Severn Trent Plc
Annual Report and Accounts 2017

DELIVERING A LASTING LEGACY



SEVERN TRENT

WELCOME TO THE SEVERN TRENT ANNUAL REPORT 2017

1

OUR VISION

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

2

OUR PURPOSE

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

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OUR STRATEGY

We aim to achieve these by meeting our strategic goals:

- Embed customers at the heart of all we do
- Drive operational excellence and continuous innovation
- Invest responsibly for sustainable growth
- Change the market for the better
- Create an awesome place to work

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OUR VALUES

While ensuring we live 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

Throughout this report we show how our strategy, purpose and values are delivering our vision

Alternative performance measures are defined in Note 3 to the Group financial statements on page 140

Cautionary 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).

What we do

Our purpose is to serve our communities and build a lasting water legacy. We do this by providing clean water and waste water services and developing renewable energy solutions through our businesses: Severn Trent Water and Dee Valley Water (together our 'Regulated Water and Waste Water business'), and Severn Trent Business Services.

REGULATED WATER AND WASTE WATER



The primary markets we focus on

– Wholesale operations and engineering

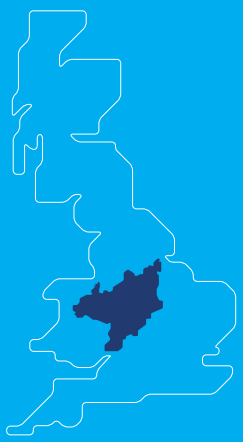
– Household customer services

About us

One of the largest 10 regulated water and waste water businesses in England and Wales. We provide high quality services to more than 4.5 million households and businesses in the Midlands and Wales.

Where we operate

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



For further details
page 24

Key facts

Turnover
£1,528.8m

Underlying profit before interest and tax
£494.7m

Profit before interest and tax
£521.1m

Households and businesses served
4.5m

Litres of drinking water supplied each day
1.85bn

Litres of waste water treated per day
2.6bn

Employees
5,827
average during 2016/17
(see page 146)

SEVERN TRENT BUSINESS SERVICES



The markets we focus on

– Operating Services
– Renewable Energy

There are three parts of Business Services:

UK Operating Services (including Ireland)

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

US Operating Services

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

Renewable Energy

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

For further details
page 36

Where we operate

Severn Trent Business Services operates in the UK, the USA and Ireland.

Key facts

Turnover
£309.6m

Underlying profit before interest and tax
£37.2m

Profit before interest and tax
£39.8m

Employees
1,795
average during 2016/17
(see page 146)

Chairman's statement

Andrew Duff

CONTINUED PROGRESS

Group turnover

£1,819.2m ↑

2016: £1,753.7m

Group underlying profit before interest and tax

£525.1m ↑

2016: £503.4m

Group profit before interest and tax

£543.7m ↑

2016: £504.4m

Dividend per share

81.50p ↑

2016: 80.66p

Underlying basic earnings per share

122.4p ↑

2016: 102.1p

Financial performance:

Underlying EPS up 19.9% year on year

Group underlying profit before interest and tax up 4.3% year on year

Focus on operational improvement:

Net Reward £47.6m
In 2012/13 prices pre tax



Fellow shareholders, this past year has been a successful one for Severn Trent. We are building on delivering a fast start to Asset Management Plan 6 ('AMP6') and have seen excellent operational and financial performance. These strong results are built on the hard work of your management team in striving to deliver the best possible service to our customers and consistent returns to shareholders.

Strength in times of turbulence

The macro-economic environment of the past year has been turbulent, largely due to Brexit and the US election. Our Company has been relatively sheltered from the impact of these, and has continued to offer strength and stability. Our focus on delivering high quality service to customers and benefits to shareholders is showing significant results.

AMP6 has allowed a platform for there to be winners in a world of incentivisation and we have fully embraced this approach, driving operational performance higher, completing the year with excellent delivery of customer Outcome Delivery Incentives ('ODIs') of £47.6 million. Customer ODIs are making us think differently to ensure we continually improve the service we provide to our customers and this is helping us to achieve a step change in, for example, sewer flooding performance.

Our waste water business has been at the frontier of sector efficiency and we have made strides in aiming for upper quartile performance in water and retail. Whilst this is a multi-year journey our progress so far is encouraging. Achieving upper quartile in all three areas will improve the service and experience we offer to our customers and enhance the returns we can make in the next regulatory period.

We continue to review the suppliers we work with to support us in delivery efficiencies. This means we have stronger relationships with contractors who are now more aligned with the way we work.

As regulation evolves we must continually look for ways to adopt and enhance our competitiveness and we have been successful in embracing new markets.

Earlier this year we announced the completion of our acquisition of Dee Valley Water, a neighbouring water only company which operates in Wrexham, Chester and the surrounding areas. We welcome both Dee Valley Water's customers and staff. The integration of Dee Valley's operations is progressing well, and represents an exciting opportunity for us to deliver better service to all of our customers. Dee Valley's and Severn Trent's customers will benefit from sharing best practice from both businesses. The combined Severn Trent group will also benefit from a separate Welsh water licence and a stronger voice for our Welsh customers.

We have been successful in establishing Waterplus – our ground-breaking joint venture with United Utilities – in the non-household retail market, which opened to competition in April 2017.

Our regulator has signalled that further competition, for example in the opening up of the water resources and bio-resources markets, will be considered in the coming years and we believe we will be in a strong position to respond to these opportunities.

This is an exciting time to be an engineer at Severn Trent; innovation in research and development is enabling further operational excellence, and we've reached major milestones in improving the resilience of our water network during the year. The first of two new reservoirs has been brought into service at Ambergate, where we are replacing and increasing the capacity of storage at the site. We have also seen the breakthrough of the 1.8 km Bleddfa tunnel boring element of the Birmingham Resilience Project. I personally visited the Elan Valley during the year to see the great work being carried out, which will secure the supply of water to Birmingham for the next 100 years.

I know I speak for all our employees when I say that, at Severn Trent, we take pride in our environmental, societal and governance credentials. We are therefore proud to have once again achieved the FTSE4Good accreditation and to be making continued progress on our renewables agenda.

Self-generation of energy is the right thing to do for the environment and makes good financial sense for Severn Trent. We are now generating the equivalent of 34% of our energy needs and are on track for our target of 50% by end of AMP.

Delivering returns

We delivered strong financial performance this past year and I am pleased to announce that total Group turnover increased by 3.7% to £1,819.2 million, while underlying Group PBIT increased by 4.3% to £525.1 million and Group reported PBIT increased by 7.8% to £543.7million. This resulted in underlying basic earnings per share of 122.4 pence, up from 102.1 pence last year.

Your Board is therefore proposing a final dividend of 48.90 pence per share to be paid on 21 July 2017. This will take the total dividend for the year to 81.50 pence per share. Having seen strong outperformance in this current AMP we feel it is important to share this with our shareholders, and as a result we have enhanced our future dividend policy to growth of at least RPI +4%.

Investing for the benefit of customers

We are committed to investing for the benefit of customers and are pleased to have made progress in our plans to invest the £120 million we announced last year in enhancing water quality, assistance to vulnerable customers, and security.

Innovation in research and development is enabling further operational excellence and over the course of AMP6 we are investing over £3,000 million in our assets for the future of our network. We are also committed and on track to invest £190 million in our renewables business.

Our colleagues

The strong operational and financial performance delivered this year is the result of the hard work and dedication of my colleagues and reflects incentives being firmly aligned with Company objectives.

I am also proud to report our progress on diversity. We have been recognised by the Hampton-Alexander Review for leading performance in the FTSE 100 for women's representation at board level. Furthermore, our Board is now 44% female and the executive team 60%. However, we recognise that there is more work to be done to ensure that our leaders and our workforce are representative of the customers we serve, so we remain focused on increasing the numbers of women in operational leadership positions; women and BAME (Black, Asian and Minority Ethnic) people in engineering positions; and BAME people in technical operator positions.

