Liv Garfield and James Bowling this relates to their respective disturbance expenses
- (vii) This relates to the vesting of the second tranche of Liv Garfield's recruitment award (42,966 shares, inclusive of 1,744 dividend shares). The figure has been updated to reflect the actual share price on the date of vesting (£22.11)
- (viii) Appointed to the Board on 23 May 2014

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- (ix) Appointed to the Board on 31 March 2014
- (x) Michael McKeon stood down from the Board on 1 April 2015 and left the Company on 31 May 2015. He received remuneration of £2,600 in relation to his services as an Executive Director during the year (being his salary, benefits and pension for 1 April 2015). As set out in last year's Annual Report on Remuneration, as a retiree, he was treated as a good leaver under the terms of the LTIP and SMP. Details of the awards vesting to him based on performance periods ended 31 March 2016 are set out on page 99
- (xi) Liv Garfield joined Severn Trent Plc on 31 March 2014 and was subsequently appointed to the Board on 11 April 2014
- (xii) James Bowling joined Severn Trent Plc on 16 March 2015 and was subsequently appointed to the Board on 1 April 2015. The first tranche of James Bowling's recruitment award (14,115 shares) vested on 1 June 2015. The value of the shares on vesting was £312,047. The value of this award has not been included in the table above since it was based on performance to 31 March 2015 (i.e. prior to joining the Board)

Annual bonus outturn for 2015/16

Annual bonus performance is measured over a single financial year against a range of financial and non-financial targets and against personal objectives. The maximum bonus opportunity was 120% of salary. The table below shows a summary of the metrics and targets which were used to determine the annual bonus awards:

Measure		Weighting	Threshold (0% payable)	Target (50% payable)	Stretch (100% payable)	Actual Performance ⁽ⁱ⁾	% Payable
STW PBIT		50%	£474.1m	£502.9m	£524.1m	£520.3m	91%
	STW ODIs	25%	£0.0m	£4.8m	£7.3m	£23.2m	100%
	Business Services PBIT ⁽ⁱⁱ⁾	10%	£20.7m	£34.8m	£38.9m	£38.2m	92%
Business Unite Objectives	Health & safety (no. of lost time incidents divided by no. of hours worked multiplied by 100,000)	5%	0.20	0.18	0.17	0.25	0%
Personal Performance		10%	See below			85% for Liv Garfield and 70% for James Bowling	

(i) The STW ODI figure is based on 2012/13 pre tax prices

(ii) Based on continuing operations

The Directors had 10% of their bonus opportunity measured against personal objectives. Key objectives for Liv Garfield (Chief Executive Officer) related to growth and further improving the financial strength of the business, customer experience and organisational effectiveness. Activities included education and engagement sessions for all employees on delivering outcomes for customers and end to end process reviews in operational areas, which has contributed towards 95% of operational measures being stable or improved, ODI outperformance, (net reward of £23.2 million) and a reduction in customer complaints, down 28% year on year. We have been recognised by the Environment Agency as being a leader on environmental performance and we have delivered 8.4% RoRE which was in the upper range of Ofwat expectations. In addition, the business has been strengthened by the Water Plus joint venture established with United Utilities to deliver a market leading non-household retail offer when the market opens in 2017. As a result, the Remuneration Committee decided to award Liv Garfield a personal performance bonus at 85% of the maximum.

The objectives for James Bowling (Chief Financial Officer) related to the delivery of the finance strategy and plans, including rebalancing fixed and floating debt and creating procurement savings. Delivering on our finance strategy, active treasury management initiatives were undertaken during the year to rebalance the debt portfolio and lower index linked debt costs. This has helped deliver a £31.4 million reduction in net finance costs (excluding pensions) year on year and led to an effective finance cost of 4.5%, down from 5.4%. In addition, bad debt

charges decreased from 1.8% of turnover to 1.5% as a result of improved collection performance on amounts billed in the year and better management of aged debt balances. Procurement savings have contributed to wholesale Totex of £1,017 million, £38 million lower than the Final Determination. Power costs have reduced by £2.1 million and we continue to make good progress on renewable energy, generating 33% of our energy needs through the renewables programme and on track for 50% by 2020. As a result, the Remuneration Committee decided to award James Bowling a personal performance bonus at 70% of the maximum.

5% of the 2015/16 bonus opportunity for the Executive Directors related to health and safety performance targets (as per the annual bonus outturn table on page 96), which were not achieved. Therefore the proportion of annual bonus weighting against this objective for 2016/17 has been increased from 5% to 8% (with a consequential reduction in the STW PBIT target (47%)) and more challenging targets set.

The bonuses awarded for 2015/16 were 105.8% of base salary for Liv Garfield (£702,142) and 104.0% of base salary for James Bowling (£416,000) out of a maximum bonus opportunity of 120% of salary for both Directors.

Bonuses are paid 50% in cash and 50% in shares (deferred for three years). The deferred shares will be granted in June 2016. The deferred shares are not subject to any further performance conditions.

Long term incentive awards vesting in relation to performance in 2015/16

The table below shows the outcome of long term share awards which had performance periods ending on 31 March 2016:

Executive	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Value of resultant award £000s ⁽ⁱ⁾	Vesting date
Liv Garfield	Recruitment (Tranche 3)	04/06/14	41,223	31/03/16	100%	41,223	£876.0	20/05/16
James Bowling	Recruitment (Tranche 2)	29/05/15	14,115	31/03/16	100%	14,115	£299.9	01/04/16
Total							£1,175.9	

(i) Based on the average share price over the final three months of the performance period (£21.25) as the awards will not be released until after the end of the close period

The third tranche of Liv Garfield's and the second tranche of James Bowling's recruitment awards were based on performance over three financial years to 31 March 2016 (the performance conditions mirrored that of the 2013 LTIP awards).

The awards are subject to an RoRCV performance condition measured over three financial years. Average RoRCV is compared with the baseline figure set out in the Ofwat Final Determination. 0% of each award vests if average RoRCV equals that set in the Final Determination, increasing on a straight line basis to 50% vesting for 1.02 times Final Determination and 100% vesting for 1.07 times Final Determination.

Ofwat are no longer publishing a baseline RoRCV figure in AMP6. This impacts the third measurement year of the 2013 LTIP award. Therefore, we have calculated the equivalent baseline figure using the component numbers set out in the Ofwat Final Determination for AMP6. To ensure consistency between this equivalent baseline and RoRCV, the baseline figure was adjusted to take into account the impact of expected income to be received under Pay As You Go (which dictates what portion of total expenditure is directly passed through into customers' bills (which is how operating expenditure was historically treated), and what is added to STW's asset base (which is how capital expenditure was historically treated). This gives a baseline figure of 3.49% for 2015/16.

The Committee considered the level of RoRCV outperformance of the Ofwat Final Determination for the 2013 LTIP. In order to derive a comparable measure of RoRCV for the final year of the 2013 LTIP, the Committee

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decided, to ensure comparability with the equivalent baseline, that instead of using outturn Opex and Infrastructure Renewals Expenditure (IRE) (as adopted in the last two years of AMP5) it was more appropriate to multiply the actual total expenditure for 2015/16 by the Pay as You Go ratio from the Final Determination. This had the effect of reducing the level of outperformance for 2015/16. Taking this into account, the average RoRCV over the three years ending in 2015/16 reduced from 1.28 times the RoRCV baseline to 1.23 times, resulting in 100% vesting. The level of vesting was considered appropriate given the Company's strong financial and operational performance over the performance period.

Outstanding scheme interests, including share awards granted during the year

The table below sets out details of the Executives Directors' outstanding share awards as at 31 March 2016.

Executive	Award type	Maximum number of shares ⁽ⁱ⁾	Percentage vesting at threshold performance	Exercise price (p)	End of performance period	Vesting/exercise date ⁽ⁱⁱ⁾	Awards granted during the year		
							Basis of award	Face value	Notes
Liv Garfield	Recruitment award (Tranche 3)	41,223	0%	–	31/03/16	20/05/16	–	–	(a)
	2014 LTIP	42,383	0%	–	31/03/17	16/07/17	–	–	(c)
	2015 LTIP	37,808	25%	–	31/03/18	15/07/18	125% of salary	£812,500	(d)
	2015 ABS	9,668	–	–	–	–	Deferred bonus	£202,742	(e)
	2015 SAYE	1,136	–	1584	–	May-18	–	–	(f)
	Total	132,218							
James Bowling	Recruitment award (Tranche 2)	14,115	0%	–	31/03/16	01/04/16	Recruitment	£308,000	(b)
	Recruitment award (Tranche 3)	14,116	0%	–	31/03/17	16/07/17	Recruitment	£308,000	(b)
	2015 LTIP	14,890	25%	–	31/03/18	15/07/18	125% of salary	£320,000	(d)
	Total	43,121							

(i) Additional dividend equivalent shares may be released where provided in the rules

(ii) Awards that are due to vest in a close period will be released as soon as practicable after the end of the close period

a) Liv Garfield's Recruitment Award

As set out in last year's Remuneration Report, a one-off share award was granted to Liv Garfield on 4 June 2014. The award was split into three equal tranches, vesting in 2014, 2015 and 2016, with the tranches subject to the same performance condition as the equivalent LTIP awards vesting in each of those years (i.e. the 2011, 2012 and 2013 LTIP awards). The third and final tranche of this award vested at 100% and the shares will be released in May 2016 (see page 97).

b) James Bowling's Recruitment Award

As set out in last year's Remuneration Report, a one-off share award was granted to James Bowling on 29 May 2015 as partial consideration for his significant unvested entitlements at his former employer. The award was split into three equal tranches, the face value of each being £308,000 (equivalent to 77% of his £400,000 base pay) vesting in 2015, 2016 and 2017. The share price used to calculate the number of shares granted was £21.82, being the average price over the preceding three days. The tranches are subject to the same performance condition as the equivalent LTIP awards vesting in each of those years (i.e. the 2012, 2013 and 2014 awards). The first tranche of the recruitment award vested at 100% on 1 June 2015 with a value upon release of £312,047. The second tranche of the recruitment award vested at 100% and the shares will be released in May 2016 (see page 97).

c) 2014 LTIP award

The LTIP awards are granted as conditional shares. The 2014 awards are subject to an RoRCV performance condition measured over three financial years. 0% of each award vests if average RoRCV equals that set in the Final Determination, increasing on a straight-line basis to 50% vesting for 1.02 times Final Determination and 100% vesting for 1.07 times Final Determination. As noted on page 97, Ofwat are no longer publishing a baseline RoRCV figure in AMP6. This impacts the final two years of the 2014 LTIP award. However, an equivalent baseline figure can be constructed using the component numbers set out in the Ofwat model giving a baseline figure of 3.49% for 2015/16.

d) 2015 LTIP award (awards granted during the year)

The 2015 awards are subject to a RoRE performance condition measured over three financial years. Average RoRE performance is compared with the baseline RoRE figure set by Ofwat in our Final Determination. 25% of the award will vest if average RoRE matches the baseline figure of 5.65%, increasing on a straight line basis to full vesting for outperforming the baseline by 1.29 times (equivalent to 7.29%).

The 2015 LTIP awards were granted on 15 July 2015. The share price used to calculate the number of shares granted was £21.49 (being the average price over the preceding three days).

e) Deferred shares under the Annual Bonus Scheme (awards granted during the year)

Each year, 50% of an Executive Director's annual bonus is deferred in shares for three years. The awards are granted in the form of deferred shares. The 2015 award relates to the deferral of the annual bonus for 2014/15. The award to Liv Garfield was granted on 29 June 2015. The share price used to calculate the number of shares granted was £20.97 (being the average price over the preceding three days). The deferred shares relating to the annual bonus for 2015/16 will be granted in June 2016.

f) Save As You Earn

The Executive Directors, in common with all eligible UK employees of the Group, are entitled to participate in the Company's HMRC approved Sharesave Scheme.

External directorships

Neither of the Executive Directors held any external non-executive directorships during the year.

Directors' shareholdings and summary of outstanding share interests

The Company operates shareholding guidelines under which Executive Directors are expected to build and maintain a shareholding in the Company of 200% of salary for the Chief Executive Officer and 125% of salary for other Executive Directors. Details of the current shareholdings of the Directors and whether Executive Directors have met the shareholding guidelines are set out below.

				Interests in shares as at 31 March 2016		
				Outstanding scheme interest		
Director	Beneficially owned ⁽ⁱ⁾	LTIP and recruitment awards	Deferred shares under the annual bonus	SAYE options	Total	% shareholding guideline achieved ⁽ⁱⁱ⁾
John Coghlan	400	–	–	–	–	–
Andrew Duff	8,184	–	–	–	–	–
Gordon Fryett	2,400	–	–	–	–	–
Martin Lamb	3,012	–	–	–	–	–
Philip Remnant	1,400	–	–	–	–	–
Dr. Angela Strank ⁽ⁱ⁾	459	–	–	–	–	–
Liv Garfield ⁽ⁱ⁾ ⁽ⁱⁱ⁾	49,117	121,414	9,668	1,136	132,218	88%
James Bowling ⁽ⁱⁱ⁾	7,500	43,121	–	–	43,121	32%

(i) The figures include the purchase of 224 shares by Dr. Angela Strank and 2,286 shares by Liv Garfield on 30 March 2016 which settled on 1 April 2016

(ii) The share price used to calculate the percentage of the shareholding guideline achieved was £21.73 (as at 31 March 2016). The guideline figures include unvested annual bonus scheme shares (50% deducted to cover statutory deductions)

Shares counting towards achievement of the guideline include beneficially owned shares (including shares held by connected persons) and the net of tax value of deferred shares under the annual bonus since they are not subject to performance conditions. The Executive Directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding guidelines are met.

There has been no change in the Directors' interests in the ordinary share capital of the Company from those set out in the table above to 23 May 2016.

Payments to past Directors

Tony Wray (who retired from the Board on 11 April 2014) and Michael McKeon (who retired from the Board on 1 April 2015) were treated as good leavers under the terms of the LTIP and SMP, thereby retaining their outstanding awards subject to performance and time pro-rata reduction. Tony Ballance, Martin Kane and Andy Smith stepped down from the Board on 23 January 2015 but remain in continued employment with the Company thereby retaining their outstanding incentive awards.

All the former Directors held awards under the 2012 SMP and 2013 LTIP grant cycles. The 2012 SMP awards lapsed on 25 May 2015 due to failure to meet the threshold performance hurdle. As noted on page 97, the 2013 LTIP awards vested in full. The former Directors will receive the following shares in relation to this award: Tony Ballance, 5,855 shares; Martin Kane, 7,119 shares; Michael McKeon, 12,937 shares (subject to pro-rating rules); Andy Smith, 7,610 shares; Tony Wray, 22,312 shares (subject to pro-rating rules). The shares vested on 31 March 2016 and will be released as soon as possible after the end of the close period.

Payments for Loss of Office

No payments have been made for loss of office during the year.

Percentage increase in the remuneration of the Chief Executive Officer

The table below shows the movement in salary, benefits and annual bonus for Liv Garfield (CEO) between the current and previous financial year compared with that of the average employee.

	2016	2015	% Change
Chief Executive Officer (£'000)			
– Salary ⁽ⁱ⁾	663.7	650.0	2.1%
– Benefits	17.1	16.6	3.0%
– Bonus	702.1	405.5	73.1%
Average per employee (£'000) ⁽ⁱⁱ⁾			
– Salary	29.5	28.8	2.5%
– Benefits ⁽ⁱⁱⁱ⁾	0.3	0.5	-39.9%
– Bonus ^(iv)	2.2	1.2	84.9%

(i) The salary figures for 2015 and 2016 have been adjusted to include salary paid into the pension scheme as an employer contribution via salary sacrifice

(ii) Based on full time equivalent comparisons

(iii) Includes car allowance and family level private medical insurance for senior and middle managers. The proportion of population entitled to receive such benefits reduced during the year

(iv) 2015/16 was the first year of the new all employee bonus scheme

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Company's total wage bill as a result of movements in the number of employees. The comparator group used were STW employees based in the UK as this is where the vast majority of employees is based.

Total shareholder return chart (not subject to audit)

This graph shows the value, at 31 March 2016, of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index. The FTSE 100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.

Total remuneration of the Chief Executive Officer

The total remuneration figure for the Chief Executive Officer over the last seven financial years is shown in the table below.

The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

	Year ending 31 March						
	2010	2011	2012	2013	2014	2015	2016
Chief Executive Officer	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,433.2
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%
LTIP vesting (% of maximum)	60.3%	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%
SMP vesting (% of maximum)	N/A	N/A	N/A	78.0%	64.3%	N/A	N/A

Relative importance of the spend on pay

The table below shows the expenditure of the Company on staff costs against dividends paid to shareholders for both the current and prior financial periods, and the percentage change between the two periods.

	2016	2015	% Change
Staff costs (£'m) ⁽ⁱ⁾	337.8	369.5	-8.58%
Dividends (£'m)	197.0	196.9	0.10%

(i) The 2015 figure includes staff costs in respect of Business Services Water Purification for the full period

How the policy will be applied in 2016 onwards**Salary, benefits and pension**

Base salaries will increase by 2% on 1 July 2016. These increases are in line with the average increase that will apply to the general UK workforce. The base salaries for the Executive Directors from 1 July 2016 are as follows:

Liv Garfield	£677,000
James Bowling	£408,000
Emma FitzGerald	£397,800

Benefits and pension provision will be applied in line with the policy set out in the table on pages 91 and 92.

Annual bonus

The structure and operation of the annual bonus will be as outlined in the policy table. The performance measures will be STW PBIT (47%), business unit performance (43%) and personal objectives (10%). The business unit performance, for the Chief Executive Officer and the Chief Financial Officer, relates to performance against STW ODIs (25%), Business Services PBIT (10%) and health and safety performance (8%). For the Managing Director, Wholesale Operations, the business unit performance relates to STW ODIs (35%) and health and safety performance (8%). The weighting on health and safety performance has increased from 5% in 2015/16 to 8% in 2016/17 with a consequential reduction in the weighting on STW PBIT from 50% in 2015/16 to 47% in 2016/17. The Remuneration Committee considers the forward looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in next year's Remuneration Report.

Long Term Incentive Plan

LTIP awards for 2016 will be 150% of base salary for the Chief Executive Officer, 100% for the Chief Financial Officer and 80% for the Managing Director, Wholesale Operations and will be made in June 2016. Grants worth 125% and 80% of salary were made to the Chief Executive Officer and the Chief Financial Officer last year. The increase in award levels for the Chief Executive Officer and Chief Financial Officer is within our current LTIP policy and reflects the strong performance of the Company and individuals, their career progression and the higher RoRE stretch target for the 2016 awards. The Committee was also aware that the previous award levels were significantly below the market median of 200% of salary in the FTSE 51-150, the Company's current benchmark. When considering the appropriate award levels the Committee has taken into account the overall competitiveness of the reward packages.

The awards will be based on return on regulatory equity (RoRE) over the three year period to 31 March 2019. Our three year average RoRE performance will be compared with the baseline RoRE figure set by Ofwat in our Final Determination. 25% of the award will vest if average RoRE matches the baseline figure of 5.65%, increasing on a straight line basis to full vesting for outperforming the baseline by 1.39 times (equivalent to 7.85%).