Severn Trent has been voted as a Top 100 Apprenticeship Employer 2016 and we have been ranked 24th globally in the Equileap Gender Equality Global Report and Ranking. We were also regional winners in the National Apprentice awards.

During the year we bade farewell to two Board members and welcomed two more to the Board of Severn Trent. Martin Lamb and Gordon Fryett stepped down after many years of great service and we welcomed Kevin Beeston as our Senior Independent Director and Dominique Reiniche as a Non-Executive Director.

Looking forward

Being a part of the regulatory debate ensures Severn Trent is prepared for any changes on the horizon. We also believe that this helps ensure continuity and consistency in delivery. With two years of AMP6 now having passed we have started looking at the next regulatory period and driving to be in the right position now.

We begin our customer consultation shortly and want to continue to be shapers and changers of the regulatory world in which we operate.

There is much more to do. However, we are both ambitious and confident of achieving all the expectations of our stakeholders.

Andrew Duff, Chairman



Case study

Delivering our vision and purpose, through our strategy and values



SERVING OUR COMMUNITIES

Strategic goals

Number of customers educated

167,024



This year we have completed just over 700 educational visits to our customers talking about water efficiency and how to be sewer savvy. This equates to 125,705 people in our communities. The visits consisted of 532 schools where we carried out assemblies and classroom workshops, and 76 visits to our education centres at Hayden in Cheltenham and Derby. Visitors are educated on our two key messages and then taken on a tour of the sewage treatment works.

The remaining 95 visits were out in the community talking to groups such as the Women's Institute or retired engineers, landlord associations and housing associations. We have created some great partnerships this year, in particular the independent living group in Gloucester. The group help young people get ready for living on their own. We have worked with the students to share our messages and then as part of a project they have been out into their local community to share the message.

"Educating customers helps us perform better. Around 75% of sewer blockages are a result of people disposing of the wrong things down their toilets and drains."

Malcolm Smith,
Community Relationship Adviser

Market and industry overview

The water and waste water industry

The water and waste water industry in England and Wales is made up of 17 regional suppliers, who between them serve around 50 million household and non-household customers. Ten of these companies, including our regulated business Severn Trent Water Limited, provide both water and waste water services. The remaining seven, including our regulated business Dee Valley Water plc, provide water only.

The challenges facing our industry

Since the industry was privatised in 1989, it has delivered real improvements for customers. The companies have invested hugely in their networks, found smart new ways of working and become more efficient. For example, since the mid 1990s industry-wide leakage is down by 35% and in the last 10 years sewer flooding is down by 75%, while 99.97% of drinking water and 98.6% of bathing waters now meet European Union ('EU') standards.

However, the industry still needs to tackle some major challenges in the coming years. First, customers' expectations are continuing to increase and we need to continue to improve the experience we deliver. People expect to be able to interact with their water companies at a time that's convenient for them, using the channels they prefer. That's why Severn Trent wants to lead in digital, so we can serve customers 24 hours a day and make best use of channels such as social media and webchat.

We also need to make sure our assets can withstand whatever the future may bring. Climate change is likely to cause more periods of drought and flooding, so the industry needs to ensure it can provide its services, no matter what the weather is like. Severn Trent's plans commit us to making our network more resilient, to cope with greater extremes in our climate. For example, our £300 million Birmingham Resilience Project will protect the water supply for the UK's second largest city.

Although the industry has invested more than £108 billion since privatisation, it still needs to repair and replace sewers, pipes and other assets that in some cases are more than a century old. During our current five year plan, Severn Trent will invest over £3,000 million in our assets, so the next generation can benefit from even better services.

We also need to cope with a growing population. The Office for National Statistics estimates that the population of England and Wales will increase by over 9 million people by 2040. At the same time, the government is looking to significantly increase house building over the next few years. All of this means that more homes and businesses will need our services. We have to invest carefully, to ensure we can meet those needs.

We are delighted to have received Utility of the Year from the Home Builders Federation in October 2016.

As we're working to overcome these challenges, we also need to keep bills affordable for customers, especially for those on the lowest incomes, and ensure we have the money we need to fund our investment over the long term. This will allow us to deliver for customers and create value for investors.

"Severn Trent wants to lead in digital, so we can serve customers 24 hours a day and make best use of channels such as social media and webchat."

The industry's regulatory framework

The Government's approach to our industry is set by the Department for the Environment, Food and Rural Affairs ('Defra') in England and the Welsh Government in Wales.

Ofwat is the industry's economic regulator. This means it sets limits on the prices we can charge our customers over five year AMP cycles. This financial year was the second of AMP6, which runs from April 2015 to March 2020.

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

- The Drinking Water Inspectorate ('DWI') independently checks that water supplies in England and Wales are safe and that drinking water quality is acceptable to consumers. Its work includes testing water quality, ensuring companies make the changes necessary to improve, developing new regulations to further improve water quality, and science and policy.
- The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It advises consumers and takes up complaints on their behalf.
- The Environment Agency ('EA') allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it's been used by our customers and treated by us.
- Natural Resources Wales is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used now and in the future.
- Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, especially for plant and animal life in fresh water and the sea.
- The Health and Safety Executive helps us to reduce the health and safety risks faced by our employees, customers and visitors.



Dee Valley Water's Tŷ Mawr Reservoir, Wrexham

Market and industry overview continued

"The most significant change to the regulatory framework has been the introduction of retail competition for non-household customers in England, from April 2017. This allows businesses and other non-household organisations to shop around for the best deal in water supply. Our preparations for this have included creating the Waterplus joint venture, as discussed on page 40, and making the necessary changes to our systems and processes to allow our wholesale water business to supply retail water providers (see page 32)."

The continuing evolution of regulation

Ofwat's last review of the industry's pricing was in 2014. That price review resulted in the most important changes in the industry's economic regulation since privatisation. It gave customers a much stronger voice in determining companies' plans and introduced Outcome Delivery Incentives ('ODIs'), which encourage companies to deliver what customers want using performance-related rewards and penalties. Ofwat also encouraged companies to look at the whole life costs of their assets, rather than separately looking at how much to invest in them and how much they cost to run. This total cost is known as Totex. Companies also have stronger incentives to become even more efficient.

The next price review is in 2019 ('PR19') and Ofwat has already begun to shape its approach. In May 2016, it published its Water 2020 framework, which set out how it proposes to regulate the sector at PR19. This included increasing the number of price controls, to allow it to look at companies' cost bases in more detail and promote competition in areas such as water resources and bio-resources, as well as using the Consumer Price Index to index prices rather than the higher Retail Price Index.

Much of the industry's investment is funded by borrowing, so interest rates can have an important effect on companies' costs. In September 2016, Ofwat published its proposals on the cost of debt. This would automatically adjust prices for customers if interest rates are different from those Ofwat assumed for new debt. In December 2016, Ofwat outlined how ODIs could be made better in PR19. The proposal could include larger rewards for companies that perform well, with larger penalties for companies who fall short. Ofwat is expected to publish a consultation on its approach to the next price review in the summer of 2017.

The most significant change to regulation in this AMP has been the introduction of retail competition for non-household customers in England, from April 2017. This allows businesses and other non-household organisations to shop around for the best deal in water supply. We have responded by creating the Waterplus joint venture, as discussed on page 40, and making the necessary changes to our systems and processes to allow our wholesale water business to supply retail water providers (see page 32).

In the longer term, the household retail market could also be opened to competition in England. The UK Government has said it first wants to see how retail competition works for non-household customers before making any decisions.

Contributing to the regulatory debate

We believe it's important that we put forward our views about how regulations should develop and we have a long track record of helping to shape the future of our industry.

We remain very supportive of the general direction of Ofwat's proposals. We've embraced ODIs, so we're well placed as Ofwat looks to refine how they work. In April, we released the latest in our series of Charting a Sustainable Course publications, which sets out how we believe incentives can be made to work better at the next price review for all stakeholders, including customers. This builds on Ofwat's own consultation document.

We're also in favour of moves towards trading in bio-resources (a by-product of the sewage treatment process) and water resources. We're already exploring the potential for trading bio-resources with other water companies, and we see this area as an exciting opportunity for us and our customers. Trading water resources is a longer term prospect, which could provide a relatively low cost and environmentally friendly way of sharing water across regions. However, we also consider that any changes to how water is supplied need to form part of a wider package of measures including reducing demand for water.

How our customers and the external environment influence our strategy

Our strategy for AMP6 is designed to meet the challenges posed by our changing environment and regulation:

- Our strategy embeds customers at the heart of all we do. This ensures we continue to meet their needs as they evolve.
- Operational excellence and continued innovation help us to deliver the service customers rely on, while ensuring we keep bills affordable for all, both now and in the future.
- It is essential that we have a resilient, well-maintained network, which can meet the demands of a growing population and a changing climate, which is why we're investing responsibly for sustainable growth.
- Changing the market for the better means ensuring we help shape changes to regulations and are well prepared for the opportunities and challenges it brings.
- Delivering on all of the above requires us to have inspired, talented and engaged people, which is why we're creating an awesome place to work.



Ambergate reservoir where we have recently replaced and increased capacity

Case study
Delivering our vision and purpose through our strategy and values

BUILDING A LASTING WATER LEGACY

Ensuring a resilient water supply for Birmingham

For more than a century, the Elan Valley Aqueduct has been Birmingham's primary water source. It carries water all the way from the Elan Valley in Wales to Birmingham. It needs work to keep it fit for the future but we can only turn it off for three days at a time. That's why in March 2017, we started building a new 25 km pipe from Lickhill to our treatment works in Birmingham. When the new pipe is ready in 2019, we can turn off the aqueduct for 50 days every other year and give it the care it needs.

We've identified work we need to do sooner, so we're building three pipes to bypass parts of the aqueduct. The first completed in March, at Bleddfa. We're working closely with local people, with regular drop-in sessions so we can work with the community and minimise disruption. We've also held focus groups and taste tests, to understand how changing the water supply affects customers, which will inform our future approach.

"At a total investment of £300 million, this is our largest ever engineering project and a vital part of ensuring we build a lasting water legacy for our region."

Jane Simpson,
Head of Asset Creation, Non-Infra



Strategic goals

Litres of water carried each day

320 million

Chief Executive's review

Liv Garfield

DELIVERING RESULTS

"As a business we want to be the most trusted water company by 2020, and our customers have told us that means delivering an outstanding customer experience with the best value service and showing true environmental leadership."



Two years into the current regulatory period I'm pleased that, with the superb help and support of all my Severn Trent colleagues, we are becoming a truly customer focused business that continues to invest in our future and deliver strong and sustainable financial performance.

As a business we want to be the most trusted water company by 2020, and our customers have told us that means delivering an outstanding customer experience with the best value service and showing true environmental leadership.

In the last year we have made progress in all three areas but of course there is always more to do.

On customer experience we have made great progress in delivering against our agreed Customer Outcome Delivery Incentives (ODIs). For example, this year on two measures that customers care about most we have reduced supply interruptions by 17% and cases of external sewer flooding by 23% against our regulatory targets.

We have achieved this while making sure that we continue to offer the lowest average combined water and waste water bills in Britain, as well as increasing our commitment to support those customers most in need.

To help us focus on continuing to deliver best value service in the future we have worked hard to identify further efficiencies and have increased the targeted Totex savings by £100 million to £770 million. Making these savings will help us towards our further ambitions to be upper quartile in performance and cost in retail, water and waste.

WATCH NOW

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

Turning to environmental leadership, we are proud of the fact that we have had sector leading performance for two of the last four years. Furthermore, on renewable energy we are now generating the equivalent of 34% of our energy needs and are on track to self-generate 50% by 2020.

I would love to take this public opportunity to welcome our new customers and colleagues from Dee Valley Water. This strategic acquisition helps us grow our business and bring in new skills and expertise to the wider company. We look forward to continuing to integrate our two businesses over the coming months.

Consistency and progress

To make sure that we make the right progress through this regulatory period to becoming the most trusted water company, we use our strategic framework as our route map to success.

This framework focuses on five strategic objectives that we believe can deliver all of our ambitions, the five are: embed customers at the heart of all we do; drive operational excellence and continued innovation; invest responsibly for sustainable growth; change the market for the better; and create an awesome place to work.

Taking each of the five in turn, let me share some thoughts on how we are doing in each area.

Embed customers at the heart of all we do

We are proud of the fact that for the second year we have outperformed against the commitments ('ODIs') that our customers most care about. Our customer service and operational improvements have contributed to customer ODI rewards of £47.6 million. On top of the reduction in external sewer floodings and supply interruptions, we have also sustained our improved performance on category 3 pollutions and leakage against our regulatory targets.

Although we have seen tremendous progress across many aspects of the business this year, there is more we can do to improve customer experience. Whilst the number of customer complaints have declined since the start of the AMP there remains more scope for further improvements. As such we are taking a more active approach to reducing problems occurring in the first place. For example, we have worked with customers to come up with a re-designed bill which is easier to understand.

As we look to make contact easier and more efficient, we now have around a third of our customers using our 24/7 digital self-service, and we have also designed a new, easier to navigate customer website.

We are passionate about affordable bills for all and remain committed to supporting customers who most need our help. Through a range of schemes we have delivered our 'Help When You Need It' target that supported over 50,000 customers who were struggling with their payments.

Drive operational excellence and continuous innovation

We are improving the productivity of our workforce, through better devices, connectivity and apps. We are using digital technology and innovation to reduce risks through real-time water quality measurement and insight, along with active network modelling that helps us act quickly and reduce the number of bursts and cases of premature asset deterioration. We have continued to refine our use of sensors and improved analytics to prevent flooding and pollutions, as well as diagnosing and resolving jobs more effectively.

We have embraced research and development as a key enabler for operational excellence, and a great example of our innovation leadership is our world-leading phosphorous removal trials. Being leaders in this field is helping us save £10 million in this AMP.

Underlying Group PBIT

£525.1m

Group PBIT

£543.7m

Dividend increase

1.0%

Dividend for the year

81.50p

Chief Executive's review continued

Invest responsibly for sustainable growth

We promised to leave no stone unturned in the pursuit for Totex efficiencies during the year, and through the tremendous work of our colleagues to seek better ways to run the business, we have identified an additional £100m of efficiencies. This takes the total forecast efficiencies for this AMP to £770m (at 2012/13 prices). Of this £770m, we've been able to announce that a further £70 million of Totex efficiencies have been locked in over the last six months, building on the £540 million we'd previously announced, and taking the total amounts locked in to £610 million. We are adamant that the search does not stop here however. We will continue to seek opportunities throughout the business to drive further efficiencies for the benefit of our customers and our shareholders.

To help deliver improved customer service and a more efficient and resilient network, Severn Trent will be spending around £1,400 for every property in our region over the course of AMP6.

This year we have also taken steps to focus on to our core business with the acquisition of the Dee Valley Water Group, as well as selling our Italian business.

We have welcomed our colleagues from Dee Valley Water, which serves 125,000 properties, into the Severn Trent family, and we will spend the summer working through the integration of our two businesses. This acquisition is a natural fit, and we are enjoying learning new skills from each other as we look to collectively improve the customer experience.

Our role as custodians of our network for customers today and for future generations is right at the heart of our strategy. During the year we have seen great progress on the Birmingham Resilience Scheme, our largest ever asset-creation programme. Critical milestones such as the Bleddfa bypass have now been completed and we have also embarked on a large programme of customer engagement to support the next stage of the programme. We have also successfully met all DWI and EA obligation dates.