This represents an increase to the stretch target from 1.29 times the Final Determination used for the 2015 awards. The target range has been set taking into account internal and external forecasts. The stretch target (1.39 times Final Determination) requires very significant outperformance on ODIs, Financing and Totex efficiencies and is significantly ahead of the current market consensus. 1.39 times Final Determination is equivalent to almost three times the level of outperformance achieved on average (had RoRE applied) over AMP5 (1.14 times Final Determination).

Appointment to the Board of Emma FitzGerald

Emma FitzGerald, Managing Director, Wholesale Operations, was appointed to the Board on 1 April 2016. Her remuneration arrangements are as set out above.

Chairman and Non-Executive Directors' fees

From 1 April 2016, Non-Executive Director base fees were increased by 2% from £51,350 to £52,400 and the Chairman's fee was increased from £257,000 to £275,000. The Chairman's fee increase reflects his strong performance, the fact that the last review was in April 2014, and the desire to move closer to the median of the FTSE 51-150.

The current fee levels are set out in the table below:

	Fees
Chairman's fee	£275,000
Base fee paid to all Non-Executive Directors	£52,400
Supplementary fees:	
– Senior Independent Director	£10,000
– Audit Committee Chairman	£15,000
– Remuneration Committee Chairman	£15,000
– Corporate Responsibility Committee Chairman	£13,000

The Chairman and Non-Executive Directors normally serve for terms of three years. The current expiry dates of their letters of appointment are John Coghlan (22 May 2017), Andrew Duff (9 May 2019), Gordon Fryett (20 July 2016), Martin Lamb (1 March 2017), Philip Remnant (31 March 2017) and Dr. Angela Strank (24 January 2017). However, all of the Directors are subject to annual appointment or reappointment at the AGM with the exception of Martin Lamb and Gordon Fryett who will be retiring from the Board at the 2016 AGM.

Statement of shareholding voting at the 2015 AGM

At last year's AGM, the Directors' remuneration report and policy received the following votes from shareholders:

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Report	141,380,753 (99.00%)	1,431,919 (1.00%)	607,663
Approve Directors' Remuneration Policy	140,177,341 (97.99%)	2,881,449 (2.01%)	367,934

Philip Remnant

Chairman of the Remuneration Committee

23 May 2016

Directors' report

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2016. The performance review of the Company can be found within the strategic report on pages 1 to 63. This provides detailed information relating to the Group, its business models and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2016. The governance section set out on pages 64 to 106 is incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the risk management section on pages 46 to 53.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK and internationally.

Details of the principal joint ventures, associated and subsidiary undertakings of the Group at 31 March 2016 are shown in note 45 to the financial statements on page 165.

Areas of operation

Throughout 2015/16, the Group had activities and operations in the United Kingdom, Ireland, Italy and the United States.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 66 and 67.

All of the Directors, with the exception of Martin Lamb and Gordon Fryett, will be offering themselves for appointment or reappointment at the Annual General Meeting ('AGM'), as set out in the governance report on page 74.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 94. The interests of the Directors in the shares of the Company are shown on page 99 of that report. The Board has a documented process in place in respect of conflicts which is described on page 74.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force.

Indemnities were also entered into with Emma FitzGerald, Kevin Beeston and Dominique Reiniche upon their appointments to the Board.

Severn Trent Plc does not have in place any indemnities for the benefit of the external Auditor.

Employees

The average number of employees within the Group is shown in note 9 to the financial statements on page 130.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons, and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep the employee within the Group.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit and healthy, including an employee assistance programme.

Employee engagement

We continuously engage with our employees in a number of ways to suit different working patterns. This includes:

- all people briefings, 'Team Talk';
- corporate communications events and roadshows held by functions across the Company;
- a dedicated intranet, 'Streamline';
- online news portal and weekly roundup, 'Pipeline News';
- an active employee social media presence, 'Yammer';
- conference calls and email;
- leadership engagement channels – Chief Executive's weekly blog, senior management monthly visibility programme and quarterly events;
- employee forum; and
- regular meetings with Unions.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings and annual employee satisfaction surveys.

The Company is keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all employee plan, the Severn Trent Sharesave Scheme ('Sharesave'), which is offered to UK employees on an annual basis. Over 65% of Severn Trent's UK employees participate in one or more of our schemes.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plan.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Group and our products must continue to deliver value for customers.

Expenditure on research and development is set out in note 7 to the financial statements on page 129.

Internal Controls

Further details of our Internal Control framework can be found in the Audit Committee Report on page 83.

Treasury management

The disclosures required under the European Union ('EU') Fair Value Directive in relation to the use of financial instruments by the Company are set out in note 35 to the financial statements on pages 149 to 155. Further details on our Treasury Policy and management are set out in the financial review on page 44.

Post balance sheet events

Details of post balance sheet events are set out in note 43 to the Group financial statements on page 163.

Dividends

An interim dividend of 32.26 pence per Ordinary Share was paid on 8 January 2016. The Directors recommend a final dividend of 48.40 pence per Ordinary Share to be paid on 22 July 2016 to shareholders on the register on 17 June 2016. This would bring the total dividend for 2015/16 to 80.66 pence per Ordinary Share (2014: 84.90 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

In January 2015, Severn Trent announced its Dividend Policy for the period 2015-2020. The Board agreed to set the 2015/16 dividend at 80.66 pence, a reduction of 5% compared to 2014/15 total dividend for the year 84.90 pence. The policy is structured so as to grow the dividend annually at no less than RPI until March 2020. This replaced the previous Dividend Policy of RPI+3% which expired in March 2015.

The Dividend Policy reflects the lower cost of capital and stretching objectives and improvements in operating efficiencies required by the Final Determination. When determining the policy the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment grade credit rating.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 30 to the Company financial statements on page 146. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 37 to the financial statements on pages 157 to 159. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Board Governance document, the Articles and the Governance report on pages 64 and 106.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2015 AGM.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans.

None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Substantial shareholdings

As at 31 March 2016, the Company had been notified in accordance with Chapter 5 of the Disclosure and Transparency Rules of the following major shareholdings:

Name of Holder	No. of ordinary shares of 97 ¹⁷ / ₁₆ p each	Percentage of voting rights and issued share capital
Blackrock Inc	23,457,458	9.87%
Legal & General Group Plc	9,523,698	3.99%

As at 23 May 2016, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: Blackrock Inc 23,457,458 (9.87%); Legal & General Group Plc 9,523,698 (3.99%).

The percentage of voting rights detailed above was calculated at the time of the relevant disclosures made in accordance with Rule 5 of the Disclosure and Transparency Rules.

Authority to purchase shares

The Company was given authority at its AGM in 2014 to make market purchases of Ordinary Shares up to a maximum number of 23,949,741 Ordinary Shares, and on 13 February 2015, the Company announced that it would commence a share repurchase programme. During the year ended 31 March 2015, market purchases of 966,578 Ordinary Shares were made with all of these shares being cancelled following their purchase at an average price of 2,031 pence. The Company was again given authority at its AGM in 2015 to make market purchases of Ordinary Shares up to a maximum number of 23,949,741 Ordinary Shares. During the financial year ended 31 March 2016, 4,274,576 Ordinary Shares have been repurchased at an average price of 2,139 pence. During the year, 51,514 shares have been cancelled with 4,136,921 Ordinary Shares being held in treasury as at 23 May 2016 to satisfy future share based awards under the Long Term Incentive Plan. No Ordinary Shares have been transferred from treasury to satisfy the exercise of share options. The share repurchase programme concluded in January 2016.

The share repurchase was considered a low risk method of returning capital to shareholders, satisfying future share awards and moving gearing in Severn Trent Water Limited towards the 62.5% net debt/RCV notional level used by Ofwat in the price review PR14.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,554,028 Ordinary Shares.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £86,864 (2015: £157,648). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclosure of any such payment must be made in the Annual Report and Accounts. The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2015 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries. Pursuant to those authorities, during the year ended 31 March 2016 the Group incurred costs of £nil (2015: £nil). Those authorities will expire at the 2016 AGM and, in line with market practice to renew the authorities on an annual basis, the Board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum aggregate of £150,000 p.a. As permitted under the Companies Act 2006, this resolution also covers any political donations made or political expenditure incurred, by any subsidiaries of the Company.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC'). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Relevant audit information

The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor are unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External Auditor

Having carried out a review of their effectiveness during the year, and following the audit tender process described in the Audit Committee report on page 84, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed by Listing Rule 9.8.4R can be located in the following pages of this Annual Report and Accounts:

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Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	131
(4)	Details of long term incentive schemes	97
(8)	Section 7 in relation to subsidiary undertakings	165
(2), (5), (6), (7), (9)–(14)		Not applicable

Greenhouse Gas Emissions

The disclosures required by law relating to the Group's Greenhouse Gas Emissions are included in the Corporate Responsibility report on page 64.

Accounts of Severn Trent Water Limited

The Annual Performance Report for Severn Trent Water Limited is prepared and sent to Ofwat. A copy of this will be available on the website of Severn Trent Water Limited or on request to the Company Secretary. There is no charge for this publication.

Annual General Meeting

The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 20 July 2016. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on our website.

By order of the Board



Bronagh Kennedy

Group General Counsel and Company Secretary

23 May 2016

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Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Practice including FRS101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a Going Concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that they consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Responsibility statement

Each of the Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This Responsibility Statement was approved by the Board of Directors on 23 May 2016 and is signed on its behalf by:



Andrew Duff **James Bowling**
Chairman Chief Financial Officer
23 May 2016

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Independent auditor's report to the members of Severn Trent Plc

Opinion on financial statements of Severn Trent Plc	In our opinion: - the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's profit for the year then ended; - the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; - the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 Reduced Disclosure Framework; and - the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the consolidated income statement, the consolidated and parent company statements of comprehensive income, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated and parent company statements of changes in equity and the related consolidated notes 1 to 45 and parent company notes 1 to 16. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 Reduced Disclosure Framework.
Going Concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group	As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the Going Concern basis of accounting contained within note 2 to the financial statements and the Directors' statement on the longer-term viability of the group contained within the strategic report on page 47. We have nothing material to add or draw attention to in relation to: - the Directors' confirmation on page 48 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; - the disclosures on pages 48-53 that describe those risks and explain how they are being managed or mitigated; - the Directors' statement in note 2a) to the financial statements about whether they considered it appropriate to adopt the Going Concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; - the Directors' explanation on page 47 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited (£124.3 million) (note 21)	
A proportion of Severn Trent Water Limited's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. There is significant judgment involved in calculating the bad debt provision, particularly regarding the estimation of future cash collection. Provisions are made against Severn Trent Water Limited's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories.	We reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in Severn Trent Water Limited in the period using data analytics to understand the collection of previously aged debtors and to recompute the ageing analysis. We tested the design and implementation of key management review controls and those relating to the production of the data used in the bad debt model. We have also agreed a sample of this data back to its source, being the billing system.
Revenue recognition risk in relation to the estimation of unbilled revenue in Severn Trent Water Limited (£193.0 million) (note 21)	
For water and waste water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. This is a key judgment because the estimated usage is based upon historical data and assumptions around consumption patterns.	We challenged the validity of management's estimate of current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques. In addition, we used data analytics to recompute the total level of unbilled revenue for the current year in Severn Trent Water Limited as well as testing the design and implementation of key management review controls and those relating to the key data inputs to the model. We also agreed a sample of this data back to its source.
Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited (note 18)	
Severn Trent Water Limited has a substantial capital programme (fixed asset additions in the year £411.5 million) which has been agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year (£126.0 million) in which it is incurred. Capital projects often contain a combination of	We assessed the group's capitalisation policy to determine compliance with relevant accounting standards and tested the operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the group's capital programme during the year. This includes consideration of the allocation of costs between capital and operating expenditure. In addition, for a sample of capital projects, we assessed the application of the capitalisation policy to the costs incurred by agreement to third party invoices and obtained explanations and

Risk	How the scope of our audit responded to the risk
enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgmental. Whilst under AMP6, total expenditure or Totex is a key driver of regulatory performance rather than capital expenditure which was monitored under AMP5, the accounting distinction between operating and capital expenditure remains and hence it is important that capital project expenditure is accounted for correctly in accordance with International Accounting Standards ('IAS'). In addition, the comparative consolidated balance sheet has been restated to reflect a reclassification between property, plant and equipment and non current trade and other payables. Contributions, which had been received in previous years in relation to infrastructure assets, and which had a carrying value of £294.5 million as at 31 March 2014, were identified as being deducted from the carrying value of property plant and equipment. In order to comply with the requirements of IAS 16 and IAS 18, these contributions have been reclassified from property plant and equipment to non-current trade and other payables. Further details are set out in note 2a.	further support for any significant changes in capital expenditure from budget. In relation to the reclassification of infrastructure asset contributions from property, plant and equipment to non current trade and other payables, we have reconciled in total the contributions received in relation to infrastructure assets to the underlying accounting records and have confirmed that the revised presentation is in line with International Accounting Standards.
Determining the amount of the group's retirement benefit obligations (£309.5 million deficit) (note 28)	
This is a key area of judgment because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current pensioners.	With support from the pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 28, specifically regarding the discount rate, inflation rate and mortality assumptions with reference to comparable market and other third party data.
Determination of current and deferred tax balances (£9.7 million credit) (note 13)	
Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions. The opening current and deferred tax balance has been restated by £67.8 million with a corresponding debit adjustment in opening reserves, primarily in order to correct the deferred tax position in light of the reclassification of contributions received in relation to infrastructure assets from property, plant and equipment to non-current trade and other payables. Further details are set out in note 2a).	With support from the tax specialists within our audit team, we considered the likely outcomes of uncertain tax positions and reviewed correspondence with the relevant tax authorities to assess the appropriateness of the tax balances that have been recorded in the balance sheet. We have reviewed the underlying workings supporting the restated current and deferred tax balances and challenged the revised treatment to test that it is in accordance with IAS 12 'Income Taxes'

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 82.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
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	We determined materiality for the group to be £18 million (2015: £18 million), which is approximately 6 % (2015: 6 %) of profit before tax, losses/gains on financial instruments and exceptional items. As in 2015, these items are excluded to focus on the group's underlying trading performance, consistent with the group's internal and external reporting. We agreed with the Audit Committee that we would report to them all audit differences in excess of £750,000 (2015: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope on the consolidation at the parent company level and the group's two business segments being Severn Trent Water and Severn Trent Services. Severn Trent Water Limited was subject to a full statutory audit using component materiality of £15 million and accounts for over 90% (2015: over 90%) of the group's net operating assets and operating profit. The group audit team performs the audit of the Severn Trent Water business segment without the involvement of a component audit team. The extent of our testing on Severn Trent Services was based on our assessment of the risks of material misstatement and the materiality of the segment's global business operations, principally in the UK and the US. The materiality of each component is lower than that of the group, with the highest materiality (£9 million) applied to the US component. At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The group audit team continued to follow a programme of planned visits to auditors of each of the significant components of the group not audited by the group audit team. This primarily relates to the Severn Trent Services audit team in the US. In the current year, the Senior Statutory Auditor visited the Severn Trent Services component in the US. In years when we do not visit a significant component we include the component audit partner in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: - the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and - the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies Act 2006 we are required to report to you if, in our opinion: - we have not received all the information and explanations we require for our audit; or - adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or - the parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Directors' remuneration	Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement	Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual Report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is: - materially inconsistent with the information in the audited financial statements; or - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or - otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.
Respective responsibilities of directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kari Hale, FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

23 May 2016

Consolidated income statement

For the year ended 31 March 2016

	Notes	2016 £m	2015 £m
Turnover	5, 6	1,786.9	1,801.3
Net operating costs before exceptional items	7	(1,264.1)	(1,261.0)
Exceptional operating items	8	1.0	(18.7)
Total operating costs		(1,263.1)	(1,279.7)
Profit before interest, tax and exceptional items	5	522.8	540.3
Exceptional items before interest and tax	8	1.0	(18.7)
Profit before interest and tax		523.8	521.6
Finance income	10	73.1	81.7
Finance costs	11	(282.4)	(321.7)
Net finance costs		(209.3)	(240.0)
Gains/(losses) on financial instruments	12	7.7	(133.5)
Share of results of associates and joint ventures		0.1	0.1
Profit before tax, gains/(losses) on financial instruments and exceptional items		313.6	300.4
Exceptional items before tax	8	1.0	(18.7)
Gains/(losses) on financial instruments	12	7.7	(133.5)
Profit on ordinary activities before tax		322.3	148.2
Current tax excluding exceptional credit	13	(55.2)	(37.8)
Deferred tax excluding exceptional credit	13	(13.7)	5.1
Exceptional tax credit	13	78.6	—
Total tax on profit on ordinary activities	13	9.7	(32.7)
Profit for the year from continuing operations		332.0	115.5
(Loss)/profit for the year from discontinued operations	38	(0.7)	4.7
Profit for the year		331.3	120.2
Attributable to:			
Owners of the company		330.0	119.1
Non-controlling interests		1.3	1.1
		331.3	120.2
Earnings per share (pence)			
From continuing operations			
Basic	15	140.0	48.3
Diluted	15	139.4	48.1
From continuing and discontinued operations			
Basic	15	139.8	49.9
Diluted	15	139.1	49.6

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	2016 £m	2015 £m
Profit for the year	331.3	120.2
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement:		
Net actuarial gain/(loss) on defined benefit pension schemes	148.3	(143.4)
Tax on net actuarial gain/loss	(26.7)	28.8
Deferred tax arising on change of rate	(9.6)	—
	112.0	(114.6)
Items that may be reclassified to the income statement:		
Loss on cash flow hedges	(2.7)	(13.8)
Deferred tax on loss on cash flow hedges	0.4	2.8
Amounts on cash flow hedges transferred to the income statement in the year	12.2	23.6
Deferred tax on transfers to income statement	(2.2)	(4.7)
Exchange movement on translation of overseas results and net assets	(1.1)	8.9
Cumulative exchange losses transferred to income statement	11.7	—
	18.3	16.8
Other comprehensive income/(loss) for the year	130.3	(97.8)
Total comprehensive income for the year	461.6	22.4
Attributable to:		
Owners of the company	460.2	19.6
Non-controlling interests	1.4	2.8
	461.6	22.4