We have delivered some important milestones in our renewables plan, including the completion of our second food waste anaerobic digestion plant at Roundhill, Staffordshire.

We believe good businesses are socially responsible businesses and supporting our local community is central to our values. Highlights include the delivery of 12,000 water efficiency home checks to help customers save money, educating 167,024 people on sewer misuse and water efficiency and being recognised by the Drinking Water Inspectorate as industry leaders for our innovative approach to catchment management.

Change the market for the better

At the start of April 2017, we saw the opening of the non-household retail market and I am pleased with the future prospects of Waterplus, our joint venture with United Utilities.

We have engaged with all of our colleagues across the business to make sure they understand the new ways of working in this new world of competition, and our focus on being a fantastic wholesaler for all retailers operating in our region.

I was also very pleased that we have been recognised by our regulators for providing information to our customers and stakeholders that they can trust. We are one of only three companies to receive 'self-assured' status in Ofwat's annual review.

Create an awesome place to work

When I first joined the company I was struck by the hard work ethic and helpful nature of our colleagues. Having this culture as our foundation has helped us bring to life a customer-centric approach to everything we do.

As a team we are passionate about creating an awesome place to work and invest huge time and energy into our people plans. We were pleased to see our overall engagement score rise three percentage points, and continue to track above the global benchmark for employee engagement.

We have been building the required skills and capabilities for the future through the recruitment of record levels of apprentices and graduates, nearly trebling our intake of apprentices and doubling our graduate intake in 2016.

We are also focused on leadership and technical development across the whole organisation, and have delivered around a 20% increase in training days this year.

We continue to recognise our colleagues' performance with a collective bonus scheme that encourages focus on key areas which benefit all of our stakeholders; health and safety, customer ODIs, and financial performance. Last year's "Bonus reveal" was a wonderful employee engagement moment.

I am also pleased that we have brought greater certainty to our pension schemes with £122 million of further deficit recovery payments by the end of AMP6, including an additional £42 million over previous commitments.

As we look to serve our communities and build a lasting water legacy, we recognise the importance of the communities in which we operate and how central they are to local life. Our volunteering scheme Community Champions is proving super popular with over 100 events planned and over 1,000 of our people signed up to take part in making a real difference to the communities in which we operate.

That completes my review of how we are doing against our Strategic Framework, after a busy but progressive year. I trust you have found it helpful.

Delivering returns

Before we take a look at the year ahead I am pleased to share that our hard work has resulted in strong levels of outperformance for customers and returns for our investors. In this past year we have performed well in all three areas which make up our allowed return on regulated equity (RoRE). I have mentioned our delivery of customer ODIs and Totex efficiencies, and James Bowling, our Chief Financial Officer, discusses our financial performance, which continues to improve, in more detail in his review.

We achieved RoRE of 11.0% this year, up from 8.4% last year. This is a very strong result which is the testament to the drive and focus of my colleagues, and it reflects the strong financial and operational health of our company.

With a strong track record having been built in this AMP and all our stakeholders winning, together with the Board I am therefore delighted to announce an increase in the ordinary dividend to growth of RPI +4% from 2017/18.

Outlook

We remain committed to delivering high service levels to our customers in the year ahead, both as a sector leader on customer ODIs and also while improving customer experience. As an example, our 2017/18 employee bonus has been adapted to help us drive down complaints as well as deliver against our safety, customer ODI and financial targets.

With draft determination submissions for AMP7 due in September 2018, we are working hard and collaboratively across all our teams to prepare the best possible plans which benefit all our stakeholders.

We are actively engaging with our customers to co-create the future business plans which we put forward as we prepare for the next price review.

Ofwat have also indicated that there will likely be further opening of the market to competition, in water resources and bio-resource trading. We firmly believe we have many strengths in these areas and are setting ourselves up for success.

So we have much to look forward to, and I relish working with my colleagues across the business as collectively we look to put customers at the heart of everything we do, and build trust with all of our stakeholders. Thank you for your ongoing support.

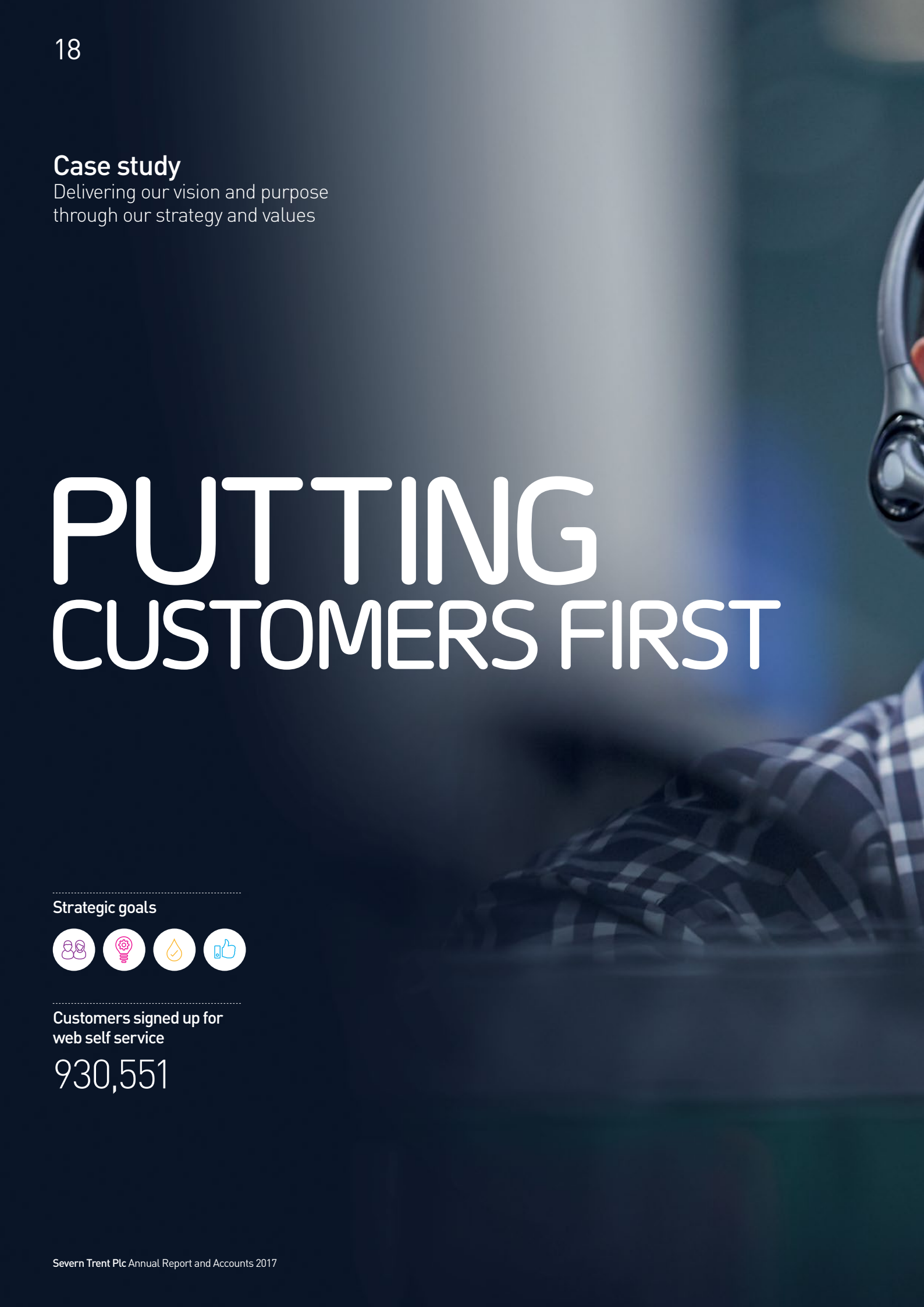
Liv Garfield, Chief Executive



Case study

Delivering our vision and purpose through our strategy and values

PUTTING CUSTOMERS FIRST



Strategic goals

Customers signed up for web self service

930,551



Using technology to improve our customers' experience

For a great experience, it's important that our customers can contact us how they want, when they want. Increasingly, that means they're using new channels such as our website, web chat and social media. In fact, 930,551 customers have now signed up to web self service. And we're the only water company who customers can reach 24/7, not just for emergencies.

For people who want to phone us, we're improving service through a new portal for our customer advisers. It brings together all the information our advisers need about the service the customer has received and how they feel about it. 'One click' processes mean it's faster and simpler to use, with less training needed. Since we introduced it, we've cut call times from eight minutes to five and reduced repeat calls by 15%, meaning happier customers and lower costs for us.

"We're using technology to better understand our customers and give them the control they want over the service they receive."

Joanne Hollamby,
Customer Contact Leader

How we are achieving our strategy

Our strategy has been in place for two years and we're making significant progress towards achieving our goals.



Embed customers at the heart of all we do

What we said we would do in 2016/17

- 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

Our progress in 2016/17

- Outperformed on commitments customers care most about (see operational excellence below)
- Offered lowest combined bills in Britain and helped 50,903 customers with their bills
- Engaged with 167,024 customers through our education programme



Drive operational excellence and continuous innovation

What we said we would do in 2016/17

- Continue to work on our energy profile, both usage and generation
- Continue to focus on improving information to drive better customer outcomes
- Continue to perform strongly on Customer ODIs for a second year running

Our progress in 2016/17

- Achieved better outcomes for customers on external sewer flooding, interruptions to supply and leakage, through targeted investment and using information about our network to proactively address potential issues
- But, we received 14,461 water quality complaints, which is above our target of 10,995



Invest responsibly for sustainable growth

What we said we would do in 2016/17

- 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
- Further investment in technology to generate energy from sewage sludge and food waste

Our progress in 2016/17

- Achieved key milestones with major resilience schemes – the Birmingham Resilience Project and Ambergate reservoir
- Invested in technology such as real time bacteria detection
- Worked with supply chain to develop innovative approaches to delivering capital programme more efficiently



Change the market for the better

What we said we would do in 2016/17

- Prepare for shadow operation of the retail market, followed by successful market opening
- Continue work on sludge market opening structures and models

Our progress in 2016/17

- Continued to contribute to the debate on future regulation, and supported Ofwat's proposals in areas such as sludge trading and water resources
- Created non-household retail joint venture with United Utilities and prepared our wholesale business to support retailers in this market



Create an awesome place to work

What we said we would do in 2016/17

- 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

Our progress in 2016/17

- More than 400 managers completed the Awesome Leaders Programme
- Doubled our graduate intake and tripled our apprentice intake
- Received national recognition for our apprentice scheme
- Used innovative approaches to attract candidates from more diverse backgrounds

- Launched new website, expanded our contact channels, trialled extended opening hours and increased proactive customer contacts
- Created a care and assistance team to support vulnerable customers
- Improved contact centre effectiveness through new customer management portal

Areas of focus for 2017/18

- Make a step change in customer experience
- Continue to deliver on the things that matter most to our customers to achieve a substantial reward of around £23 million in customer ODIs
- Provide a service that is affordable for all and support our financially vulnerable customers by assisting 50,000 customers with their bills
- Be recognised as an upper quartile wholesaler to the new non-household retail market
- Provide an industry leading experience for property developers and customers who need new water and waste connections

- Improved process control at our major water treatment works through our Operational Effectiveness Programme
- Maintained outstanding performance on coliform detection
- Continued to achieve strong environmental performance
- Made further progress on reducing energy use
- Sustained our improved performance on reducing category 3 pollutions against our regulatory target

Areas of focus for 2017/18

- On track delivery of our plans to be upper quartile for Retail, Water and Waste
- On track delivery of upper quartile financing position by the end of 2019
- Continue to provide environmental leadership as evidenced by EA 4* status
- Develop the profitability of our US and UK Business Services operations
- Deliver budgeted benefits from implementing ten innovation projects and ten digital projects, and developing a sustainable pipeline and process for innovation
- Drive innovative developer solutions to deliver a step-change in the new connections service to customers
- Reduce the number of water quality complaints

- Continued to promote catchment management to protect our water sources from pollution
- Reduced Group carbon emissions by 8%, although we did not achieve our ODI target
- Achieved FTSE4Good accreditation
- Made good progress in investing in renewables

Areas of focus for 2017/18

- On track to deliver on our PR14 commitments and make appropriate targeted investments for the future
- Integrate and deliver the benefits of the Dee Valley acquisition, combining the strengths of the two companies to create a strong Welsh entity focused on delivering local priorities
- Complete and transition Competing to Win to business as usual
- Generate the equivalent of 38% of our energy needs from renewable sources
- Achieve material improvements in some of our key Enterprise Risk Management risks

- Invited by DWI to lead work to set a new industry standard for process control at critical water treatment works

Areas of focus for 2017/18

- Have a clear PR19 outline plan in place that evidences our leading status
- Produce compelling cases for investment that customers want to see, at PR19, that enables strong RCV growth over AMPs 7 and 8
- Design and implement the bio-resources change programme and business model
- Be seen as the water sector's thought leaders
- Create a strong Welsh entity focused on delivering local priorities

- Introduced a campaign to help employees suffering mental health issues
- Recognised by the Hampton-Alexander Review for leading gender diversity performance in the FTSE 100
- Delivered around 20% more training days than the previous year and introduced new operational and technical training
- Achieved higher engagement scores above the global company benchmark in our employee survey and had an increased response rate

Areas of focus for 2017/18

- Deliver a step change in our safety performance
- Improve the wellbeing of our colleagues
- Deliver a further uplift in our employee engagement scores
- Progress our talent agenda
- Continue to strive for the most diverse and inclusive business with increasing numbers of Black, Asian and Minority Ethnic ('BAME') talent in our business
- Further improve employee engagement by resolving the top 10 issues identified by our employees

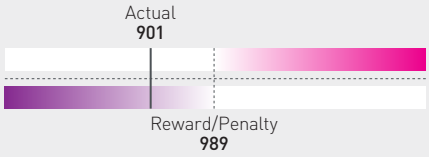
ODIs and KPIs

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

Progress against our Outcome Delivery Incentives

1. Embed customers at the heart of all we do

Internal sewer flooding



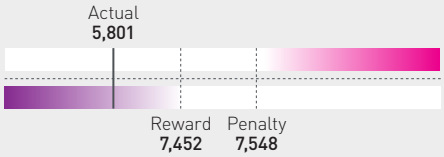
Rate of Reward/Penalty (per incident)

£42,820[1]

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.

Progress in the year
We are reporting a performance of 901 internal incidents, ahead of our committed performance level of 989 incidents.

External sewer flooding



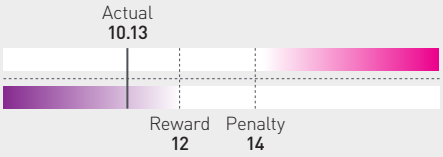
Rate of Reward/Penalty (per incident)

£19,779[1]

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.

Progress in the year
We are reporting a performance of 5,801 external incidents, ahead of our committed performance level of 7,548 incidents.

Minutes without supply



Rate of Reward/Penalty (per minute)

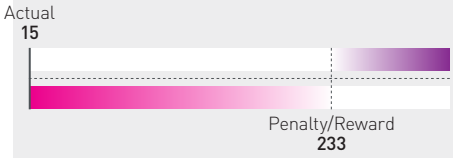
£1.10m[1]

Why we measure it
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
We interrupted customers' supplies for an average of 10.13 minutes (10m 8s) in 2016/17. We are ahead of our performance commitment of 12.2 minutes.