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Equity attributable to owners of the company					Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 April 2014	233.9	94.2	82.2	667.3	1,077.6	12.5	1,090.1
Restatement	–	–	–	(54.3)	(54.3)	–	(54.3)
At 1 April 2014 after restatement	233.9	94.2	82.2	613.0	1,023.3	12.5	1,035.8
Profit for the year	–	–	–	119.1	119.1	1.1	120.2
Losses on cash flow hedges	–	–	(13.8)	–	(13.8)	–	(13.8)
Deferred tax on losses on cash flow hedges	–	–	2.8	–	2.8	–	2.8
Amounts on cash flow hedges transferred to the income statement	–	–	23.6	–	23.6	–	23.6
Deferred tax on transfers to the income statement	–	–	(4.7)	–	(4.7)	–	(4.7)
Exchange movement on translation of overseas results and net assets	–	–	7.2	–	7.2	1.7	8.9
Net actuarial losses	–	–	–	(143.4)	(143.4)	–	(143.4)
Tax on net actuarial losses	–	–	–	28.8	28.8	–	28.8
Total comprehensive income for the year	–	–	15.1	4.5	19.6	2.8	22.4
Share options and LTIPs							
– proceeds from shares issued	0.7	6.0	–	–	6.7	–	6.7
– value of employees' services	–	–	–	7.7	7.7	–	7.7
– own shares purchased	–	–	–	(5.9)	(5.9)	–	(5.9)
Current tax on share based payments	–	–	–	0.7	0.7	–	0.7
Deferred tax on share based payments	–	–	–	(0.1)	(0.1)	–	(0.1)
Share buy back	–	–	–	(100.0)	(100.0)	–	(100.0)
Share cancellation	(0.9)	–	0.9	–	–	–	–
Transfer	–	–	–	0.5	0.5	(0.5)	–
Dividends paid	–	–	–	(196.9)	(196.9)	(1.4)	(198.3)
At 31 March 2015	233.7	100.2	98.2	323.5	755.6	13.4	769.0
Profit for the year	–	–	–	330.0	330.0	1.3	331.3
Losses on cash flow hedges	–	–	(2.7)	–	(2.7)	–	(2.7)
Deferred tax on losses on cash flow hedges	–	–	0.4	–	0.4	–	0.4
Amounts on cash flow hedges transferred to the income statement	–	–	12.2	–	12.2	–	12.2
Deferred tax on transfers to the	–	–	(2.2)	–	(2.2)	–	(2.2)

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	Equity attributable to owners of the company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
income statement							
Exchange movement on translation of overseas results and net assets	–	–	(1.2)	–	(1.2)	0.1	(1.1)
Cumulative exchange losses transferred to income statement	–	–	11.7	–	11.7	–	11.7
Net actuarial gains	–	–	–	148.3	148.3	–	148.3
Tax on net actuarial gains	–	–	–	(26.7)	(26.7)	–	(26.7)
Deferred tax arising from rate change	–	–	–	(9.6)	(9.6)	–	(9.6)
Total comprehensive income for the year	–	–	18.2	442.0	460.2	1.4	461.6
Share options and LTIPs							
– proceeds from shares issued	0.7	6.6	–	–	7.3	–	7.3
– value of employees' services	–	–	–	5.2	5.2	–	5.2
– own shares purchased	–	–	–	(4.6)	(4.6)	–	(4.6)
Current tax on share based payments	–	–	–	1.2	1.2	–	1.2
Deferred tax on share based payments	–	–	–	(0.5)	(0.5)	–	(0.5)
Share buy back	–	–	–	(10.0)	(10.0)	–	(10.0)
Share cancellation	(0.1)	–	0.1	–	–	–	–
Disposal of minority interest	–	–	–	–	–	(13.7)	(13.7)
Dividends paid	–	–	–	(197.0)	(197.0)	–	(197.0)
At 31 March 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5

Consolidated balance sheet

At 31 March 2016

	Note	2016 £m	2015 Restated £m	2014 Restated £m
Non-current assets				
Goodwill	16	14.8	14.3	14.8
Other intangible assets	17	72.2	69.3	82.8
Property, plant and equipment	18	7,718.6	7,531.7	7,315.4
Interests in joint ventures and associates	19	5.1	4.6	5.2
Derivative financial assets	20	40.2	13.5	72.4
Available for sale financial assets		0.1	0.1	0.1
		7,851.0	7,633.5	7,490.7
Current assets				
Inventory		21.0	16.7	27.2
Trade and other receivables	21	516.6	492.0	513.2
Current tax receivable		–	9.3	14.6
Derivative financial assets	20	0.7	13.5	12.9
Cash and cash equivalents	22	55.2	176.7	123.2
Assets held for sale		–	107.9	–
		593.5	816.1	691.1
Total assets		8,444.5	8,449.6	8,181.8
Current liabilities				
Borrowings	23	(280.6)	(463.0)	(206.1)
Derivative financial liabilities	25	(1.1)	(32.2)	(24.8)
Trade and other payables	26	(454.1)	(494.0)	(412.7)
Current income tax liabilities		(11.1)	–	–
Provisions for liabilities and charges	29	(12.3)	(15.9)	(12.1)
Liabilities associated with assets held for sale		–	(35.3)	–
		(759.2)	(1,040.4)	(655.7)
Non-current liabilities				
Borrowings	23	(4,626.1)	(4,463.7)	(4,416.0)
Derivative financial liabilities	25	(178.0)	(175.1)	(206.2)
Trade and other payables	26	(870.8)	(823.0)	(773.4)
Deferred tax	27	(664.7)	(691.0)	(719.9)
Retirement benefit obligations	28	(309.5)	(468.9)	(348.3)

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	Note	2016 £m	2015 Restated £m	2014 Restated £m
Provisions for liabilities and charges	29	(17.7)	(18.5)	(26.5)
		(6,666.8)	(6,640.2)	(6,490.3)
Total liabilities		(7,426.0)	(7,680.6)	(7,146.0)
Net assets		1,018.5	769.0	1,035.8
Equity				
Called up share capital	30	234.3	233.7	233.9
Share premium account	31	106.8	100.2	94.2
Other reserves	32	116.5	98.2	82.2
Retained earnings		559.8	323.5	613.0
Equity attributable to owners of the company		1,017.4	755.6	1,023.3
Non-controlling interests		1.1	13.4	12.5
Total equity		1,018.5	769.0	1,035.8

Signed on behalf of the board who approved the accounts on 23 May 2016.



Andrew Duff **James Bowling**
Chairman Chief Financial Officer
Company number: 02366619

Consolidated cash flow statement

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash generated from operations	39	797.5	760.1
Tax received		11.5	10.5
Tax paid		(44.9)	(39.1)
Net cash generated from operating activities		764.1	731.5
Interest received		5.3	1.8
Net cash inflow from sale of businesses	38	45.7	–
Proceeds on disposal of property, plant and equipment and intangible assets		10.8	11.6
Purchases of intangible assets		(24.3)	(17.7)
Purchases of property, plant and equipment		(431.4)	(446.2)
Contributions and grants received		34.9	36.2
Net cash used in investing activities		(359.0)	(414.3)
Interest paid		(188.1)	(213.1)
Payments to close out interest rate swaps		–	(139.2)
Interest element of finance lease payments		(6.8)	(6.9)
Dividends paid to owners of the company		(197.0)	(196.9)
Dividends paid to non-controlling interests		–	(1.4)
Repayments of borrowings		(924.6)	(334.2)
Repayments of obligations under finance leases		(62.8)	(21.2)
New loans raised		926.7	685.0
Issue of shares		7.3	6.7
Share buy back		(92.5)	(17.5)
Purchase of own shares		(4.6)	(5.9)
Net cash used in financing activities		(542.4)	(244.6)
(Decrease)/increase in cash and cash equivalents		(137.3)	72.6
Net cash and cash equivalents at beginning of period		196.0	123.2
Effect of foreign exchange rates		(3.5)	0.2
Amounts included in assets held for sale	38	–	(19.3)
Net cash and cash equivalents at end of period		55.2	176.7
Cash at bank and in hand		23.4	24.9
Short term deposits		31.8	151.8
Net cash and cash equivalents at end of period		55.2	176.7

The decrease in cash and cash equivalents is reconciled to the movement in net debt in note 39.

Cash and cash equivalents at the beginning of the period includes £19.3 million which was classified as assets held for sale (see note 38).

Notes to the group financial statements

For the year ended 31 March 2016

1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the group and the parent company have been prepared on the going concern basis (see strategic report on page 47) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value.

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2016.

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006. The company meets the definition of a qualifying entity as defined in FRS 100 'Financial Reporting Standard 100', accordingly the company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income.

Severn Trent Plc is a partner in Severn Trent Limited Partnership ('the partnership'), which is registered in Scotland. As the partnership is included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the group and the parent company are set out below and have been applied consistently. Differences in the accounting policies applied in the consolidated and the parent company financial statements are described below.

(iii) Prior year restatement

The comparative balance sheet has been restated to reflect a reclassification between property, plant and equipment and non-current trade and other payables. Contributions which had been received in previous years in

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relation to infrastructure assets, and which had a carrying value of £294.5 million as at 31 March 2014 were identified as being deducted from the carrying value of property, plant and equipment. In order to comply with the requirements of IAS 16 and IAS 18, these contributions have been reclassified from property, plant and equipment to non-current trade and other payables.

Whilst finalising the proposed adjustments, it was noted that amortisation was not charged on these contributions before 2004 when the accounting treatment was clarified and therefore an additional £13.5 million of amortisation has been credited to opening retained earnings.

In addition, the restated balances result in an increased total tax liability of £67.8 million (£1.9 million current tax and £65.9 million deferred tax) as the carrying value of the underlying infrastructure assets previously shown net reduced the deferred tax liability previously calculated and there were other non-material adjustments to deferred tax arising from leases and financial instruments. The total tax restatement of £67.8 million was charged to opening retained earnings.

Property, plant and equipment and other intangible assets have been analysed to disclose separately the carrying value of assets under construction. This resulted in a further adjustment between property, plant and equipment and other intangible fixed assets of £2.6 million.

The adjustment to the opening balances at 1 April 2014 is:

	As previously stated	Restatement	After restatement
Property, plant and equipment	7,023.5	291.9	7,315.4
Other intangible assets	80.2	2.6	82.8
Deferred income	(491.9)	(281.0)	(772.9)
Current tax receivable	16.5	(1.9)	14.6
Deferred tax	(654.0)	(65.9)	(719.9)
Retained earnings	(667.3)	54.3	(613.0)

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries, joint ventures and associated undertakings. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the group has the power to control a subsidiary.

Joint venture undertakings are accounted for on an equity basis where the group exercised joint control under a contractual arrangement.

Associates are accounted for on an equity basis where the group holding is 20% or more or the group has the power to exercise significant influence.

Non-controlling interests in the net assets of subsidiaries are identified separately from the group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date.

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not included within the group financial statements.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer or the goods to which the sale relates have either been despatched to the customer or, where they are held on the customer's behalf, title has passed to the customer.

Turnover includes an estimate of the amount of water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

In respect of long term contracts, turnover is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in investments in associates or joint ventures respectively. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves. Purchased goodwill arising on acquisitions of subsidiaries after 31 March 1998 is treated as an intangible fixed asset.

Goodwill is tested for impairment in accordance with the policy set out in note 2l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

g) Other intangible non-current assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight line basis over their estimated useful economic lives as follows:

	Years
Software	3 – 10
Other assets	2 – 20

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Intangible assets are reviewed for impairment where indicators of impairment exist (see 2I) below).

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

Costs incurred in bidding and preparing for contracts are expensed as incurred except where it is probable that the contract will be awarded, in which case they are recognised as a prepayment which is written off to the income statement over the life of the contract.

The group assesses that it is probable that a contract will be awarded when preferred bidder or equivalent status has been achieved and there are no significant impediments to the award of the contract.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like for like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover. Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets.

Where assets take a substantial period of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

Property, plant and equipment is depreciated to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets under construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80 – 150
Sewers	150 – 200
Other assets	
Buildings	30 – 80
Fixed plant and equipment	20 – 40
Vehicles and mobile plant	2 – 15

j) Leased assets

Leases where the group obtains assets which transfer substantially all the risks and rewards of ownership to the group are treated as finance leases. The lower of the fair value of the leased asset or the present value of the minimum lease payments is capitalised as an asset with a corresponding liability representing the obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge; the capital element reducing the obligation to the lessor and the finance charge being written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation is charged over the shorter of the estimated useful life and the lease period.

Leases where substantially all the risks and rewards of ownership remain with the lessor are classified as operating leases. Rental costs arising under operating leases are expensed on a straight line basis over the term of the lease. Leases of land are normally treated as operating leases, unless ownership is transferred to the group at the end of the lease.

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and waste water networks, are treated as deferred income and released to operating costs over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable.

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the group's cost of capital adjusted for the risk profiles of individual businesses.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairments are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost.

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as held for trading or available for sale are measured at fair value, with changes in fair value recognised in profit and loss or equity respectively. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in reserves is taken to the profit and loss account.

n) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads.

o) Trade receivables

Trade receivables, are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the group's historical collection experience for receivables of similar age.

p) Service concession agreements

Where the group has an unconditional right to receive cash from a government body in exchange for constructing or upgrading a public sector asset, the amounts receivable are recognised as a financial asset in prepayments.

Costs of constructing or upgrading the public sector asset are recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract.

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net deficit.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as remeasurements, charged or credited to equity and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating group companies. Therefore, the parent recognises a charge in the profit and loss account which is equal to the contributions payable in the year. The net defined benefit cost is recognised by the sponsoring employer, Severn Trent Water Limited.

(ii) Defined contribution scheme

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares

Shares held by the Severn Trent Employee Share Ownership Trust which have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2u).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments.

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs.

Derivatives not designated as hedging instruments

Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments

The group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations.

At the inception of each hedge relationship, the group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in fair values or cash flows (as appropriate) of the hedged item.

The group continues to test and document the effectiveness of the hedge on an ongoing basis.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised or no longer qualifies for hedge accounting.

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. If the hedging instrument is terminated, the gains and losses previously recognised in equity are transferred to the income statement. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

v) Share based payments

The group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

x) Net debt

Net debt comprises borrowings, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not) and net cash and cash equivalents.

y) Foreign currency

The results of overseas subsidiary and associated undertakings are translated into sterling, the presentational currency of the group, using average rates of exchange ruling during the year.

The net investments in overseas subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences arising are treated as movements in equity. On disposal of a foreign currency denominated subsidiary, the deferred cumulative amount recognised in equity since 1 April 2004 relating to that entity is recognised in the income statement under the transitional rule of IFRS 1.

Foreign currency denominated assets and liabilities of the company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the income statement.

z) Discontinued operations and assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and fair value less costs to sell. Depreciation is not charged on such assets.

Where a group of assets which comprises operations that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the group (a component), has been disposed of or classified as held for sale, and it:

- represents a separate major line of business or geographical area of operations; or

- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale;

then the component is classified as a discontinued operation.

3 New accounting policies and future requirements

At the date of approval of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 9 'Financial Instruments' is likely to affect the measurement and disclosure of financial instruments. This standard has not yet been adopted by the EU.

IFRS 15 'Revenue from contracts with customers' will affect the measurement and recognition of revenue with effect from 1 April 2019. The impact on the results or net assets of the group or company of the changes to the standard has not yet been quantified.

IFRS 16 'Leases' sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor') and will be effective for the group from 1 April 2019. The impact on the results or net assets of the group or company of the changes to the standard has not yet been quantified.

4 Significant accounting judgments and key sources of estimation uncertainty

In the process of applying the group's accounting policies, the group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The more significant judgments were:

a) Tax provisions

Assessing the outcome of uncertain tax positions requires judgments to be made regarding the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions. The assessments made are based on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities.

b) Provisions for other liabilities and charges

Assessing the financial outcome of uncertain commercial and legal positions requires judgments to be made regarding the relative merits of each party's case and the extent to which any claim against the group is likely to be successful. The assessments made are based on advice from the group's internal counsel and, where appropriate, independent legal advisers.

The key accounting estimates were:

a) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the group's experience of similar assets. Details are set out in note 2i).

b) Retirement benefit obligations

Determining the amount of the group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, pension increases and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the

obligations or the cost of providing such benefits. The group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 28 to the group financial statements.

c) Unbilled revenue

Severn Trent Water raises bills and recognises revenue in accordance with its right to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and waste water customers with water meters, the amount recognised depends on the volume supplied including an estimate of the sales value of units supplied between the date of the last meter read and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled volumes based on estimated usage from the last billing to the end of the financial year. The estimated usage is based on historical data, judgment and assumptions.

d) Provision for impairment of trade receivables

Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in a particular ageing category. The actual amounts collected could differ from the estimated level of recovery which could impact operating results.

e) Fair value of derivatives

Determining the fair value of derivatives where quoted prices are not available requires estimates to be made of the future expected cash flows and an appropriate discount rate which reflects the credit risk of the counterparties. The valuation techniques and key inputs used are described in note 34.

5 Segmental analysis

The group is now organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of the group's regulated subsidiary Severn Trent Water Limited and its retail services to domestic customers.

Business Services includes the group's Operating Services businesses in the US, UK, Ireland and Italy; Severn Trent Water Limited's non-household retail activities and the group's renewable energy business.

In the prior year financial statements all of Severn Trent Water Limited's activities comprised a single segment and Severn Trent Services comprised the group's Operating Services and Water Purification businesses. Comparative information for the new segmentation is not available and the cost to develop it would be excessive. Therefore the current year results have been presented on both the old basis and new basis of segmentation in accordance with IFRS 8.

The Severn Trent Executive Committee ('STEC') is considered to be the group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the new basis described above. Details of Regulated Water and Waste Water's operations are described on pages 28 to 35 of the strategic report and those of Business Services on pages 36 to 40.

Interests in joint ventures and associates are not material and are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT (profit before interest, tax and exceptional items). A segmental analysis of sales and underlying PBIT is presented below.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with group accounting policies. These are eliminated on consolidation.

The group has a large and diverse customer base and there is no significant reliance on any single customer.

The Water Purification business was classified as a discontinued operation in the year ended 31 March 2015 and the sale of this business was completed on 2 July 2015. See note 38.