2. Drive operational excellence and continuous innovation

Improvements to river water quality



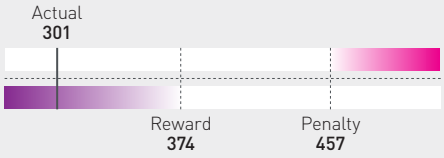
Rate of Penalty/Reward (per unit)

£150,000[1]

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.

Progress in the year
There were 15 individual points completed in 2016/17, and we are on track for our end of AMP target.

Number of category 3 pollution incidents



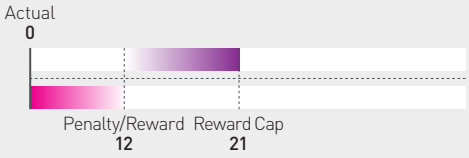
Rate of Reward/Penalty (per incident)

£53,900[1]

Why we measure it
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.

Progress in the year
We are reporting 301 category 3 incidents against a committed performance level of 402; this is 101 ahead of target and 73 incidents ahead of our reward dead-band of 374 incidents.

Successful catchment management schemes



Rate of Penalty/Reward (per scheme)

£1.03m[1]

Why we measure it
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
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 2016/17. 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 24 to 35.

4. Create an awesome place to work

Lost time incidents per 100,000 hrs worked

Severn Trent Water Limited

0.22 2015/16: 0.25

Business Services

0.04 2015/16: 0.17

Progress against our financial KPIs

Group turnover

£1,819.2m

2015/16: £1,753.7m

Group underlying PBIT

£525.1m

2015/16: £503.4m

Underlying earnings per share

122.4p

2015/16: 102.1p

SIM – Customer experience

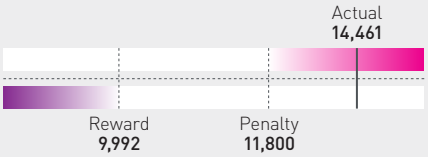
Not yet defined by Ofwat

83.61 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 83.61 for 2016/17 which is behind our original upper quartile target.

Complaints about water quality



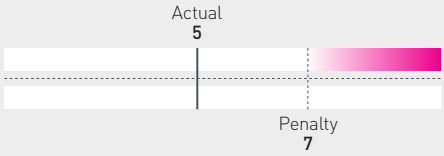
Rate of Reward/Penalty (per complaint)

£900[1]

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 2016, the number of drinking water quality complaints increased from 13,941 to 14,461, so we did not achieve our committed performance level of 10,995.

Asset Stewardship – coliform failures



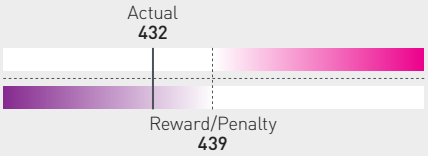
Rate of Penalty

£463,000[1]

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 2016 we detected coliforms at five water treatment works sites, which is better than our committed performance level of seven or fewer works with coliform detections.

Leakage



Rate of Reward/Penalty (per megalitre per day)

£123,000[1]

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 2016/17 was a total of 432 Ml/day ahead of our committed performance level of 439 Ml/day.

Severn Trent engagement score improvement[2]

3 percentage points

Notes
1 In 2012/13 prices after tax.
2 New engagement index used for the Group since 2015/16 to support benchmarking and gain better insight about us as an employer.

Key

Actual
| Severn Trent Actual Performance 2016/17

REGULATED WATER AND WASTE WATER



Regulated Water and Waste Water business model

Litres of drinking water supplied each day

1.85bn

Kilometres of sewerage pipes in our network

93,727

Households and businesses served

4.5m

Generating returns

As described on page 10, our Regulated Water and Waste Water business works within five year planning cycles known as AMPs. Ofwat determines the prices we can charge our customers during each AMP, allowing us to earn a return on our asset base (known as the Regulatory Capital Value or RCV), to fund our investment programme and cover our operating costs. Our prices and asset base are adjusted by inflation each year. In certain circumstances, for example if there is a material change in costs for reasons beyond our control, we can request a price review during the AMP.

On 15 February 2017 Severn Trent Water completed the acquisition of Dee Valley Water, which is the licensed water undertaker for Wrexham, Chester and the surrounding areas. It has been supplying water to its community for more than 150 years. Dee Valley Water supplies drinking water to approximately 125,000 domestic and business customers in northeast Wales and in northwest Cheshire.

The performance commentary for the Regulated Water and Waste Water business in 2016/17 which follows on pages 24 to 35 relates solely to Severn Trent Water.

The acquisition of Dee Valley Water was completed approximately six weeks before the end of the reporting year and did not have a material impact on the Group's financial performance for the period being reported.

Our new customer bill design and customer website





Our business model

The resources and relationships critical to our success

Read more on **page 26**

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.

See page 9

Water is cleaned
Our 123 groundwater and 21 surface water treatment works clean raw water to the highest standards making it safe to drink.

See page 30

Clean water is distributed
A 49,048 km network of pipes and enclosed storage reservoirs bring a continuous supply of clean water right to our customers' taps.

See page 30

Customers enjoy our services
We serve 4.5 million businesses and households with a safe, reliable supply of water and collect waste water 24 hours a day, 365 days a year.

See page 28

Waste water is collected
Our 93,727 km of sewers and pumping stations collect waste water from homes and businesses from outside properties and drains.

See page 29

Waste water is treated and returned to the environment
Waste water is carefully screened, filtered and treated in our 1,013 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.

See page 31

Investment and maintenance

Read more on **page 26**

Associated risks

Read more on **page 27**

Regulated Water and Waste Water business model continued

We aim to perform each stage of our work as efficiently and effectively as possible, so we meet the needs of customers and other stakeholders such as our regulators. The work we do enables us to meet 45 performance commitments we've agreed with Ofwat, several of which are unique to us. Of these, 33 customer ODIs reward us for if we do the right thing for customers, by improving services and being more efficient, or penalise us if we don't. These customer ODIs incentivise us to do better in the areas that are most important to our customers. We also look to use innovative processes and technology, so we continually improve the way we work. During 2016/17, we earned a total reward of £47.6 million out of a potential reward of £70 million, and were the best performing company based on Ofwat's published results for 2015/16.

The amounts we invest in improving and maintaining our networks, together with the costs of running our operations, form our total expenditure or Totex. This year's customer bills take account of some of our Totex and the remainder is added to our RCV, allowing us to earn a return on it in future years. We look to make savings against the Totex assumed in our final AMP6 plan, which was approved by Ofwat. Over the course of AMP6, we've identified £770 million of Totex efficiencies, which will see us save £360 million against our final determination. We've committed to reinvesting £120 million of this to benefit customers in three important areas: water quality, security and vulnerable customers.

Investment and maintenance

Included within our Totex is a wholesale capital programme totalling £539.6 million in 2016/17, which is an average of £1,400 per connected property. We spent this money in a range of areas, including our two major resilience schemes, as well as continuing to upgrade and renew our network and assets.

We fund this capital programme through customer bills. We generate profits through being efficient and borrowing from capital markets.

Our critical resources and relationships

Customers

We have 4.5 million household and business customers, in an area stretching from the Bristol Channel to the Humber, and from North and mid-Wales to the East Midlands. Our customers are at the heart of all we do and they were heavily involved in developing our plans for AMP6, to ensure we focus on the areas they value the most. We provide our customers with around 1.85 billion litres of high quality drinking water every day and treat around 2.6 billion litres of waste water, which we clean and return to the system.

Employees

To be the most trusted water company, we need great people. We therefore look to attract, develop and retain talented people, and to bring the next generation into the industry through our graduate and apprentice schemes. We recognise the benefits of diversity and look to have a workforce that matches the diversity of our local communities. Keeping our people safe, healthy and well is a top priority. We aim to provide competitive and flexible rewards, which recognise our colleagues' performance.

Suppliers

We work closely with our supply chain partners so we can achieve excellent operational performance for our customers and meet our efficiency targets. We created our One Supply Chain to make our capital programme more efficient. By choosing framework partners to work with over the five years of an AMP, we can give them greater certainty of work and achieve more competitive pricing. We can also be more innovative as we work together over time, to deliver even greater efficiencies.