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a) Segmental results

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the year ended 31 March 2016:

Regulated Water and Waste Water	Severn Trent Water £m	Renewable energy (regulated) ¹ £m	Non household retail ² £m	Additional inter-segment sales ³ £m	Regulated Water and Waste Water £m
External sales	1,548.5	(17.5)	(391.3)	–	1,139.7
Inter-segment sales	1.7	–	–	364.7	366.4
Total sales	1,550.2	(17.5)	(391.3)	364.7	1,506.1
Profit before interest, tax and exceptional items	520.3	(17.6)	(10.6)	–	492.1
Exceptional items (see note 8)	1.0	–	–	–	1.0
Profit before interest and tax	521.3	(17.6)	(10.6)	–	493.1

Business Services	Severn Trent Services £m	Renewable energy (regulated and non-regulated) ¹ £m	Non household retail ² £m	Additional inter-segment sales ⁴ £m	Business Services £m
External sales	233.1	30.7	391.3	–	655.1
Inter-segment sales	0.1	3.3	–	16.1	19.5
Total sales	233.2	34.0	391.3	16.1	674.6
Profit before interest, tax and exceptional items	10.7	16.9	10.6	–	38.2
Profit before interest and tax	10.7	16.9	10.6	–	38.2

Corporate and other	Corporate and other (old basis) £m	Renewable energy (non-regulated) ¹ £m	Non household retail £m	Additional inter-segment sales £m	Corporate and other (new basis) £m
External sales	5.2	(5.2)	–	–	–
Inter-segment sales	6.5	(3.3)	–	–	3.2
Total sales	11.7	(8.5)	–	–	3.2
Loss before interest, tax and exceptional items	(8.6)	0.7	–	–	(7.9)
Loss before interest and tax	(8.6)	0.7	–	–	(7.9)

1 The electricity generating assets owned by Severn Trent's regulated and non-regulated businesses are now managed by the Business Services segment. Business Services' external sales includes £8 million of income that was treated as a reduction in operating costs within Severn Trent Water

2 Management of Severn Trent Water's non-household retail activities has been transferred to the Business Services segment

3 The additional inter-segment sales in Regulated Water and Waste Water represent the wholesale water and waste water charges to non-household retail within Business Services

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4 The additional inter-segment sales in Business Services represent sales from the Regulated Renewable Energy business to Regulated Water and Waste Water

The following table shows the segmental turnover and PBIT on the old segmentation:

	2016		2015	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
External sales	1,548.5	233.1	1,579.1	216.2
Inter-segment sales	1.7	0.1	2.1	0.1
Total sales	1,550.2	233.2	1,581.2	216.3
Profit before interest, tax and exceptional items	520.3	10.7	539.0	9.7
Exceptional items (see note 8)	1.0	–	(20.6)	1.9
Profit before interest and tax	521.3	10.7	518.4	11.6
Profit before interest, tax and exceptional items is stated after:				
Amortisation of intangible assets	20.0	1.7	22.2	1.0
Depreciation of property, plant and equipment	290.3	3.2	276.7	3.5
Profit on disposal of fixed assets	(3.0)	(0.1)	(0.4)	(0.1)

The reportable segments' sales are reconciled to group turnover as follows:

	2016 (new basis) £m	2016 (old basis) £m	2015 £m
Severn Trent Water	–	1,550.2	1,581.2
Severn Trent Services	–	233.2	216.3
Regulated Water and Waste Water	1,506.1	–	–
Business Services	674.6	–	–
Corporate and other	3.2	11.7	15.8
Consolidation adjustments	(397.0)	(8.2)	(12.0)
	1,786.9	1,786.9	1,801.3

Segmental underlying PBIT is reconciled to the group's profit before tax and discontinued operations as follows:

	2016 (new basis) £m	2016 (old basis) £m	2015 £m
Year ended 31 March			
Underlying PBIT:			
Severn Trent Water	–	520.3	539.0
Severn Trent Services	–	10.7	9.7
Regulated Water and Waste Water	492.1	–	–

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Year ended 31 March	2016 (new basis) £m	2016 (old basis) £m	2015 £m
Business Services	38.2	–	–
Corporate and other	(7.9)	(8.6)	(12.1)
Consolidation adjustments	0.4	0.4	3.7
Group underlying PBIT	522.8	522.8	540.3
Exceptional items:			
Severn Trent Water	–	1.0	(20.6)
Severn Trent Services	–	–	1.9
Regulated Water and Waste Water	1.0	–	–
Share of results of associates and joint ventures	0.1	0.1	0.1
Net finance costs	(209.3)	(209.3)	(240.0)
Net gains/(losses) on financial instruments	7.7	7.7	(133.5)
Profit before tax	322.3	322.3	148.2

The group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

b) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed, as shown below.

The following tables show the changes from the old to the new segmentation for capital employed as at 31 March 2016:

Regulated Water and Waste Water	Severn Trent Water £m	Renewable energy (regulated) £m	Non-household retail £m	Inter-segment payables & receivables £m	Regulated Water and Waste Water £m
Operating assets	8,142.6	(59.6)	–	27.8	8,110.8
Goodwill	1.3	–	–	–	1.3
Interests in joint ventures and associates	0.1	–	–	–	0.1
Segment assets	8,144.0	(59.6)	–	27.8	8,112.2
Segment operating liabilities	(1,555.9)	4.0	9.6	(4.0)	(1,546.3)
Capital employed	6,588.1	(55.6)	9.6	23.8	6,565.9

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	Severn Trent Services £m	Renewable energy (regulated and non- regulated) £m	Non-household retail £m	Inter-segment payables & receivables £m	Business Services £m
Business Services					
Operating assets	111.0	141.1	–	4.0	256.1
Goodwill	14.8	–	–	–	14.8
Interests in joint ventures and associates	5.1	–	–	–	5.1
Segment assets	130.9	141.1	–	4.0	276.0
Segment operating liabilities	(64.2)	(24.2)	(9.6)	(27.8)	(125.8)
Capital employed	66.7	116.9	(9.6)	(23.8)	150.2

	Corporate and other £m	Renewable energy (non-regulated) £m	Non-household retail £m	Inter-segment payables & receivables £m	Corporate and other £m
Operating assets	110.6	(81.5)	–	–	29.1
Segment assets	110.6	(81.5)	–	–	29.1
Segment operating liabilities	(60.3)	20.2	–	–	(40.1)
Capital employed	50.3	(61.3)	–	–	(11.0)

The following table shows the segmental capital employed on the old segmentation:

	2016		2015	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water Restated £m	Severn Trent Services £m
Operating assets	8,142.6	111.0	7,974.4	100.9
Goodwill	1.3	14.8	1.3	14.3
Interests in joint ventures and associates	0.1	5.1	0.1	4.5
Segment assets	8,144.0	130.9	7,975.8	119.7
Segment operating liabilities	(1,555.9)	(64.2)	(1,631.1)	(58.8)
Capital employed	6,588.1	66.7	6,344.7	60.9

Operating assets comprise other intangible assets, property, plant and equipment, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

Capital employed does not include assets held for sale or liabilities associated with assets held for sale.

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The tables below show the changes from the old to the new segmentation for additions to other intangible assets and property, plant and equipment as at 31 March 2016:

Regulated Water and Waste Water	Severn Trent Water £m	Renewable energy (regulated) £m	Non-household retail £m	Regulated Water and Waste Water £m
Other intangible assets	21.9	–	–	21.9
Property, plant and equipment	459.1	(6.7)	–	452.4

Business Services	Severn Trent Services £m	Renewable energy (regulated and non- regulated) £m	Non-household retail £m	Business Services £m
Other intangible assets	1.8	–	–	1.8
Property, plant and equipment	2.2	36.7	–	38.9

Corporate and other	Corporate and other £m	Renewable energy (non-regulated) £m	Non-household retail £m	Corporate and other £m
Other intangible assets	0.3	–	–	0.3
Property, plant and equipment	30.0	(30.0)	–	–

The following table shows additions to other intangible assets and property, plant and equipment on the old segmentation:

	2016		2015	
	Severn Trent Water £m	Severn Trent Services £m	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	21.9	1.8	15.4	1.0
Property, plant and equipment	459.1	2.2	481.3	2.7

The reportable segments' assets are reconciled to the group's total assets as follows:

	Note	2016 (new basis) £m	2016 (old basis) £m	2015 Restated £m
Segment assets				
– Severn Trent Water		–	8,144.0	7,975.8
– Severn Trent Services		–	130.9	119.7
– Regulated Water and Waste Water		8,112.2	–	–
– Business Services		276.0	–	–
– Corporate and other		29.1	110.6	78.6

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	Note	2016 (new basis) £m	2016 (old basis) £m	2015 Restated £m
Other financial assets		96.2	96.2	203.8
Current tax receivable		–	–	9.3
Assets held for sale	38	–	–	107.9
Consolidation adjustments		(69.0)	(37.2)	(45.5)
Total assets		8,444.5	8,444.5	8,449.6

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the group's total liabilities as follows:

	Note	2016 (new basis) £m	2016 (old basis) £m	2015 Restated £m
Segment liabilities				
– Severn Trent Water		–	(1,555.9)	(1,631.1)
– Severn Trent Services		–	(64.2)	(58.8)
– Regulated Water and Waste Water		(1,546.3)	–	–
– Business Services		(125.8)	–	–
– Corporate and other		(40.1)	(60.3)	(149.1)
Other financial liabilities		(5,085.8)	(5,085.8)	(5,134.0)
Current tax liabilities		(11.1)	(11.1)	–
Deferred tax		(664.7)	(664.7)	(691.0)
Liabilities associated with assets held for sale	38	–	–	(35.3)
Consolidation adjustments		47.8	16.0	18.7
Total liabilities		(7,426.0)	(7,426.0)	(7,680.6)

The consolidation adjustments comprise elimination of intra-group creditors.

c) Geographical areas

The group's sales were derived from the following countries:

	2016 £m	2015 £m
UK	1,626.7	1,649.4
US	135.5	129.3
Other	24.7	22.6
	1,786.9	1,801.3

The group's non-current assets (excluding financial instruments, deferred tax assets and post employment benefit assets) were located in the following countries:

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	2016 £m	2015 Restated £m
UK	7,784.1	7,593.7
US	24.7	25.2
Other	2.0	1.1
	7,810.8	7,620.0

6 Revenue

	2016 £m	2015 £m
Water and waste water services	1,539.7	1,570.5
Other services	202.8	187.3
Service concession arrangements (note 41)	44.4	43.5
Total turnover	1,786.9	1,801.3
Interest receivable (note 10)	5.4	1.6
	1,792.3	1,802.9

7 Net operating costs

			2016			2015
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	284.4	(0.3)	284.1	276.7	13.5	290.2
Social security costs	21.9	–	21.9	20.0	0.1	20.1
Pension costs	19.2	(0.7)	18.5	32.4	17.9	50.3
Share based payments	5.2	–	5.2	7.7	–	7.7
Total employee costs	330.7	(1.0)	329.7	336.8	31.5	368.3
Power	66.5	–	66.5	68.8	–	68.8
Carbon Reduction Commitment	7.1	–	7.1	7.3	–	7.3
Raw materials and consumables	75.4	–	75.4	75.7	–	75.7
Rates	77.7	–	77.7	74.1	–	74.1
Charge for bad and doubtful debts	24.0	–	24.0	30.1	(6.3)	23.8
Service charges	32.4	–	32.4	32.6	–	32.6
Depreciation of property, plant and equipment	293.9	–	293.9	280.4	–	280.4
Amortisation and impairment of intangible fixed assets	21.7	–	21.7	23.2	0.2	23.4

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			2016			2015
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
Hired and contracted services	245.9	–	245.9	222.8	0.7	223.5
Operating leases rentals						
– land and buildings	2.0	–	2.0	1.4	0.1	1.5
– other	1.7	–	1.7	1.2	–	1.2
Hire of plant and machinery	0.2	–	0.2	0.3	–	0.3
Research and development expenditure	3.5	–	3.5	4.6	–	4.6
Profit on disposal of property, plant and equipment	(0.9)	–	(0.9)	(0.9)	(7.7)	(8.6)
Foreign exchange losses/(gains)	0.5	–	0.5	(0.1)	–	(0.1)
Infrastructure maintenance expenditure	126.0	–	126.0	134.8	–	134.8
Ofwat licence fees	2.8	–	2.8	5.3	–	5.3
Other operating costs	62.2	–	62.2	68.3	0.2	68.5
Other operating income	(4.9)	–	(4.9)	(3.2)	–	(3.2)
	1,368.4	(1.0)	1,367.4	1,363.5	18.7	1,382.2
Release from deferred income	(10.5)	–	(10.5)	(10.1)	–	(10.1)
Own work capitalised	(93.8)	–	(93.8)	(92.4)	–	(92.4)
	1,264.1	(1.0)	1,263.1	1,261.0	18.7	1,279.7

Further details of exceptional costs are given in note 8.

During the year the following fees were charged by the auditors:

	2016 £m	2015 £m
Fees payable to the company's auditors for		
– the audit of the company's annual accounts	0.2	0.2
– the audit of the company's subsidiary accounts	0.4	0.4
Total audit fees	0.6	0.6
Fees payable to the company's auditors and their associates for other services to the group		
– audit related assurance services	0.1	0.1
– other services relating to taxation	0.1	0.1
– other assurance services	0.6	0.4
Total non-audit fees	0.8	0.6

Details of directors' remuneration are set out in the Directors' Remuneration Report on pages 89 to 101.

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In the course of completing the disposal of the Water Purification business, the purchaser requested an audit of the financial statements of the disposal group. Since Deloitte had already performed work on some of the companies as part of the group audit the most pragmatic and economic solution was for Deloitte to perform this work. This is included in other assurance services in the note above.

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat. In the previous year, the balance included fees in connection with Ofwat's price review 2014.

Details of the group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee report on pages 82 and 85. No services were provided pursuant to contingent fee arrangements.

8 Exceptional items before tax

	2016 £m	2015 £m
Severn Trent Water		
Restructuring costs	(1.0)	28.3
Profit on disposal of fixed assets	–	(7.7)
	(1.0)	20.6
Severn Trent Services		
Restructuring costs	–	4.4
Release of bad debt provision	–	(6.3)
	–	(1.9)
Total exceptional operating items before tax	(1.0)	18.7

Exceptional tax is disclosed in note 13.

9 Employee numbers

Average number of employees (including executive directors) during the year:

	2016		2015	
	Continuing operations Number	Discontinued operations Number	Continuing operations Number	Discontinued operations Number
By type of business				
Severn Trent Water	5,236	–	5,532	–
Severn Trent Services	2,105	101	1,888	419
Corporate and other	17	–	22	–
	7,358	101	7,442	419

10 Finance income

	2016 £m	2015 £m
Interest income earned on:		
Bank deposits	0.4	0.6
Other financial income	5.0	1.0
Total interest receivable	5.4	1.6
Interest income on defined benefit scheme assets	67.7	80.1
	73.1	81.7

11 Finance costs

	2016 £m	2015 £m
Interest on bank loans and overdrafts	21.9	17.1
Interest on other loans	170.6	201.8
Interest on finance leases	6.8	6.9
Total borrowing costs	199.3	225.8
Other financial expenses	0.3	1.4
Interest cost on defined benefit scheme obligations	82.8	94.5
	282.4	321.7

Borrowing costs of £16.5 million (2015: £19.8 million) incurred funding eligible capital projects have been capitalised at an interest rate of 4.41% (2015: 4.89%). Tax relief of £3.3 million (2015: £4.2 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £3.0 million (2015: £4.0 million).

12 Gains/(losses) on financial instruments

	2016 £m	2015 £m
Loss on swaps used as hedging instruments in fair value hedges	(0.7)	(2.6)
Loss arising on debt in fair value hedges	(1.1)	—
Exchange (loss)/gain on other loans	(32.6)	73.3
Loss on cash flow hedges transferred from equity	(12.2)	(23.6)
Hedge ineffectiveness on cash flow hedges	0.5	2.8
Gain/(loss) arising on swaps where hedge accounting is not applied	53.8	(183.4)
	7.7	(133.5)

The group's hedge accounting arrangements are described in note 36.

13 Taxation

a) Analysis of tax (credit)/charge in the year

			2016	2015
	Before exceptional tax £m	Exceptional tax £m	Total £m	Total £m
Current tax				
Current year at 20% (2015: 21%)	57.6	–	57.6	46.4
Prior years at 21% (2015: 23%)	(2.4)	–	(2.4)	(8.6)
Total current tax	55.2	–	55.2	37.8
Deferred tax				
Origination and reversal of temporary differences – current year	10.9	–	10.9	(11.3)
Origination and reversal of temporary differences – prior year	2.8	–	2.8	6.2
Exceptional credit arising from rate change	–	(78.6)	(78.6)	–
Total deferred tax	13.7	(78.6)	(64.9)	(5.1)
	68.9	(78.6)	(9.7)	32.7

The current tax charge was £55.2 million (2015: £37.8 million). This includes a credit of £2.4 million (2015: £8.6 million) arising from adjustments to prior year tax computations.

The Finance Act 2015 was enacted in the current year which implemented a reduction in the corporation tax rate from 20% to 18% with effect from 1 April 2020. This resulted in an additional exceptional deferred tax credit of £78.6 million in the income statement and a deferred tax charge of £9.6 million in reserves.

A further reduction to 17% with effect from 1 April 2020 has been announced but not yet substantively enacted. The estimated impact of this rate change will be a reduction in the deferred tax liability of approximately £37 million.

b) Factors affecting the tax (credit)/charge in the year

The tax expense for the year is lower (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £m	2015 £m
Profit on ordinary activities before tax from continuing operations	322.3	148.2
Tax at the standard rate of corporation tax in the UK 20% (2015: 21%)	64.5	31.1
Tax effect of depreciation on non-qualifying assets	3.8	3.6
Tax effect of expenditure not deductible in determining taxable profits	1.4	0.4
Current year impact of rate change	(1.2)	–
Adjustments in respect of prior years	0.4	(2.4)
Exceptional deferred tax credit arising from rate change	(78.6)	–
Total tax (credit)/charge	(9.7)	32.7

c) Tax charged/(credited) directly to other comprehensive income or equity

In addition to the amount (credited)/charged to the income statement, the following amounts of tax have been charged/(credited) directly to other comprehensive income or equity:

	2016 £m	2015 £m
Current tax		
Tax on share based payments	(1.2)	(0.7)
Tax on pension contributions in excess of income statement charge	–	(3.0)
Total current tax credited to other comprehensive income or equity	(1.2)	(3.7)
Deferred tax		
Tax on actuarial gain/loss	26.7	(25.8)
Tax on cash flow hedges	(0.4)	(2.8)
Tax on share based payments	0.5	0.1
Tax on transfers to the income statement account	2.2	4.7
Effect of change in tax rate	9.6	–
Total deferred tax charged/(credited) to other comprehensive income or equity	38.6	(23.8)

14 Dividends

Amounts recognised as distributions to owners of the company in the period:

	2016		2015	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2015 (2014)	50.94	121.2	48.24	115.5
Interim dividend for the year ended 31 March 2016 (2015)	32.26	75.8	33.96	81.4
Total dividends	83.20	197.0	82.20	196.9
Proposed final dividend for the year ended 31 March 2016	48.40			

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

15 Earnings per share**a) Basic and diluted earnings per share**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

Basic and diluted earnings per share from continuing and discontinued operations are calculated on the basis of profit from continuing and discontinued operations attributable to the owners of the company.

The calculation of basic and diluted earnings per share is based on the following data:

Earnings for the purpose of basic and diluted earnings per share from continuing operations

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	2016 £m	2015 £m
Profit for the period attributable to owners of the company	330.0	119.1
Adjusted for loss/(profit) from discontinued operations (see note 38)	0.6	(3.7)
Profit for the period from continuing operations attributable to owners of the company	330.6	115.4

Number of shares

	2016 m	2015 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	236.1	238.8
Effect of dilutive potential ordinary shares – share options and LTIPs	1.1	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	237.2	239.9

b) Underlying earnings per share

	2016 pence	2015 pence
Underlying basic earnings per share	108.7	107.2
Underlying diluted earnings per share	108.2	106.7

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, exceptional tax, gains/losses on financial instruments, current tax related to gains/losses on financial instruments, exceptional items and current tax related to exceptional items. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

Adjustments to earnings

The adjustments to earnings that are made in calculating underlying earnings per share are as follows:

	2016 £m	2015 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	330.6	115.4
Adjustments for		
– exceptional items before tax	(1.0)	18.7
– current tax related to exceptional items	(0.2)	(4.7)
– gains/losses on financial instruments	(7.7)	133.5
– current tax related to gains/losses on financial instruments	(0.2)	(1.8)
– deferred tax excluding exceptional charge	13.7	(5.1)
– exceptional tax	(78.6)	–
Earnings for the purpose of underlying basic and diluted earnings per share	256.6	256.0

16 Goodwill

	2016 £m	2015 £m
Cost		
At 1 April	17.7	42.9
Transferred to assets held for sale (see note 38)	–	(26.5)
Exchange adjustments	0.5	1.3
At 31 March	18.2	17.7
Impairment		
At 1 April	(3.4)	(28.1)
Transferred to assets held for sale (see note 38)	–	24.7
At 31 March	(3.4)	(3.4)
Net book value		
At 31 March	14.8	14.3

Goodwill impairment tests

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment. All of the group's goodwill is in the Business Services segment (2015: Severn Trent Services segment).

A summary of the goodwill allocation by CGU is presented below. Goodwill in the group's Water Purification business was included in assets held for sale at 31 March 2015, see note 38.

	2016 £m	2015 £m
Operating Services US	13.0	12.5
Operating Services Italy	1.8	1.8
	14.8	14.3

The group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 21).

The value in use calculations use cash flow projections based on financial budgets approved by management covering a five year period. The key assumptions underlying these budgets are revenue growth and margin. Management of each CGU determines assumptions based on past experience, current market trends and expectations of future developments.

Cash flows beyond the five year period are extrapolated using an estimated nominal growth rate. The growth rate does not exceed the long term average growth rate for the economy in which the CGU operates and is consistent with the forecasts included in industry reports.

The assumptions used in relation to growth rates beyond the five year period and discount rates were:

	Nominal growth rate		Post-tax discount rate		Pre-tax discount rate	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Operating Services US	3.0	3.0	5.6	6.0	6.9	7.6
Operating Services Italy	1.4	1.8	4.9	4.6	6.4	5.5

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Specific discount rates for the CGUs are not available and hence a post tax discount rate reflecting risks relating to the CGU has been estimated and used to calculate the value in use of the CGU from its post tax cash flow projections. The equivalent pre-tax discount rate is disclosed above.

Changes in the growth rate outside the five year period or in the discount rate applied to the cash flows may cause a CGU's carrying value to exceed its recoverable amount. However, in the opinion of the directors, the changes in growth rate or discount rate that would be required to reduce the recoverable amount of the CGUs below their carrying value are not reasonably possible. Therefore no sensitivity analysis has been presented.

17 Other intangible assets

	Computer software		Capitalised development costs and patents £m	Total £m
	Internally generated £m	Purchased £m		
Cost				
At 1 April 2014	176.1	78.0	22.6	276.7
Restatement	(2.5)	25.7	–	23.2
At 1 April 2014 after restatement	173.6	103.7	22.6	299.9
Additions	5.7	11.5	0.5	17.7
Disposals	(0.2)	(21.6)	–	(21.8)
Reclassifications	–	–	(0.4)	(0.4)
Transfers to assets held for sale	–	(4.9)	(10.3)	(15.2)
Exchange adjustments	(0.2)	0.4	1.1	1.3
At 1 April 2015	178.9	89.1	13.5	281.5
Additions	10.1	13.8	–	23.9
Exchange adjustments	(0.1)	1.6	–	1.5
At 31 March 2016	188.9	104.5	13.5	306.9
Amortisation				
At 1 April 2014	(140.2)	(42.7)	(13.6)	(196.5)
Restatement	1.4	(21.9)	(0.1)	(20.6)
At 1 April 2014 after restatement	(138.8)	(64.6)	(13.7)	(217.1)
Amortisation for the year	(10.8)	(11.6)	(1.6)	(24.0)
Impairment arising from exceptional item	(0.2)	–	–	(0.2)
Disposals	0.2	21.5	–	21.7
Transfers to assets held for sale	–	3.7	4.3	8.0
Exchange adjustments	0.1	(0.3)	(0.4)	(0.6)
At 1 April 2015	(149.5)	(51.3)	(11.4)	(212.2)
Amortisation for the year	(9.6)	(10.9)	(1.2)	(21.7)
Exchange adjustments	–	(0.8)	–	(0.8)

	Computer software		Capitalised development costs and patents £m	Total £m
	Internally generated £m	Purchased £m		
At 31 March 2016	(159.1)	(63.0)	(12.6)	(234.7)
Net book value				
At 31 March 2016	29.8	41.5	0.9	72.2
At 31 March 2015	29.4	37.8	2.1	69.3

18 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2014	2,917.1	4,540.3	3,852.0	63.1	–	11,372.5
Restatement	(52.3)	85.4	(413.2)	(0.5)	669.5	288.9
At 1 April 2014 after restatement	2,864.8	4,625.7	3,438.8	62.6	669.5	11,661.4
Additions	6.6	22.8	13.6	7.3	454.2	504.5
Transfer on commissioning	125.5	113.6	212.5	–	(451.6)	–
Disposals	(10.1)	(0.1)	(76.9)	(6.5)	–	(93.6)
Transfer to assets held for sale (see note 38)	(6.1)	–	(15.1)	(0.3)	–	(21.5)
Exchange adjustments	0.2	–	1.9	1.9	–	4.0
At 1 April 2015	2,980.9	4,762.0	3,574.8	65.0	672.1	12,054.8
Additions	2.7	21.4	16.0	5.8	445.7	491.6
Transfer on commissioning	194.8	156.8	216.9	–	(568.5)	–
Disposals	(10.6)	(0.3)	(17.4)	(4.3)	(4.1)	(36.7)
Exchange adjustments	0.2	–	(2.2)	0.5	–	(1.5)
At 31 March 2016	3,168.0	4,939.9	3,788.1	67.0	545.2	12,508.2
Depreciation						
At 1 April 2014	(978.9)	(1,182.1)	(2,148.3)	(39.7)	–	(4,349.0)
Restatement	(12.8)	(12.1)	28.4	(0.5)	–	3.0
At 1 April 2014 after restatement	(991.7)	(1,194.2)	(2,119.9)	(40.2)	–	(4,346.0)
Charge for the year	(69.1)	(30.8)	(174.8)	(6.9)	–	(281.6)
Disposals	8.2	–	76.9	5.5	–	90.6
Transfer to assets held for sale (see note 38)	4.2	–	12.0	0.3	–	16.5

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	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Assets under construction £m	Total £m
Exchange adjustments	–	–	(1.4)	(1.2)	–	(2.6)
At 1 April 2015	(1,048.4)	(1,225.0)	(2,207.2)	(42.5)	–	(4,523.1)
Charge for the year	(77.0)	(31.5)	(178.6)	(6.8)	–	(293.9)
Disposals	6.0	–	16.6	4.1	–	26.7
Exchange adjustments	(0.1)	–	1.2	(0.4)	–	0.7
At 31 March 2016	(1,119.5)	(1,256.5)	(2,368.0)	(45.6)	–	(4,789.6)
Net book value						
At 31 March 2016	2,048.5	3,683.4	1,420.1	21.4	545.2	7,718.6
At 31 March 2015	1,932.5	3,537.0	1,367.6	22.5	672.1	7,531.7

The carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2016	119.8	16.4	136.2
At 31 March 2015	118.7	26.6	145.3

19 Interests in joint ventures and associates

Particulars of the group's principal joint venture undertakings at 31 March 2016 were:

Name		Country of incorporation	Proportion of ownership interest
Cognica Limited	Joint venture	Great Britain	50%
Jackson Water Partnership	Joint venture	US	70%
Servizio Idrico S.c.p.a (SII)	Associate	Italy	25%

The partnership agreement for the Jackson Water Partnership requires that certain key decisions require the unanimous consent of the partners and consequently the partnership has been accounted for as a joint venture.

The results and net assets of principal joint ventures and associates are shown below:

	Interest in joint ventures		Interest in associates		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Group's share of carrying value	0.2	0.2	4.9	4.4	5.1	4.6
Group's share of profit and comprehensive income	–	–	0.1	0.1	0.1	0.1

All results are from continuing operations in both the current and preceding year.

As at 31 March 2016 and 2015 the joint ventures and associates did not have any significant contingent liabilities to which the group was exposed. The group had no capital commitments in relation to its interests in the joint ventures or associates at 31 March 2016 or 2015.

The group has given certain guarantees in respect of the associate's borrowings. The guarantees are limited to €5.1 million (2015: €5.1 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

20 Categories of financial assets

	2016 £m	2015 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	10.4	–
Interest rate swaps – not hedge accounted	–	4.2
Foreign exchange forward contracts – not hedge accounted	0.7	0.2
	11.1	4.4
Derivatives designated as hedging instruments		
Cross currency swaps – fair value hedges	17.7	22.6
Interest rate swaps – fair value hedges	12.1	–
	29.8	22.6
Total derivative financial assets	40.9	27.0
Available for sale investments carried at fair value		
Unquoted shares	0.1	0.1
Loans and receivables (including cash and cash equivalents)		
Trade receivables (note 21)	177.8	172.5
Short term deposits (note 22)	31.8	151.8
Cash at bank and in hand (note 22)	23.4	24.9
Total loans and receivables	233.0	349.2
Total financial assets	274.0	376.3
Disclosed in the balance sheet as:		
Non-current assets		
Derivative financial assets	40.2	13.5
Available for sale financial assets	0.1	0.1

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	2016 £m	2015 £m
	40.3	13.6
Current assets		
Derivative financial assets	0.7	13.5
Cash and cash equivalents	55.2	176.7
Trade receivables	177.8	172.5
	233.7	362.7
	274.0	376.3

21 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	304.7	297.5
Less doubtful debt provision	(126.9)	(125.0)
Net trade receivables	177.8	172.5
Other amounts receivable	54.6	42.0
Prepayments	58.2	54.5
Accrued income	226.0	223.0
	516.6	492.0

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Prepayments include £25.7 million (2015: £24.4 million) in respect of amounts due from customers for contract work and £49.6 million (2015: £33.2 million) which is recoverable after more than one year.

Doubtful debts provision

Movements on the doubtful debts provision were as follows:

	2016 £m	2015 £m
At 1 April	125.0	120.8
Charge for bad and doubtful debts	24.0	28.1
Amounts written off during the year	(22.1)	(22.4)
Transfer to assets held for sale	–	(1.5)
At 31 March	126.9	125.0

The aged analysis of receivables that are specifically provided for is as follows:

	2016 £m	2015 £m
Up to 90 days	–	2.2
91 – 365 days	3.3	4.8

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	2016 £m	2015 £m
1 – 2 years	5.7	6.7
2 – 3 years	3.3	6.3
More than 3 years	5.0	8.0
	17.3	28.0

A collective provision is recorded against assets which are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	2016 £m	2015 £m
Up to 90 days	41.7	44.0
91 – 365 days	69.4	65.1
1 – 2 years	30.3	29.6
2 – 3 years	14.6	13.7
More than 3 years	10.5	9.4
	166.5	161.8

The amounts above are reconciled to gross and net debtors in the table below:

			2016			2015
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not due	120.9	–	120.9	107.7	–	107.7
Overdue not specifically provided	166.5	(109.6)	56.9	161.8	(97.0)	64.8
Overdue and specifically provided	17.3	(17.3)	–	28.0	(28.0)	–
	304.7	(126.9)	177.8	297.5	(125.0)	172.5

Credit risk

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Severn Trent Water Limited, which represents 87% of group turnover and 90% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables and the credit quality of its customer base reflects the wealth and prosperity of all of the commercial businesses and domestic households within its region. None of the other business units are individually significant to the group.

22 Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	23.4	24.9

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	2016 £m	2015 £m
Short term deposits	31.8	151.8
	55.2	176.7

Short term bank deposits includes £31.8 million (2015: £36.7 million) held as security deposits for insurance obligations, which is not available for use by the group. In addition, £8.8 million (2015: £6.0 million) of cash at bank and in hand is restricted for use on the Ministry of Defence contract and is not available for use by the group.

23 Borrowings

	2016 £m	2015 £m
Bank loans	1,249.8	1,279.2
Other loans	3,539.7	3,467.5
Finance leases	117.2	180.0
	4,906.7	4,926.7
Presented in the balance sheet as:		
Current liabilities	280.6	463.0
Non-current liabilities	4,626.1	4,463.7
	4,906.7	4,926.7

24 Finance leases

Obligations under finance leases are as follows:

	2016 £m	2015 £m
Within 1 year	5.7	44.7
1 – 2 years	6.1	30.5
2 – 5 years	21.1	19.6
After more than 5 years	129.8	137.3
Gross obligations under finance leases	162.7	232.1
Less future finance charges	(45.5)	(52.1)
Present value of lease obligations	117.2	180.0

Net obligations under finance leases fall due as follows:

	2016 £m	2015 £m
Within 1 year	1.6	38.6
1 – 2 years	2.1	25.9
2 – 5 years	9.6	7.9
After more than 5 years	103.9	107.6
Included in non-current liabilities	115.6	141.4
	117.2	180.0

The remaining terms of finance leases ranged from 1 to 16 years at 31 March 2016. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.35% (2015: 5.36%). The lease obligations are secured against the related assets.

There were no contingent rents, escalation clauses or material renewal or purchase options. The terms of the finance leases do not impose restriction on dividend payments, additional debt or further leasing.

25 Categories of financial liabilities

	2016 £m	2015 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	–	25.2
Interest rate swaps – not hedge accounted	164.9	170.6
Foreign exchange forward contracts – not hedge accounted	0.7	0.2
	165.6	196.0
Derivatives designated as hedging instruments		
Interest rate swaps – cash flow hedges	10.3	10.5
Energy swaps – cash flow hedges	3.2	0.8
	13.5	11.3
Total derivative financial liabilities	179.1	207.3
Other financial liabilities		
Borrowings (note 23)	4,906.7	4,926.7
Trade payables (note 26)	18.1	32.7
Total other financial liabilities	4,924.8	4,959.4
Total financial liabilities	5,103.9	5,166.7
Disclosed in the balance sheet as:		
Non-current liabilities		
Derivative financial liabilities	178.0	175.1
Borrowings	4,626.1	4,463.7
	4,804.1	4,638.8
Current liabilities		
Derivative financial liabilities	1.1	32.2
Borrowings	280.6	463.0
Trade payables	18.1	32.7
	299.8	527.9
	5,103.9	5,166.7

26 Trade and other payables

	2016 £m	2015 Restated £m
Current liabilities		
Trade payables	18.1	32.7
Social security and other taxes	6.2	5.8
Other payables	16.9	22.0
Deferred income	10.9	10.0
Accruals	402.0	423.5
	454.1	494.0
Non-current liabilities		
Deferred income	867.4	819.0
Accruals	3.4	4.0
	874.9	823.0

27 Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2014	760.3	(69.6)	(37.8)	1.1	654.0
Restatement	66.4	—	(0.5)	—	65.9
At 1 April 2014 restated	826.7	(69.6)	(38.3)	1.1	719.9
Charge/(credit) to income	13.3	1.7	(25.0)	4.9	(5.1)
(Credit)/charge to equity	—	(25.8)	1.9	0.1	(23.8)
At 1 April 2015	840.0	(93.7)	(61.4)	6.1	691.0
Charge/(credit) to income	10.2	1.8	1.8	(0.1)	13.7
(Credit)/charge to income arising from rate change	(84.0)	1.9	4.1	(0.6)	(78.6)
Charge to equity	—	26.7	1.8	0.5	29.0
Charge to equity arising from rate change	—	7.5	2.1	—	9.6
At 31 March 2016	766.2	(55.8)	(51.6)	5.9	664.7

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

	2016 £m	2015 Restated £m
Deferred tax asset	(107.5)	(155.1)
Deferred tax liability	772.2	846.1
	664.7	691.0

28 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The group operates a number of defined benefit pension schemes in the UK which closed to future accrual on 31 March 2015. The defined benefit pension schemes cover increases in accrued benefits arising from inflation and future pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated as a proportion (varying between 1/30 and 1/80 for each year of service) of their salary for the final year of employment with the group or, if higher, the average of the highest three consecutive years' salary in the last ten years of membership, up to 31 March 2015.

The UK defined benefit pension schemes and the date of their last formal actuarial valuation are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension scheme (STPS)*	31 March 2013
Severn Trent Mirror Image Pension Scheme	31 March 2013

* The STPS is by far the largest of the group's UK defined benefit schemes

(ii) Amount included in the balance sheet arising from the group's obligations under defined benefit pension schemes

	2016 £m	2015 £m
Fair value of scheme assets		
Equities	922.4	999.5
Gilts	283.0	327.2
Corporate bonds	570.7	450.8
Property	171.4	159.3
Hedge funds	11.8	60.9
Cash	80.5	89.1
Total fair value of assets	2,039.8	2,086.8
Present value of the defined benefit obligations – funded schemes	(2,339.9)	(2,545.7)
	(300.1)	(458.9)
Present value of the defined benefit obligations – unfunded schemes	(9.4)	(10.0)
Liability recognised in the balance sheet	(309.5)	(468.9)

The equities, gilts, corporate bonds and hedge funds have quoted prices in active markets.

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Movements in the fair value of the scheme assets were as follows:

	2016 £m	2015 £m
Fair value at 1 April	2,086.8	1,823.6
Interest income on scheme assets	67.7	80.1
Contributions from the sponsoring companies	27.8	81.0
Contributions from scheme members	0.3	4.8
Return on plan assets (excluding amounts included in finance income)	(45.9)	193.4
Scheme administration costs	(2.3)	(2.9)
Benefits paid	(94.6)	(93.2)
Fair value at 31 March	2,039.8	2,086.8

Movements in the present value of the defined benefit obligations were as follows:

	2016 £m	2015 £m
Present value at 1 April	2,555.7	2,171.9
Service cost	–	22.8
Past service cost	(0.7)	18.1
Interest cost	82.8	94.5
Contributions from scheme members	0.3	4.8
Actuarial (gains)/losses arising from changes in financial assumptions	(147.9)	366.2
Actuarial gains arising from experience adjustments	(46.3)	(29.4)
Benefits paid	(94.6)	(93.2)
Present value at 31 March	2,349.3	2,555.7

Of which:

	2016 £m	2015 £m
Amounts relating to funded schemes	2,339.9	2,545.7
Amounts relating to unfunded schemes	9.4	10.0
Present value at 31 March	2,349.3	2,555.7

The group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £9.4 million (2015: £10.0 million) is included as an unfunded scheme within the retirement benefit obligation.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2016 £m	2015 £m
Amounts charged to operating costs		
Current service cost	–	(22.8)

	2016 £m	2015 £m
Past service cost	0.7	(18.1)
Scheme administration costs	(2.3)	(2.9)
	(1.6)	(43.8)
Amounts charged to finance costs		
Interest cost	(82.8)	(94.5)
Amounts credited to finance income		
Interest income on scheme assets	67.7	80.1
Total amount charged to the income statement	(16.7)	(58.2)

The actual return on scheme assets was a gain of £21.8 million (2015: £273.5 million).

Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a net loss of £310.8 million (2015: net loss of £459.1 million).

(iv) Actuarial risk factors

The schemes typically expose the company to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by RPI. The group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Longevity risk

The group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the group will need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major assumptions used in the valuation of the STPS (also the approximate weighted average of assumptions used for the valuations of all group schemes) were as follows:

	2016 %	2015 %
Price inflation	3.0	3.0
Discount rate	3.6	3.3
Pension increases in payment	3.0	3.0

Pension increases in deferment	3.0	3.0
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The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts. The discount rate is set by reference to AA rated sterling 18 year corporate bonds.

No salary assumption is required because the scheme closed to future accrual on 31 March 2015.

The mortality assumptions are based on those used in the triennial valuation of the STPS as at 31 March 2013. The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows:

	2016		2015	
	Men	Women	Men	Women
Mortality table used	'SAPS' S1NMA_L	S1NFA_L	'SAPS' S1NMA_L	S1NFA_L
Mortality table compared with standard table	116%	92%	116%	92%
Future improvement per annum	1.0%	1.0%	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	21.4	24.6	21.4	24.5
Remaining life expectancy at age 65 for members currently aged 45 (years)	22.8	26.1	22.7	26.1

The calculation of the scheme liabilities is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation and mortality. The following table summarises the estimated impact on scheme liabilities from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £45 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £40 million
Mortality	Increase in life expectancy by 1 year	Increase by £65 million

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the trustees for each scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 18 years (2015: 18 years). The expected cash flows payable from the schemes are presented in the graph below:

The most recent formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2013 for both schemes. As a result, deficit reduction contributions of £40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and £12 million p.a. in subsequent years to 2024/25 were agreed. Further payments of £8 million p.a. through an asset backed funding arrangement will also continue to 31 March 2032. The next triennial valuation, as at 31 March 2016, is underway.

b) Defined contribution pension schemes

The group also operates defined contribution arrangements for certain of its UK employees.

The Severn Trent Pension Scheme, Choices section was replaced by the Severn Trent Group Personal Pension from 1 April 2015 and all members of other pension schemes were transferred. This scheme has been open since 1 April 2012 and new employees were automatically enrolled from this date.

The total cost charged to operating costs of £19.2 million (2015: £9.4 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2016, contributions amounting to £1.5 million (2015: £2.4 million) in respect of the current reporting period were owed to the schemes.

29 Provisions

	Restructuring £m	Insurance £m	Onerous contracts £m	Other £m	Total £m
At 1 April 2015	2.7	21.9	1.0	8.8	34.4
Charged/(released) to income statement	(0.3)	5.6	–	0.6	5.9
Utilisation of provision	(2.1)	(6.3)	(0.8)	(1.5)	(10.7)
Unwinding of discount	–	–	–	0.1	0.1
Reclassifications	(0.1)	–	(0.2)	0.3	–
Exchange differences	–	–	–	0.3	0.3
At 31 March 2016	0.2	21.2	–	8.6	30.0

	2016 £m	2015 £m
Included in		
Current liabilities	12.3	15.9
Non-current liabilities	17.7	18.5
	30.0	34.4

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes. The associated outflows are estimated to arise over the next 12 months from the balance sheet date.

Insurance includes provisions in respect of Derwent Insurance Limited, a captive insurance company, which is a wholly owned subsidiary of the group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

The onerous contract provision relates to specific contractual liabilities either assumed with businesses acquired or arising in existing group businesses, where estimated future costs are not expected to be recovered in revenues or other economic benefits.

Other provisions include provisions for dilapidations, commercial disputes and disposals. The associated outflows are estimated to arise over a period up to six years from the balance sheet date.

30 Share capital

	2016 £m	2015 £m
Total issued and fully paid share capital		

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	2016 £m	2015 £m
239,344,614 ordinary shares of 97 ¹⁷ / ₁₉ p (2015: 238,683,513)	234.3	233.7

On 13 February 2015 the group entered into an irrevocable, non-discretionary arrangement to enable market purchases of ordinary shares of 97¹⁷/₁₉ pence each up to an amount of £110 million during the period commencing on 16 February 2015 and ending no later than 23 November 2015.

During the year the company repurchased 4,274,576 shares (2015: 966,578) under its share buy back programme. Of these repurchased shares, 51,514 (2015: 966,578) were cancelled and the remaining 4,223,062 (2015: nil) are held as treasury shares.

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97¹⁷/₁₉p		
At 1 April 2014	238,942,647	233.9
Shares issued under the Employee Sharesave Scheme	707,444	0.7
Shares repurchased and cancelled	(966,578)	(0.9)
At 1 April 2015	238,683,513	233.7
Shares issued under the Employee Sharesave Scheme	712,615	0.7
Shares repurchased and cancelled	(51,514)	(0.1)
At 31 March 2016	239,344,614	234.3

31 Share premium

	2016 £m	2015 £m
At 1 April	100.2	94.2
Share premium arising on issue of shares for Employee Sharesave Scheme	6.6	6.0
At 31 March	106.8	100.2

32 Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2014	156.1	20.2	(94.1)	82.2
Total comprehensive income for the year	–	7.2	7.9	15.1
Purchase of own shares	0.9	–	–	0.9
At 1 April 2015	157.0	27.4	(86.2)	98.2
Total comprehensive income for the year	–	10.5	7.7	18.2
Purchase of own shares	0.1	–	–	0.1
At 31 March 2016	157.1	37.9	(78.5)	116.5

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The capital redemption reserve as at 1 April 2014 arose on the redemption of B shares. The movement in the current and prior year arose from the repurchase and cancellation of own shares, as outlined in note 30.

The translation reserve arises from exchange differences on translation of the results and financial position of foreign subsidiaries.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IAS 39 and the transition rules of IFRS 1.

33 Capital management

The group's principal objectives in managing capital are:

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise exposure to counterparty credit risk;
- to provide the group with an appropriate degree of certainty as to its foreign exchange exposure;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The group seeks to achieve a balance of long term funding or commitment of funds across a range of funding sources at the best possible economic cost. The group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

Whilst the group does not have a specific gearing target and seeks to maintain gearing at a level consistent with its capital management objectives described above, the Board has decided to move towards a net debt/RCV gearing ratio of around 62.5% which is in line with Ofwat's notional assumption for AMP6. As part of this move, the group purchased ordinary shares amounting to £110 million, as per the announcement on 13 February 2015.

The group has continued to increase exposure to currently low floating interest rates, primarily through the following:

- In April 2015, drawing down the remaining £330 million of the £530 million, floating rate, facility with the European Investment Bank for a period of nine years. In March 2015 £200 million was drawn for a period of eight years.
- Raising £471.4 million of finance through a private placement on the US market, which was drawn down on 3 March 2016. This debt has maturities of 11, 12 and 15 years. The proceeds were used in part to repay the remaining €517.4 million of the €700 million fixed rate bond on 11 March 2016.

The group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The Board has decided to set the 2015/16 dividend at 80.66 pence, a reduction of 5% compared to the total dividend for 2014/15 of 84.90 pence. Our policy is to grow the dividend annually at no less than RPI until March 2020.

The group's capital at 31 March 2016 was:

	2016 £m	2015 Restated £m
Cash and short term deposits	55.2	176.7

Bank loans	(1,249.8)	(1,279.2)
Other loans	(3,539.7)	(3,467.5)
Obligations under finance leases	(117.2)	(180.0)
Cross currency swaps	28.1	(2.6)
Net debt	(4,823.4)	(4,752.6)
Equity attributable to the owners of the company	(1,017.4)	(755.6)
Total capital	(5,840.8)	(5,508.2)

34 Fair values of financial instruments

a) Fair value measurements

The valuation techniques that the group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. All of the group's valuation techniques are Level 2.

	2016 £m	2015 £m	Valuation techniques and key inputs
Cross currency-swaps			Discounted cash flow
Assets	28.1	22.6	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at the spot rate.
Liabilities	–	(25.2)	
Interest rate swaps			Discounted cash flow
Assets	12.1	4.2	Future cash flows are estimated based on forward interest rates from observable yield curves at the year end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(175.2)	(181.1)	
Energy swaps			Discounted cash flow
Assets	–	–	Future cash flows are estimated based on forward electricity prices from observable indices at the year end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(3.2)	(0.8)	
Foreign currency forward contracts			Discounted cash flow
Assets	0.7	0.2	Future cash flows are estimated based on observable forward exchange rates at the year end and contract forward rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(0.7)	(0.2)	

b) Comparison of fair value of financial instruments with their carrying amounts

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables approximate their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

		2016		2015
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	954.4	954.3	984.3	970.3
Currency bonds	36.6	36.6	84.3	84.3
Floating rate notes	147.6	150.3	—	—
	1,138.6	1,141.2	1,068.6	1,054.6
Fixed rate debt				
Bank loans	187.6	186.8	188.5	204.4
Sterling bonds	1,857.3	2,221.8	1,855.3	2,268.4
Currency bonds	—	—	370.8	391.3
Fixed rate notes	326.9	399.0	—	—
Other loans	2.8	2.6	2.0	2.0
Finance leases	117.2	125.4	180.0	190.7
	2,491.8	2,935.6	2,596.6	3,056.8
Index-linked debt				
Bank loans	107.8	116.1	106.4	123.0
Sterling bonds	1,168.5	1,576.8	1,155.1	1,585.1
	1,276.3	1,692.9	1,261.5	1,708.1
	4,906.7	5,769.7	4,926.7	5,819.5

The above classification does not take into account the impact of hedging instruments.

Fixed rate sterling and currency bonds are valued using market prices.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds.

Fair values of the other debt instruments are also calculated using discounted cash flow models.

35 Risks arising from financial instruments

The group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the group's financial performance or position.

Financial risks are managed by a central treasury department (Group Treasury) under policies approved by the Board of Directors. The Board has established a Treasury Management Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the group's exposure to changes in market interest rates. Further details are set out in sections a) (i) and note 36 below.

Cross currency swaps are held to mitigate the group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and 36a) below.

Energy swaps are held to mitigate the group's exposure to changes in electricity prices. Further details are provided in note 36b) below.

Severn Trent Water, the group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by RPI. In order to mitigate the risks to cash flow and earnings arising from fluctuations in RPI, the group holds debt instruments where the principal repayable and interest cost is linked to RPI.

a) Market risk

The group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the group has taken to manage them are described below.

(i) Interest rate risk

The group's income and its operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long term borrowings.

Borrowings issued at variable rates expose the group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the group to the risk of interest costs above the market rate when interest rates decrease.

The group's policy is to maintain 40% to 70% of its interest bearing liabilities in fixed rate instruments during AMP6. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2016 £m	2015 £m
Net debt (note 39)	4,823.4	4,752.6
Cash and cash equivalents	55.2	176.7
Cross currency swaps included in net debt at fair value	28.1	(2.6)
Fair value hedge accounting adjustments	(15.2)	(19.1)
Exchange on currency debt not hedge accounted	(5.9)	22.6
Interest bearing financial liabilities	4,885.6	4,930.2

The group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the group receives floating rate interest and pays fixed rate interest calculated by

reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from floating rates to fixed rates. The group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

The following tables show analyses of the group's interest bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of unhedged interest rate and cross currency swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest.

	Floating rate £m	Fixed rate £m	Index- linked £m	Total £m
2016				
Bank loans	(954.4)	(187.6)	(107.8)	(1,249.8)
Other loans	(394.6)	(1,955.5)	(1,168.5)	(3,518.6)
Finance leases	–	(117.2)	–	(117.2)
	(1,349.0)	(2,260.3)	(1,276.3)	(4,885.6)
Impact of swaps not matched against specific debt instruments	419.8	(419.8)	–	–
Interest bearing financial liabilities	(929.2)	(2,680.1)	(1,276.3)	(4,885.6)
Proportion of interest bearing financial liabilities that are fixed		55%		
Weighted average interest rate of fixed rate debt		5.16%		
Weighted average period for which interest is fixed (years)		10.2		

	Floating rate £m	Fixed rate £m	Index- linked £m	Total £m
2015				
Bank loans	(984.3)	(188.5)	(106.4)	(1,279.2)
Other loans	(62.2)	(2,253.7)	(1,155.1)	(3,471.0)
Finance leases	–	(180.0)	–	(180.0)
	(1,046.5)	(2,622.2)	(1,261.5)	(4,930.2)
Impact of swaps not matched against specific debt instruments	541.4	(541.4)	–	–
Interest bearing financial liabilities	(505.1)	(3,163.6)	(1,261.5)	(4,930.2)
Proportion of interest bearing financial liabilities that are fixed		64%		
Weighted average interest rate of fixed rate debt		5.66%		
Weighted average period for which interest is fixed (years)		9.7		

Interest rate swaps not hedge accounted

The group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. Economically these swaps act to fix the interest cost of debt within the group which is denominated as floating rate but do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a credit of £14.4 million (2015: charge of £108.0 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2016 %	2015 %	2016 £m	2015 £m	2016 £m	2015 £m
Pay fixed rate interest						
Less than one year	–	6.32	–	(225.0)	–	(6.3)
1 – 2 years	–	–	–	–	–	–
2 – 5 years	–	–	–	–	–	–
5 – 10 years	5.06	5.06	(450.0)	(450.0)	(129.2)	(129.5)
10 – 20 years	5.45	5.45	(68.1)	(66.4)	(35.7)	(34.9)
	5.11	5.47	(518.1)	(741.4)	(164.9)	(170.7)
Receive fixed rate interest						
Less than one year	–	5.18	–	200.0	–	4.2
	–	5.18	–	200.0	–	4.2
			(518.1)	(541.4)	(164.9)	(166.5)

Interest rate sensitivity analysis

The sensitivity after tax of the group's profits, cash flow and equity, including the impact on derivative financial instruments, to reasonably possible changes in interest rates at 31 March is as follows:

		2016		2015
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	45.9	(51.3)	56.9	(63.4)
Cash flow	6.2	(6.2)	2.6	(2.6)
Equity	45.9	(51.3)	56.9	(63.4)

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the group's business does not involve significant exposure to foreign exchange transactions. Although the group operates internationally and its net investments in foreign operations are subject to exchange risk, substantially all of the group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the group's results to changes in exchange rates is not material.

Certain of the group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to a credit of £0.2 million (2015: charge of £0.1 million) in the income statement.

In order to meet its objective of accessing a broad range of sources of finance, the group has raised debt denominated in currencies other than sterling. In order to mitigate the group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 36a).

The group also has a number of fixed to floating rate cross currency swaps with a sterling value of £98.3 million (2015: £396.6 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the group which is denominated in foreign currency, but they do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a credit of £39.2 million (2015: charge of £75.3 million) in the income statement which is partly offset by the exchange loss of £32.6 million (2015: gain of £73.3 million) on the underlying debt.

The group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the group's exposure to exchange rate risk in relation to its currency borrowings.

2016	Euro €m	US dollar \$m	Yen ¥bn
Borrowings by currency	(23.2)	(150.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	–	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(3.3)	–	–

2015	Euro €m	US dollar \$m	Yen ¥bn
Borrowings by currency	(540.0)	(50.0)	(5.0)
Cross currency swaps – hedge accounted	19.9	50.0	5.0
Cross currency swaps – not hedge accounted	517.4	–	–
Net currency exposure	(2.7)	–	–

b) Credit risk

Operationally the group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited, whose operating licence obliges it to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 21.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis

At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2016 £m	2015 £m	2016 £m	2015 £m
AAA	5.0	20.0	1.2	1.2
Double A range	100.0	100.0	14.4	22.1
Single A range	615.0	600.0	14.1	128.5
Triple B range	20.0	–	2.1	–
	740.0	720.0	31.8	151.8

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2016 £m	2015 £m
Double A range	–	11.5
Single A range	33.0	15.5
Triple B range	7.9	–
	40.9	27.0

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and the ability to close out market positions. Group Treasury manages liquidity and flexibility in

funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the group had committed undrawn borrowing facilities expiring as follows:

	2016 £m	2015 £m
2 – 5 years	875.0	415.0
After more than five years	–	330.0
	875.0	745.0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the group can be required to pay and represents the undiscounted cash flows including principal and interest.

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2016 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index- linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(286.9)	(121.8)	(25.3)	(18.1)	(452.1)
1 – 2 years	(166.1)	(519.7)	(25.7)	–	(711.5)
2 – 5 years	(44.3)	(437.4)	(80.4)	–	(562.1)
5 – 10 years	(636.5)	(1,230.8)	(423.9)	–	(2,291.2)
10 – 15 years	(191.7)	(768.9)	(334.0)	–	(1,294.6)
15 – 20 years	–	(76.9)	(125.7)	–	(202.6)
20 – 25 years	–	(60.9)	(153.1)	–	(214.0)
25 – 30 years	–	(262.2)	(183.0)	–	(445.2)
30 – 35 years	–	–	(217.8)	–	(217.8)
35 – 40 years	–	–	(646.6)	–	(646.6)
40 – 45 years	–	–	(3,163.9)	–	(3,163.9)
45 – 50 years	–	–	(29.4)	–	(29.4)
50 – 55 years	–	–	(426.5)	–	(426.5)
	(1,325.5)	(3,478.6)	(5,835.3)	(18.1)	(10,657.5)

Undiscounted amounts receivable:	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	177.8	55.2	233.0

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2015 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index- linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(60.6)	(549.4)	(25.2)	(32.7)	(667.9)
1 – 2 years	(161.2)	(132.8)	(25.5)	–	(319.5)
2 – 5 years	(667.8)	(680.4)	(78.7)	–	(1,426.9)
5 – 10 years	(243.0)	(842.7)	(431.6)	–	(1,517.3)
10 – 15 years	(50.7)	(1,192.0)	(344.4)	–	(1,587.1)
15 – 20 years	–	(91.5)	(123.2)	–	(214.7)
20 – 25 years	–	(60.9)	(149.4)	–	(210.3)
25 – 30 years	–	(274.4)	(178.8)	–	(453.2)
30 – 35 years	–	–	(213.2)	–	(213.2)
35 – 40 years	–	–	(650.0)	–	(650.0)
40 – 45 years	–	–	(3,252.7)	–	(3,252.7)
45 – 50 years	–	–	(28.9)	–	(28.9)
50 – 55 years	–	–	(445.1)	–	(445.1)
	(1,183.3)	(3,824.1)	(5,946.7)	(32.7)	(10,986.8)

Undiscounted amounts receivable:	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	172.5	176.7	349.2

Index-linked debt includes loans with maturities up to 51 years. The principal is revalued at fixed intervals and is linked to movements in the Retail Price Index. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

	Derivative liabilities				Derivative assets			
	Cross currency swaps				Cross currency swaps			
	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Interest rate swaps £m	Cash receipts £m	Cash payments £m	Total £m
2016								
Within 1 year	(23.4)	(0.4)	–	–	2.8	1.0	(0.2)	(20.2)
1 – 2 years	(24.7)	(0.8)	–	–	2.6	1.0	(0.2)	(22.1)
2 – 5 years	(66.4)	(2.9)	–	–	6.0	3.1	(0.9)	(61.1)
5 – 10 years	(66.3)	–	–	–	1.7	23.5	(13.6)	(54.7)
10 – 15 years	(12.5)	–	–	–	(0.4)	16.7	(9.3)	(5.5)
15 – 20 years	(0.7)	–	–	–	–	–	–	(0.7)
	(194.0)	(4.1)	–	–	12.7	45.3	(24.2)	(164.3)

	Derivative liabilities				Derivative assets			
	Cross currency swaps				Cross currency swaps			
	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Interest rate swaps £m	Cash receipts £m	Cash payments £m	Total £m
2015								
Within 1 year	(29.9)	(0.5)	396.6	(421.7)	4.2	52.5	(42.7)	(41.5)
1 – 2 years	(23.4)	(0.1)	–	–	–	0.9	(0.3)	(22.9)
2 – 5 years	(60.6)	(0.2)	–	–	–	2.8	(1.2)	(59.2)
5 – 10 years	(78.9)	–	–	–	–	5.0	(2.4)	(76.3)
10 – 15 years	(17.0)	–	–	–	–	32.0	(21.2)	(6.2)
15 – 20 years	(2.9)	–	–	–	–	–	–	(2.9)
	(212.7)	(0.8)	396.6	(421.7)	4.2	93.2	(67.8)	(209.0)

d) Inflation risk

The group's principal operating subsidiary, Severn Trent Water, operates under a regulatory environment where its prices are linked to inflation measured by RPI. Its operating profits and cash flows are therefore exposed to changes in RPI. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in RPI during the life of the debt instrument (index-linked debt). The amount of index-linked debt at the balance sheet date is shown in section a) (i) Interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) Cash flows from non-derivative financial instruments.