Communities

Serving our communities is central to our purpose. We look to keep our communities informed and to minimise disruption when we carry out planned work on our network. Through our education programme, we help our communities to save water and prevent blockages in our sewers and drains. We protect the environment around our communities and work with local people such as farmers to maintain the quality of the water we collect. We also aim to make a positive difference for our communities through volunteering and fundraising for charities.

Regulators

How our industry is regulated is described in detail on page 9 of this report. We look to maintain positive and constructive relationships with our regulators, and to share our knowledge to help them shape the future regulation of our industry. We aim to comply with our regulatory obligations at all times, so we continue to meet our commitments to our customers and other stakeholders.

Performance commitments

45

Net Reward

£47.6m

In 2012/13 prices pre tax

Total Totex efficiencies identified to date in AMP6

£770m

Associated risks

Each phase of the business model on page 25 presents opportunities for us but also comes with risks. Our job is to maximise the opportunities while identifying, managing and mitigating the risks.

Water is collected

If one of our key assets fails, it could cause injuries, damage property or disrupt the water supply.

Principal risks 6 and 7
Read more on page 53

Water is cleaned

During this phase, failure of key assets or processes could reduce water quality or disrupt our supply to customers.

We use potentially hazardous chemicals and processes, which can also result in injuries.

Principal risks 5, 6 and 7
Read more on pages 52 and 53

Clean water is distributed

If our distribution performance falls below the required standards, it could lead to poor customer service and increase the risk of leakage from our network.

Principal risks 1 and 5
Read more on pages 50 and 52

Customers enjoy our services

If we don't improve or maintain our performance, we could disappoint our customers.

Principal risk 1
Read more on page 50

Waste water is collected

If we don't deal effectively with customer waste, it could lead to sewer flooding.

Principal risk 6
Read more on page 53

Waste water is treated and returned to the environment

If we suffer an operational failure during this phase, we could damage the local environment.

Potentially hazardous processes and substances could cause injuries to people.

Principal risk 7
Read more on page 53

Regulated Water and Waste Water performance review

In this section, we explain how our regulated business performed during the year, and the actions we're taking to deliver our strategy during this AMP.

Embedding customers at the heart of all we do

This was the second consecutive year in which we've outperformed against the commitments that our customers care most about. In particular, we've done better on external sewer flooding, interruptions to supply and pollutions. More information on how we've achieved this can be found in the section below on driving operational excellence and continued innovation.

Educating our customers helps us to perform better. Around 75% of our sewer blockages each year are caused by customers disposing of the wrong things down their toilets and drains. For example, fats, oils and greases solidify in our sewers and block them. During the year, we engaged with 167,024 customers about avoiding sewer misuse and how to use water efficiently. Educating future customers in schools and youth groups is a major part of this programme. By 2020, we've committed to engaging with 700,000 customers in total.

Our 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 2016/17 was £329. We want water to be affordable for all and we've made real progress with helping customers who find it difficult to pay. As a result, we met our commitment to support 50,000 customers this year. Our Big Difference scheme is one of the largest social tariff schemes in the country, offering discounts of between 10% and 90%, depending on how much individual customers can afford to pay. During the year, it helped 35,343 people, which was more than three times the number in the previous year.

The WaterSure scheme supports people on benefits who have water meters, and people who use more water because of a large family or a medical condition. We also continue to work with the Severn Trent Trust Fund, which celebrates its 20th year in 2017. It helps people in arrears with their water bills and can also provide support with essential household bills or costs. Since 1997, we've donated more than £60 million to the Fund, for the benefit of 550,000 people across our region. In 2016/17, we donated £3.5 million.

In addition, we've invested in a care and assistance team, to support customers who are struggling with a broader range of problems. This can include help to resolve financial issues or assistance with other issues, such as their physical or mental health. In October 2016, we won the Utilities & Telecoms Best Vulnerable Customer Support Team award.

To keep bills affordable for all, we work hard to ensure that everyone who can pay does, so they don't increase the burden on others. During the year, we maintained our level of household consumer bad debts at 1.8% of turnover, which remains one of the best performances in the sector.

We've continued to improve how we communicate with our customers and keep them informed. This year, we fully rolled out the new design for our bills, which is clearer, simpler and easier to understand. We've also relaunched our website to improve customer interaction and allow them to carry out more tasks themselves. The new design followed extensive testing with users, to make it easy to find the most popular areas.

Our customers increasingly want to use digital channels to interact with us. In particular, we're seeing substantial growth in the use of webchat. We also offer 24/7 coverage on Twitter and get many customers interacting with us via Facebook.

Our emergency contact centre is open 24 hours a day, and we're now testing longer opening hours for non-urgent contacts, based on our analysis of when our customers want to talk to us. We have extended opening hours, which proved particularly helpful for customers during our main billing period.

We've also further improved the ways we communicate with our customers so they don't have to contact us. If a water main bursts, for example, we look to reach affected customers by text or voicemail so they know what's going on and what we're doing to fix it. We also use our website and social media to spread these messages, so people have as much information as possible.

The new customer management portal for our contact agents went live in January 2017. This gives advisers a full picture of the customer, as soon as they call in. For example, it has indicators showing key information about water, waste, bills, whether the customer is up to date with payments, the experience they've reported through surveys and feedback, as well as a full contact history. The new system is reducing call times, which is better for customers and for us, and automating work that used to be done manually means there's less for our advisers to do once the call has ended.

Our customer ODI performance shows us that the overall level of service we are providing to customers continues to improve. For example, within the Severn Trent area we have seen improvements since the end of AMP5 with the number of customers impacted by a sewer flooding event having reduced by 40%, and this past year we were around 18% less likely to impact the environment by a category 3 pollution incident. However, we're taking longer than we would like to resolve issues in some areas, such as fixing complex leaks. We had a strong performance reducing household written complaints in 2015/16. This year, we have seen an overall increase, although complaints specific to billing have continued to reduce.

Working faster and smarter on-site

We've issued tough new devices to our people working in the field, to help them improve life for our customers. New Site Mate software tells our field workers what's already been done at the property and how the customer feels. This allows them to diagnose problems more quickly and be more responsive to individual customer needs.

Details entered in Site Mate automatically update our records, so customers can track our progress through an app. The devices have better connectivity, which means no more searching for a signal, and are easier to use than previous versions, cutting training time in half. The outcome is more satisfied customers and lower costs for us.

We improved our score in the Institute of Customer Service's Customer Service Index, moving us up to fifth out of 25 utility companies and third among the 11 water companies that obtained a result. Our overall performance against Ofwat's Service Incentive Mechanism ('SIM') has remained stable compared to last year. However, we recognise that other companies are improving. We know from our customers that our service standards are inconsistent and there is a lack of communication and ownership of customer relationships across the Company when a customer has a problem. Resolving these issues is a key priority for us in the coming year, and we will be introducing a new customer service measure into the short-term incentive plan.

Driving operational excellence and continued innovation

We aim to be a winner in a world of incentivisation. Customer ODIs make us think differently about how we work, to continually improve the service we provide to customers and increase our efficiency. We're in the top quarter of the industry for efficiency in water and leading the way for efficiency in waste.

When we developed our plans for AMP6, our customers told us that preventing internal and external sewer flooding was their number one priority. This year, we've outperformed our regulatory targets for internal sewer flooding by 9% and external sewer flooding by 23%. Over the first two years of AMP6, we've invested significantly in identifying the parts of our network that are prone to blockage and proactively cleaning those sewers to prevent flooding. We've also spent £14 million this year on inspecting our flooding hotspots, and we're investigating and resolving issues at around 350 properties whose neighbours have experienced internal flooding in the last 10 years.