Inflation rate sensitivity analysis

The finance cost of the group's index-linked debt instruments varies with changes in RPI rather than interest rates. The sensitivity at 31 March of the group's profit and equity to reasonably possible changes in RPI is set out in the following table. This analysis relates to financial instruments only and excludes any RPI impact on Severn Trent Water's revenues and Regulated Capital Value, or accounting for defined benefit pension schemes.

	2016		2015	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	(10.2)	10.2	(10.0)	10.0
Equity	(10.2)	10.2	(10.0)	10.0

36 Hedge accounting

The group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IAS 39 are met.

a) Fair value hedges

(i) Cross currency swaps

The group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
US dollar	–	27.0	–	7.3
Euro	11.4	11.4	9.8	8.0
Yen	8.5	23.8	7.9	7.3
	19.9	62.2	17.7	22.6

(ii) Interest rate swaps

During the year the group raised £225 million of fixed rate debt through its US Private Placement programme. In line with the strategy to increase the proportion of debt at floating rates this was swapped to floating rate debt via interest rate swaps. These swaps have been designated as hedging instruments to hedge the changes in fair value of the debt arising from movements in interest rates. Since the terms of the receivable leg of the swap closely match the terms of the underlying debt the swaps are expected to be effective hedges.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2016 %	2015 %	2016 £m	2015 £m	2016 £m	2015 £m
Period to maturity						
10 – 20 years	3.36%	–	225.0	–	12.1	–

b) Cash flow hedges

(i) Interest rate swaps

The group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable

rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2016 %	2015 %	2016 £m	2015 £m	2016 £m	2015 £m
Period to maturity						
10 – 20 years	5.18%	5.18%	38.1	39.1	(10.3)	(10.5)

(ii) Energy swaps

The group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2020.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
	2016 £/MWh	2015 £/MWh	2016 MWh	2015 MWh	2016 £m	2015 £m
Period to maturity						
Less than 1 year	49.8	54.4	21,960	70,272	(0.4)	(0.5)
1 – 2 years	43.6	49.8	66,272	21,960	(0.8)	(0.1)
2 – 5 years	48.5	46.7	227,221	162,000	(2.0)	(0.2)
			315,453	254,232	(3.2)	(0.8)

37 Share based payments

The group operates a number of share based remuneration schemes for employees. During the period, the group recognised total expenses of £5.2 million (2015: £7.7 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £21.44 (2015: £19.74).

At 31 March 2016, there were no options exercisable (2015: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans (LTIPs)

Under the LTIPs, conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period. Awards have been previously made on different bases to Severn Trent Plc and Severn Trent Water employees (the 'LTIP') and to Severn Trent Services employees (the 'Services LTIP').

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Awards outstanding

Awards made under the LTIP

The 2013 and 2014 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated Capital Value in excess of the level included in the Severn Trent Water AMP5 business plan over a three year vesting period. The 2015 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulatory Equity in excess of the level included in the Severn Trent Water AMP6 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2015: 100%).

Awards made under the Services LTIP

Awards are subject to achievement of turnover and profit targets over the three year period from the financial year that the awards were granted. It has been assumed that performance against the Services LTIP will be 0% (2015: 0%).

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards	
	LTIP	Services LTIP
Outstanding at 1 April 2014	276,132	91,262
Granted during the year	309,770	–
Vested during the year	(138,560)	–
Lapsed during the year	(14,224)	(26,738)
Outstanding at 1 April 2015	433,118	64,524
Granted during the year	244,396	–
Vested during the year	(135,954)	–
Lapsed during the year	(65,682)	(30,660)
Outstanding at 31 March 2016	475,878	33,864

Details of LTIP and Services LTIP awards outstanding at 31 March were as follows:

Date of grant	Normal date of vesting	Number of awards	
		2016	2015
July 2012	2015	–	152,713
July 2013	2016	170,648	166,840
July 2014	2017	170,759	178,089
July 2015	2018	168,335	–
		509,742	497,642

Details of the basis of the LTIP schemes are set out in the Remuneration report on pages 89 to 101.

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in the company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2014	2,800,874	1,125p
Granted during the year	1,048,625	1,584p
Forfeited during the year	(55,907)	1,261p
Cancelled during the year	(62,552)	1,300p
Exercised during the year	(707,444)	944p
Lapsed during the year	(4,465)	1,072p
Outstanding at 1 April 2015	3,019,131	1,321p
Granted during the year	746,446	1,724p
Forfeited during the year	(111,180)	1,409p
Cancelled during the year	(65,462)	1,486p
Exercised during the year	(712,615)	1,031p
Lapsed during the year	(17,709)	1,210p
Outstanding at 31 March 2016	2,858,611	1,492p

Sharesave options outstanding at 31 March were as follows:

Date of grant	Number of share options			
	Normal date of exercise	Option price	2016	2015
January 2010	2015	808p	–	298,082
January 2011	2016	1,137p	97,855	114,830
January 2012	2015 or 2017	1,177p	91,194	454,530
January 2013	2016 or 2018	1,241p	451,766	512,522
January 2014	2017 or 2019	1,331p	521,944	596,837
January 2015	2018 or 2020	1,584p	950,908	1,042,330
January 2016	2019 or 2021	1,724p	744,944	–
			2,858,611	3,019,131

c) Share Matching Plan (SMP)

Under the Share Matching Plan members of STEC have received matching share awards over those shares which had been acquired under the deferred share component of the annual bonus scheme. Matching shares may be awarded at a maximum ratio of one matching share for every one deferred share and are subject to a three year vesting period. No matching shares have been awarded in the current year.

Matching shares are subject to total shareholder return over three years measured relative to the companies ranked 51 – 150 by market capitalisation in the FTSE Index (excluding investment trusts).

The number of shares subject to an award will increase to reflect dividends paid through the performance period on the basis of such notional dividends being reinvested at the then prevailing share price. Awards will normally

vest as soon as the Remuneration Committee determines that the performance conditions have been met provided that the participant remains in employment at the end of the performance period.

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Outstanding at 1 April 2014	70,438
Lapsed during the year	(8,305)
Vested during the year	(11,463)
Outstanding at 1 April 2015	50,670
Lapsed during the year	(23,057)
Outstanding at 31 March 2016	27,613

Details of share matching awards outstanding at 31 March were as follows:

Date of grant	Normal date of vesting	Number of awards	
		2016	2015
May 2012	May 2015	–	18,024
May 2013	May 2016	27,613	32,646
		27,613	50,670

d) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are set out below:

		2016			2015	
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date	2,167p	2,151p	2,151p	1,918p	2,000p	2,000p
Option life (years)	3	3.5	5.5	3	3.5	5.5
Vesting period (years)	3	3	5	3	3	5
Expected volatility	18.2%	18.2%	18.2%	18.2%	18.2%	18.2%
Expected dividend yield	3.7%	3.7%	3.7%	4.4%	4.2%	4.2%
Risk free rate	n/a	0.8%	1.3%	n/a	0.7%	1.1%
Fair value per share	1,938p	363p	362p	1,679p	326p	311p

Expected volatility is measured over the three years prior to the date of grant of the awards or share options. Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

38 Discontinued operations

On 23 January 2015 the Board approved a process to dispose of the group's Water Purification business which formed part of the Severn Trent Services segment. These operations were classified as discontinued and as a disposal group held for sale as at 31 March 2015. The results of discontinued operations are disclosed separately in the income statement and the assets and liabilities of the disposal group are presented separately in the balance sheet at 31 March 2015.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora. The sale was completed on 2 July 2015.

The results of the discontinued operations were as follows:

	2016 £m	2015 £m
Turnover	29.7	108.2
Total operating costs	(27.6)	(103.3)
Profit before tax	2.1	4.9
Attributable tax expense	(0.1)	(0.2)
Loss on disposal of discontinued operations	(2.7)	—
Attributable tax expense on loss on disposal	—	—
(Loss)/profit for the year	(0.7)	4.7
Attributable to:		
Owners of the company	(0.6)	3.7
Non-controlling interests	(0.1)	1.0
	(0.7)	4.7

The major classes of assets and liabilities comprising the operations classified as held for sale were as follows:

	31 March 2015 £m
Goodwill	1.8
Other intangible assets	7.2
Property, plant and equipment	5.0
Inventories	17.3
Trade and other receivables	57.3
Cash and bank balances	19.3
Total assets classified as held for sale	107.9
Trade and other payables	(33.6)
Tax liabilities	(0.2)
Provisions for liabilities and charges	(1.5)
Total liabilities associated with assets held for sale	(35.3)
Net assets of disposal group	72.6

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Cash flows arising from the disposal group were as follows:

	2016 £m	2015 £m
Net cash flows attributable to:		
– operating activities	(0.5)	1.8
– investing activities	(11.6)	(2.1)
– financing activities	(6.4)	3.6
	(18.5)	3.3

Basic and diluted (loss)/earnings per share from discontinued operations are as follows:

			2016			2015
	Result £m	Weighted average number of shares m	Per share amount pence	Result £m	Weighted average number of shares m	Per share amount pence
Basic (loss)/earnings per share	(0.6)	236.1	(0.3)	3.7	238.8	1.5
Diluted (loss)/earnings per share	(0.6)	237.2	(0.3)	3.7	239.9	1.5

The net assets of the business at the date of disposal were:

	£m
Goodwill	1.8
Other intangible assets	6.5
Property, plant and equipment	3.6
Investments	0.1
Inventories	14.6
Trade and other receivables	59.9
Cash and bank balances	11.0
Trade and other payables	(36.1)
Tax liabilities	(0.2)
Intercompany borrowings	(18.1)
Provisions for liabilities and charges	(1.5)
	41.6
Attributable to:	
Owners of the company	27.9
Non-controlling interest	13.7
	41.6

The net loss on disposal is calculated as follows:

	£m
Consideration	42.8
Net assets attributable to owners of the company	(27.9)
Disposal costs	(4.8)
Provisions arising on disposal	(1.1)
Net gain on disposal before foreign exchange losses	9.0
Foreign exchange losses recycled from reserves	(11.7)
Net loss on disposal	(2.7)

The net cash flows arising from disposal in the year were:

	£m
Consideration received in cash and cash equivalents	42.8
Settlement of intercompany loans	18.1
Disposal costs paid in cash and cash equivalents	(4.2)
Cash and bank balances disposed of	(11.0)
	45.7

39 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2016 £m	2015 £m
Profit before interest and tax from continuing operations	523.8	521.6
(Loss)/profit before interest and tax from discontinued operations	(0.6)	4.9
Profit before interest and tax	523.2	526.5
Depreciation of property, plant and equipment	294.2	281.6
Amortisation of intangible assets	22.0	24.2
Impairment	–	0.2
Pension service cost	(0.7)	40.9
Defined benefit pension scheme administration costs	2.3	2.9
Defined benefit pension scheme contributions	(27.8)	(81.0)
Share based payments charge	5.2	7.7
Profit on sale of property, plant and equipment and intangible assets	(0.9)	(8.6)
Loss on disposal of businesses	2.7	–
Deferred income movement	(10.5)	(10.1)
Provisions charged to the income statement	5.9	20.0
Utilisation of provisions for liabilities and charges	(10.7)	(26.0)

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	2016 £m	2015 £m
Operating cash flows before movements in working capital	804.9	778.3
Increase in inventory	(2.8)	(5.7)
Increase in amounts receivable	(24.1)	(32.5)
Increase in amounts payable	19.5	20.0
Cash generated from operations	797.5	760.1
Tax received	11.5	10.5
Tax paid	(44.9)	(39.1)
Net cash generated from operating activities	764.1	731.5

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2015: none). Assets transferred from developers at no cost were recognised at their fair value of £24.8 million (2015: £29.8 million).

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

	2016 £m	2015 £m
Restructuring costs	(4.0)	(25.4)
Disposal of fixed assets	–	9.4
Disposal of subsidiaries	–	(3.5)
	(4.0)	(19.5)

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	As at 1 April 2015 £m	Cash flow £m	Fair value adjustments £m	RPI uplift on index-linked debt £m	Foreign exchange £m	Other non-cash movements £m	As at 31 March 2016 £m
Net cash and cash equivalents	176.7	(137.3)	–	–	(3.5)	19.3 ¹	55.2
Bank loans	(1,279.2)	30.9	–	(1.4)	–	(0.1)	(1,249.8)
Other loans	(3,467.5)	(33.0)	(1.1)	(13.4)	(32.6)	7.9	(3,539.7)
Finance leases	(180.0)	62.8	–	–	–	–	(117.2)
Cross currency swaps	(2.6)	–	39.8	–	–	(9.1)	28.1
Net debt	(4,752.6)	(76.6)	38.7	(14.8)	(36.1)	18.0	(4,823.4)

¹ Other non-cash movements on cash and cash equivalents represent amounts transferred to assets held for sale (see note 38)

40 Contingent liabilities**Bonds and guarantees**

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

The group has given certain guarantees in respect of the borrowings of its associate, Servizio Idrico Integrato S.c.p.a. The guarantees are limited to €5.1 million (2015: €5.1 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

41 Service concession arrangements

The group's contract to provide water and waste water services to the Ministry of Defence (MoD) is a service concession arrangement under the definition set out in IFRIC 12. The group acts as the service provider under the MoD Project Aquatrane Package C – a 25 year contract spanning 1,295 sites across an area of England covering the Eastern sea border and from Lancashire in the North West to West Sussex on the South Coast.

Under the contract the group maintains and upgrades the MoD infrastructure assets and provides operating services for water and waste water. Both the operating services and maintenance and upgrade services are charged under a volumetric tariff, along with standard charges, which are adjusted with inflation as agreed in the contract.

Since the group has an unconditional right to receive cash in exchange for the maintenance and upgrade services, the amounts receivable are recognised as a financial asset within prepayments. At 31 March 2016 the amounts receivable were £25.7 million (2015: £24.4 million).

There have been no significant changes to the arrangement during the year.

42 Financial and other commitments**a) Investment expenditure commitments**

	2016 £m	2015 £m
Contracted for but not provided in the financial statements	142.6	75.2

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

b) Leasing commitments

At the balance sheet date the group had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £m	2015 £m
Within 1 year	2.3	3.4
1 – 5 years	6.4	6.3
After more than 5 years	7.2	6.4
	15.9	16.1

Operating lease payments represent rentals payable by the group for certain of its office properties, plant and equipment.

43 Post balance sheet events**Dividends**

Following the year end the board of directors has proposed a final dividend of 48.40 pence per share. Further details of this are shown in note 14.

Water Plus joint venture

On 1 March 2016 the group announced its intention, subject to approval from the Competition and Markets Authority (CMA) to enter into a joint venture with United Utilities PLC to compete in the non-household water and waste water retail market in Great Britain. On 3 May 2016 the CMA announced approval of the joint venture. On this date the group determined that completion of the proposed transaction became highly probable and the non-household retail business was classified as a disposal group and discontinued operation with effect from this date.

44 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the group and its associates and joint ventures are disclosed below.

	Sale of services		Amounts due from related parties	
	2016 £m	2015 £m	2016 £m	2015 £m
SII	5.1	5.5	17.9	14.1

The related parties are associates and joint ventures in which the group has a participating interest. The retirement benefit schemes operated by the group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year.

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 89 to 101.

	2016 £m	2015 £m
Short term employee benefits	6.0	6.1
Post employment benefits	0.1	0.2
Termination benefits	–	0.2
Share based payments	2.7	4.0
	8.8	10.5

45 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2016 are given below. Details of associates and joint ventures are set out in note 19. All subsidiary undertakings have been included in the consolidation.

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Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Severn Trent Investment Holdings Limited	United Kingdom	100%	Ordinary

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Biogas Generation Limited	United Kingdom	100%	Ordinary
Charles Haswell and Partners Limited	United Kingdom	100%	Ordinary
City Analytical Services Limited	United Kingdom	100%	Ordinary
Debeo Debt Recovery Limited	United Kingdom	100%	Ordinary
Derwent Insurance Limited	Gibraltar	100%	Ordinary
East Worcester Water Limited	United Kingdom	100%	Ordinary
Etwell Land Limited	United Kingdom	100%	Ordinary
Gunthorpe Fields Limited	United Kingdom	100%	Ordinary
Iseco SpA	Italy	80%	Ordinary
Midlands Land Portfolio Limited	United Kingdom	100%	Ordinary
Procis Software Limited	United Kingdom	100%	A and B Ordinary
Severn Trent (Del.) Inc	United States	100%	Common Stock
Severn Trent (W&S) Limited	United Kingdom	100%	Ordinary
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Corporate Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent Data Portal Limited	United Kingdom	100%	Ordinary
Severn Trent Draycote Limited	United Kingdom	100%	Ordinary
Severn Trent Enterprises Limited	United Kingdom	100%	Ordinary
Severn Trent Environmental Services, Inc	United States	100%	Ordinary
Severn Trent Finance Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent Finance Limited	United Kingdom	100%	Ordinary
Severn Trent Financing and Investments Limited	United Kingdom	100%	Ordinary
Severn Trent Funding Limited	United Kingdom	100%	Ordinary
Severn Trent General Partnership Limited	United Kingdom	100%	Ordinary
Severn Trent Green Power Limited	United Kingdom	100%	Ordinary
Severn Trent Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent Holdings SA	Belgium	100%	Ordinary
Severn Trent Home Services Limited	United Kingdom	100%	Ordinary
Severn Trent Italia SpA	Italy	100%	Ordinary
Severn Trent MIS Trustees Limited	United Kingdom	100%	Ordinary

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All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Severn Trent Metering Services Limited	United Kingdom	100%	Ordinary
Severn Trent Overseas Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent Pension Scheme Trustees Limited	United Kingdom	100%	Ordinary
Severn Trent PIF Trustees Limited	United Kingdom	100%	Ordinary
Severn Trent Power Generation Limited	United Kingdom	100%	Ordinary
Severn Trent Property Solutions Limited	United Kingdom	100%	Ordinary
Severn Trent QUEST Limited	United Kingdom	100%	Ordinary
Severn Trent Reservoirs Limited	United Kingdom	100%	Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary
Severn Trent Retail and Utility Services Limited	United Kingdom	100%	Ordinary
Severn Trent Select Limited	United Kingdom	100%	Ordinary
Severn Trent Services (Water and Sewerage) Limited	United Kingdom	100%	Ordinary
Severn Trent Services Defence Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent Services Defence Limited	United Kingdom	100%	Ordinary
Severn Trent Services Finance Limited	United Kingdom	100%	Ordinary
Severn Trent Services Holdings Limited	United Kingdom	100%	Ordinary
Severn Trent LCP Limited	United Kingdom	100%	Ordinary
Severn Trent Leasing Limited	United Kingdom	100%	Ordinary
Severn Trent Luxembourg Overseas Holdings S.à r.l.	Luxembourg	100%	Ordinary
Severn Trent Services, Inc	United States	100%	Common
Severn Trent Services International (Overseas Holdings) Limited	United Kingdom	100%	Ordinary
Severn Trent Services International Limited	United Kingdom	100%	Ordinary
Severn Trent Services Operations UK Limited	United Kingdom	100%	Ordinary
Severn Trent Services Purification Limited	United Kingdom	100%	Ordinary
Severn Trent SSPS Trustees Limited	United Kingdom	100%	Ordinary
Severn Trent Systems Limited	United Kingdom	100%	Ordinary
Severn Trent US Funding Management Limited	United Kingdom	100%	Ordinary
Severn Trent Utilities Finance Plc	United Kingdom	100%	Ordinary
Severn Trent Utility Services Limited	United Kingdom	100%	Ordinary
Severn Trent Water Limited	United Kingdom	100%	Ordinary
Severn Trent Wind Power Limited	United Kingdom	100%	Ordinary
ST Delta Limited	United Kingdom	100%	A and B Ordinary

Group financial statements

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All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
ST Services of Georgia, LLC	United States	100%	Ordinary
UKTalks Limited	United Kingdom	100%	Ordinary
Umbria due Servizi Idrici Scarl	Italy	64%	Quota

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2016 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

	Company number
Charles Haswell and Partners Limited	2416605
City Analytical Services Limited	2050581
East Worcester Water Limited	2757948
Gunthorpe Fields Limited	4240764
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Corporate Holdings Limited	4395566
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent Financing and Investments Limited	6312635
Severn Trent General Partnership Limited	SC416614
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Services Purification Limited	2409826
Severn Trent Services UK Limited	8120387
Severn Trent Systems Limited	2394552

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	Company number
Severn Trent Utility Services Limited	4125386
Severn Trent Services (Water and Sewerage) Limited	8880470

Company statement of comprehensive income

For the year ended 31 March 2016

	2016 £m	2015 £m
Profit for the year	292.1	191.1
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Deferred tax arising on change of rate	(0.2)	—
	(0.2)	—
Items that may be reclassified to the income statement:		
Amounts on cash flow hedges transferred to the income statement in the year	1.2	2.7
Deferred tax on transfers to income statement	(0.2)	(0.5)
	1.0	2.2
Other comprehensive income for the year	0.8	2.2
Total comprehensive income for the year	292.9	193.3

Company balance sheet

At 31 March 2016

	Note	2016 £m	2015 £m
Non-current assets			
Intangible fixed assets	1	0.4	0.2
Tangible fixed assets	2	0.3	0.3
Investments in subsidiaries	3	3,811.5	3,760.3
		3,812.2	3,760.8
Current assets			
Debtors	4	63.9	34.6
Derivative financial instruments		0.7	2.0
		64.6	36.6
Creditors: amounts falling due within one year	5	(207.8)	(325.7)
Net current liabilities		(143.2)	(289.1)
Total assets less current liabilities		3,669.0	3,471.7
Creditors: amounts falling due after more than one year	6	(182.2)	(82.7)
Net assets		3,486.8	3,389.0
Capital and reserves			
Called up share capital	8	234.3	233.7
Share premium account	9	106.8	100.2
Other reserves	10	160.7	159.6
Retained earnings		2,985.0	2,895.5
Total capital and reserves		3,486.8	3,389.0

Signed on behalf of the Board who approved the accounts on 23 May 2016.

Andrew Duff James Bowling

Chairman Chief Financial Officer

Company number: 02366619

Company statement of changes in equity

For the year ended 31 March 2016

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2014	233.9	94.2	156.5	3,004.9	3,489.5
Profit for the year	–	–	–	191.1	191.1
Amounts on cash flow hedges transferred to the income statement	–	–	2.7	–	2.7
Deferred tax on transfers to the income statement	–	–	(0.5)	–	(0.5)
Total comprehensive income for the year	–	–	2.2	191.1	193.3
Share options and LTIPs					
– proceeds from shares issued	0.7	6.0	–	–	6.7
– value of employees' services	–	–	–	(3.6)	(3.6)
Share buy back	–	–	–	(100.0)	(100.0)
Share cancellation	(0.9)	–	0.9	–	–
Dividends paid	–	–	–	(196.9)	(196.9)
At 31 March 2015	233.7	100.2	159.6	2,895.5	3,389.0
Profit for the year	–	–	–	292.1	292.1
Amounts on cash flow hedges transferred to the income statement	–	–	1.2	–	1.2
Deferred tax on transfers to the income statement	–	–	(0.2)	–	(0.2)
Deferred tax arising from rate change	–	–	–	(0.2)	(0.2)
Total comprehensive income for the year	–	–	1.0	291.9	292.9
Share options and LTIPs					
– proceeds from shares issued	0.7	6.6	–	–	7.3
– value of employees' services	–	–	–	5.2	5.2
– own shares purchased	–	–	–	(0.6)	(0.6)
Share buy back	–	–	–	(10.0)	(10.0)
Share cancellation	(0.1)	–	0.1	–	–
Dividends paid	–	–	–	(197.0)	(197.0)
At 31 March 2016	234.3	106.8	160.7	2,985.0	3,486.8

In previous years £1,221.2 million of the company's retained profit arose as a result of group restructuring exercises, and is not considered likely to be distributable.

Notes to the parent company financial statements
For the year ended 31 March 2016

1 Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2015	0.9
Additions	0.2
At 31 March 2016	1.1
Amortisation	
At 1 April 2015 and 31 March 2016	(0.7)
Net book value	
At 31 March 2016	0.4
At 31 March 2015	0.2

2 Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Total £m
Cost			
As at 31 March 2015 and 31 March 2016	0.1	0.6	0.7
Depreciation			
As at 31 March 2015 and 31 March 2016	–	(0.4)	(0.4)
Net book value			
As at 31 March 2015 and 31 March 2016	0.1	0.2	0.3

3 Investments in subsidiaries

	Shares £m	Loans £m	Total £m
As at 1 April 2015	3,313.6	446.7	3,760.3
Additions	5.2	–	5.2
New loans raised	–	52.3	52.3
Loans impaired	–	(6.3)	(6.3)
As at 31 March 2016	3,318.8	492.7	3,811.5

Details of principal subsidiaries of the company are given in note 45 to the group financial statements.

4 Debtors

	2016 £m	2015 £m
Amounts owed by group undertakings	15.8	19.3
Deferred tax	0.7	1.9
Corporation tax recoverable	43.5	11.6
Other debtors	0.8	1.8
Prepayments	3.1	–
	63.9	34.6

An analysis of the movements in the major deferred tax liabilities and assets recognised by the company is set out below:

	Accelerated tax depreciation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2014	0.1	3.6	1.2	4.9
Charge to profit and loss account	–	(1.9)	(0.8)	(2.7)
Charge to other comprehensive income	–	(0.5)	–	(0.5)
Transfers	–	–	0.2	0.2
At 1 April 2015	0.1	1.2	0.6	1.9
Charge to profit and loss account	–	(0.8)	–	(0.8)
Credit/(charge) to profit and loss account arising from rate change	–	0.1	(0.1)	–
Charge to other comprehensive income	–	(0.2)	–	(0.2)
Charge to other comprehensive income arising from rate change	–	(0.2)	–	(0.2)
At 31 March 2016	0.1	0.1	0.5	0.7

5 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Bank overdrafts	7.7	6.1
Other loans	–	17.0
Borrowings (note 7)	7.7	23.1
Derivative financial instruments	0.7	6.5
Trade creditors	–	0.1
Amounts due to group undertakings	191.1	204.8
Other creditors	6.2	7.0
Taxation and social security	0.1	–
Accruals	2.0	84.2
	207.8	325.7

6 Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Borrowings – other loans (note 7)	80.7	79.7
Amounts due to group undertakings	101.5	3.0
	182.2	82.7

7 Borrowings

	2016 £m	2015 £m
Borrowings due within one year	7.7	23.1
Borrowings due after more than one year		
Between one and two years	–	–
Between two and five years	–	–
After more than five years	80.7	79.7
Total borrowings due after one year	80.7	79.7
	88.4	102.8

Borrowings repayable after more than 5 years comprises the company's RPI linked retail bond issued in July 2012. The bond carries a coupon of 1.3% on the principal amount which is uplifted by RPI. The bond is repayable in July 2022.

At the balance sheet date the company had £100 million (2015: £nil) undrawn borrowing facilities.

8 Share capital

	2016 £m	2015 £m
Total issued and fully paid share capital		
239,344,614 ordinary shares of 97 ¹⁷ / ₁₀₀ p (2015: 238,683,513)	234.3	233.7

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97¹⁷/₁₀₀p		
At 1 April 2015	238,683,513	233.7
Shares issued under the group's Employee Sharesave Scheme	712,615	0.7
Share buy back	(51,514)	(0.1)
At 31 March 2016	239,344,614	234.3

During the year the company repurchased 4,274,576 shares (2015: 966,578) under its share buy back programme. Of these repurchased shares, 51,514 (2015: 966,578) were cancelled and the remaining 4,223,062 (2015: nil) are held as treasury shares.

9 Share premium

	2016 £m	2015 £m
At 1 April	100.2	94.2
Share premium arising on issue of shares for Employee Sharesave Scheme	6.6	6.0
At 31 March	106.8	100.2

10 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2014	156.1	0.4	156.5
Total comprehensive income for the year	–	2.2	2.2
Purchase of own shares	0.9	–	0.9
At 1 April 2015	157.0	2.6	159.6
Total comprehensive income for the year	–	1.0	1.0
Purchase of own shares	0.1	–	0.1
At 31 March 2016	157.1	3.6	160.7

The capital redemption reserve arose on the redemption of B shares. The movement in the current and prior year arose from the repurchase and cancellation of own shares, as outlined in note 30 of the group financial statements.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IAS 39 and the transition rules of IFRS 1.

11 Share based payments

For details of employee share schemes and options granted over the shares of the company, see note 37 to the group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the company during the year are also disclosed in that note.

12 Pensions**Defined benefit schemes**

The group operates defined benefit pension schemes, of which some employees of the company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the schemes is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The schemes closed to future accrual on 31 March 2015. The cost of contributions to the group schemes amount to £nil (2015: £0.1 million). There were no amounts outstanding for contributions to the defined benefit schemes (2015: £nil).

Information about the plans as a whole is disclosed in note 28 to the group financial statements.

13 Related party transactions

The retirement benefit schemes operated by the company are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 12.

14 Contingent liabilities

a) Bonds and guarantees

The company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each others' overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2016, the company had no contingent liabilities (2015: none).

15 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 48.40 pence per share.

16 Dividends

For details of the dividends paid in the years ended 31 March 2016 and 31 March 2015 see note 14 in the group financial statements.

Five year summary

	2016	2015	2014	2013	2012
	£m	Restated ³ £m	Restated ³ £m	£m	£m
Continuing operations					
Turnover	1,786.9	1,801.3	1,756.7	1,831.6	1,770.6
Profit before interest, tax and exceptional items	522.8	540.3	523.8	495.4	504.2
Net exceptional items before tax	1.0	(18.7)	(15.2)	(5.8)	(50.9)
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	(209.3)	(240.0)	(247.9)	(244.3)	(229.0)
Gains/(losses) on financial instruments	7.7	(133.5)	58.0	(45.3)	(67.7)
Results of associates and joint ventures	0.1	0.1	0.2	0.2	0.1
Profit on ordinary activities before tax	322.3	148.2	318.9	200.2	156.7
Current tax on profit on ordinary activities	(55.2)	(37.8)	(55.8)	(27.9)	(60.5)
Deferred tax	(13.7)	5.1	(21.5)	8.2	78.2
Exceptional tax	78.6	–	230.2	38.4	–
Profit on ordinary activities after tax	332.0	115.5	471.8	218.9	174.4
Results from discontinued operations	(0.7)	4.7	–	–	–
Profit for the period	331.3	120.2	471.8	218.9	174.4
Net assets employed					
Fixed assets	7,810.8	7,620.0	7,418.3	6,906.1	6,743.6
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	(798.4)	(799.0)	(631.1)	(273.8)	(341.3)
Derivative financial instruments ¹	(166.3)	(177.7)	(197.1)	(279.8)	(261.8)
Retirement benefit obligation	(309.5)	(468.9)	(348.3)	(383.7)	(345.8)
Provisions for liabilities and charges and deferred tax	(694.7)	(725.4)	(758.5)	(827.5)	(845.5)
Net assets held for sale	–	72.6	–	–	–
	5,841.9	5,521.6	5,483.3	5,141.3	4,949.2
Financed by					
Called up share capital	234.3	233.7	233.9	233.3	232.6
Reserves	783.1	521.9	789.4	599.9	740.9
Total shareholders' funds	1,017.4	755.6	1,023.3	833.2	973.5
Non-controlling interests	1.1	13.4	12.5	10.8	7.9
Net debt ²	4,823.4	4,752.6	4,447.5	4,297.3	3,967.8
	5,841.9	5,521.6	5,483.3	5,141.3	4,949.2
Statistics					
Earnings per share (continuing) – pence	140.0	48.3	198.5	90.9	72.5
Underlying earnings per share – pence	108.7	107.2	92.5	92.6	88.9

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	2016	2015	2014	2013	2012
	£m	Restated ³ £m	Restated ³ £m	£m	£m
Continuing operations					
Dividends per share (excluding special dividend) – pence	80.7	84.9	80.4	75.8	70.1
Dividend cover (before exceptional items and deferred tax)	1.3	1.3	1.2	1.3	1.3
Gearing ⁴	82.6%	86.1%	81.1%	83.6%	80.2%
Ordinary share price at 31 March – pounds	21.73	20.59	18.23	17.12	15.44
Average number of employees					
– Severn Trent Water	5,236	5,532	5,634	5,458	5,162
– Other	2,122	1,910	1,914	2,763	2,889

1 Excludes instruments hedging foreign currency debt

2 Includes instruments hedging foreign currency debt

3 Restated as per note 2 to the group financial statements

4 Gearing has been calculated as net debt divided by the sum of equity and net debt

Information for shareholders

Severn Trent shareholder helpline

The Company's registrar is Equiniti. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments.

If you have any queries relating to your Severn Trent Plc shareholding you should contact Equiniti.

Registrar contact details:

Online: www.shareview.co.uk from here, you will be able to securely email Equiniti with your query.

Telephone: 0371 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0371 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

Corporate website

Shareholders are encouraged to visit our website www.severntrent.com which provides:

- Company news and information;
- links to our operational businesses' websites;
- details of our governance arrangements;
- details of our strategy;
- details of the Group's business models and business plan; and
- the Company's approach to operating responsibly.

There is also a dedicated investors' section on the website which contains up to date information for shareholders including:

- comprehensive share price information;
- financial results;
- a history of dividend payment dates and amounts; and
- access to current and historical shareholder documents such as the Annual Report and Accounts.

Electronic communications

By registering to receive shareholder documentation from Severn Trent Plc electronically shareholders can benefit from being able to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when shareholder documents are available;
- cast their AGM vote electronically; and
- manage their shareholding quickly and securely online, through Shareview.

Electronic shareholder communications also enable the Company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs.

For further information and to register for electronic shareholder communications visit www.shareview.co.uk.

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account.

The benefits of doing this are that you will:

- receive cleared funds in your bank account on the payment date;
- avoid postal delays; and
- remove the risk of your cheques getting lost in the post.

To take advantage of this service or for further details contact Equiniti or visit www.shareview.co.uk.

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited.

Telephone: 0371 384 2268*

Telephone number from outside the UK: +44 121 415 7173

Buying and selling shares in the UK

If you wish to buy or sell certificated Severn Trent Plc shares, you may need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online services available to you. If you are selling, you will need to present your share certificate at the time of sale. Details of low cost dealing services may be obtained from www.shareview.co.uk or 0345 603 7037**.

Share price information

Shareholders can find share price information on our website and in most national newspapers. For a real time buying or selling price, you should contact a stockbroker.

Shareholder security

Fraudsters use persuasive and high pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.

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- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember, if it sounds too good to be true, it probably is.

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive please contact:

The Mailing Preference Service ('MPS'), Freepost 29 LON20771, London W1E 0ZT

Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0845 703 4599.

American Depositary Receipts ('ADRs')

Severn Trent has a sponsored Level 1 American Depositary Receipt ('ADR') programme, for which The Bank of New York Mellon acts as Depositary.

The Level 1 ADR programme trades on OTCQX which is the premier tier of the US over the counter ('OTC') market under the symbol STRNY (it is not listed on a US stock exchange). Each ADR represents 1 Severn Trent Ordinary Share.

If you have any enquiries regarding Severn Trent ADRs please contact The Bank of New York Mellon.

By post: BNY Mellon Shareowners Services, PO Box 30170, College Station, TX 77842-3170, US

By telephone:

If calling from within the US: (888) 269 2377 (toll-free)

If calling from outside the US: +1 201 680 6825

By email: shrrelations@cpushareownersservices.com

Website: www.mybnymdr.com

* Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England and Wales).

** Lines are open Monday to Friday, 8:00am to 4:30pm for dealing, and until 6:00pm for enquiries.

Financial calendar

Ex dividend date – final dividend	16 June 2016
Record date to be eligible for the final dividend	17 June 2016
AGM	20 July 2016
Interim management statement – Q1 year ending 31 March 2017	20 July 2016
Final dividend payment date	22 July 2016
Interim results announcement – year ending 31 March 2017	24 November 2016
Ex dividend date – interim dividend	1 December 2016
Record date to be eligible for the interim dividend	2 December 2016
Interim dividend payment date	6 January 2017

Other information

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All dates are indicative and may be subject to change.

Digital first

Visit our online annual report to find out more: ar2016.severntrent.com