At the same time we're taking a new approach to flood prevention by working with local authorities who are responsible for surface drainage and the Environment Agency ('EA'), which is responsible for preventing river flooding. Together, we're identifying where we should invest to protect more people from flooding. For example, we secured funding from the Flood Defence Grant for a joint scheme with Birmingham City Council.

Interruptions to supply fell to an average of 10 minutes 8 seconds per property in 2016/17, which is 17% ahead of our regulatory target. We have also seen the lowest ever levels of customers without supply for more than 12 hours, 8.5% better than we had previously achieved. We're seeing the benefit of our consistent investment in the network. We've also improved our ability to respond when bursts do happen, for example using reactive logging technology to provide real-time information to our control rooms. This helps us to quickly understand the scale of the problem and which customers are affected, so we can restore their supplies as soon as possible. This technology also tells us how healthy our network is, identifying increases in water pressure which can lead to pipe bursts and enabling us to fix assets before they deteriorate. Reducing the volume of water that leaks from our pipes is important to us and we are testing the use of satellite technology to help identify leakage locations. Our performance this year improved by 0.5% to 432 Ml/d compared to 2015/16, and 2.7% since the start of AMP6. Our performance takes account of actual water lost, changes to data and minor method improvements, and remains ahead of our regulatory target of 439 Ml/d. We continue to make iterative improvements to our leakage performance by driving down the time to fix leaks, resolving bursts on private properties quicker and giving really clear prioritisation and focus to the biggest leaks.

Regulated Water and Waste Water performance review continued

We've sustained our improved performance on less serious (category 3) pollution incidents, with a total of 301 against our regulatory target of 402. We suffered seven serious and major pollution incidents (categories 1 and 2) in the year. While this is an increase from the exceptionally low number in the previous year, we remain committed to our long term aim of having zero incidents by 2020. We continue our efforts to reduce pollution incidents, for example by preventing sewer flooding, and work closely with local authorities and the EA to limit the impact of the incidents that do occur.

Our Operational Effectiveness Programme is making sure that our large water treatment works run predictably and efficiently, so we provide a resilient supply of better quality water to our customers. The programme has shown us how all of our processes at these sites are working. Tracking of critical-to-quality performance measures helps us to more tightly control our processes and more proactively intervene where necessary to maintain control. This also allows us to proactively identify where we might have problems in the future, so we can strengthen our processes and invest where required.

As part of this programme, we met our commitment to the DWI to carry out diagnostics at our 16 largest sites. Overall, we broadly maintained our mean zonal compliance at 99.94% (2015/16: 99.96%), although this was below our target of 99.97%. We've given our teams a new app-based technology solution, Workmate, to give them all the information required to complete and record critical water quality tasks. This helps to maintain our assets in the best possible health.

We also maintained our outstanding performance on coliform detections at water treatment works. Coliforms are harmless bacteria but if we find them in our water it can be a sign that the water is below the quality we want. We had detections at five sites this year. This compares with 13 two years ago. The reduction is the result of activities such as the Operational Effectiveness Programme, described above.

In 2016/17, we had a total of 14,461 water quality complaints, which was more than our regulatory target of 10,995. We're investing more to achieve a sharp improvement and increasing our understanding of where there are problem areas in our network. This will allow us to invest in those areas if necessary or to flush the network to remove sediment, which can discolour the water. We will also be learning from our colleagues at Dee Valley Water who have done well to reduce water quality complaints. We communicate proactively with customers on water quality issues, and give advice to customers when working in their area, and preventing leaks and other problems such as illegal use of hydrants also helps to protect water quality, as they can disturb the network and stir up sediment.

The number of our waste treatment works failing to comply with their EA permits fell from seven last year to one in 2016/17. We used a similar approach to our Operational Effectiveness Programme, to make sure that our processes at our waste treatment works allow us to meet our compliance targets.



Protecting our assets with safe drone inspections

We need to keep our waste water assets in top condition, so the water we discharge meets the right standards and we have the best raw material for generating energy. This means we have to regularly inspect our assets. In the past, we often used scaffolding to do so but working at height can be risky for our people. Now we're now using drones to get a clear view, protecting our people and saving time and money. Drones can also help us in other ways and we're exploring new uses, such as checking that our treatment processes are working as they should.

Reducing our environmental impact is fundamental to how we work. This year, we improved our Asset Stewardship Environmental Compliance from 97.51% to 97.99%. We're also delivering on all schemes that are part of the National Environment Programme, to improve the quality of the water we return to the environment. Overall, we did better on six of the seven measures that go towards our Environmental Performance Assessment, which resulted in a provisional 3* rating from the EA. This was down from a 4* rating last year, as the EA significantly increased the required performance for a 4* rating this year. We are determined to regain a 4* rating next year.

In addition, we're making clever use of new technology. At some network sewage pumping stations, we're testing technology that learns as it goes along, so it can automatically and remotely pump sewage to parts of the network with spare capacity, helping to prevent flooding and serious pollutions.

We continually seek ways to improve our operational performance. This year, we created three state-of-the-art regional distribution centres through our stores transformation project. These make sure that our teams have access to the materials they need, when they need them.

Operational excellence includes providing high quality data about our business to those who need it. In Ofwat's annual review, we were one of only three companies to receive 'self-assured' status, recognising that we provide information to customers and other stakeholders that they can trust.

Investing responsibly for sustainable growth

Our capital programme saw us invest around £680 million this year to ensure our network is fit for the future. As part of this, we reached major milestones in improving the resilience of our network. The £300 million Birmingham Resilience Project is the largest capital project in the industry during AMP6. Due for completion by 2020, it will create a second major source of water for Birmingham, which is the UK's second largest city. This year we began work on the three tunnels required and saw the breakthrough of the 1.8 km Bleddfa tunnel, a key milestone for the project.

Ambergate reservoir is critical for serving customers in the East Midlands. We're replacing the reservoir and increasing capacity at the site. In November, we put the first of two new reservoirs into service, a month ahead of schedule. Throughout the project, we'll be working closely with the local community to minimise disruption, and we've received positive feedback from the Chair of the Community Liaison Group for our approach, as well as a Bronze award at the Considerate Constructors Scheme's National Site Awards in April 2017.

New technology has an important part to play and we continue to invest where it will improve customer service or reduce costs. For example, we're investing to enable us to monitor coliforms in real time, compared with the current process which takes 24 hours to process a sample. We've also invested in new technologies to remove phosphorus, a major pollutant in rivers, from sewage. This has cut costs and could allow us to make money by turning the sludge into high quality agricultural fertiliser. Energy is a significant cost for us and we're reducing our energy use across the business, for example by introducing more efficient ways of using our pumps and blowers.

Through our Fit for Purpose programme, we work with our One Supply Chain partners to do things more effectively. It helps us to deliver our capital commitments as efficiently as possible, by ensuring we and our partners are incentivised to work towards the same objectives. We've also worked with suppliers to understand and influence their approach to responsible business. This includes introducing a supply chain charter, which covers the behaviours we want to see, what we expect in areas such as modern slavery, and a rigorous approach to measuring environmental performance.

Severn Trent continues to promote responsible catchment management, which helps to protect our water sources from contamination. More than 26,000 hectares of farmland are already covered by our Farmers as Producers of Clean Water scheme, which helps farmers to understand the impact of the way they run their businesses on the region's water courses. In particular, the scheme aims to prevent pollution from metaldehyde, which is used to kill pests. The DWI recognised us as industry leaders for catchment management in its last annual report.

We continue to work to reduce our carbon emissions, which fell by 3% during the year from 466 kilotonnes of CO_2e to 456 kilotonnes. However, we did not meet our stretching ODI target for the year. More information about our greenhouse gas emissions can be found on page 66.

FTSE4Good measures the performance of companies demonstrating strong environmental, social and governance practices. We were pleased to achieve accreditation this year.

Regulated Water and Waste Water performance review continued

Changing the market for the better

Severn Trent has a long track record of contributing to the development of our industry. Information about our input to the future of regulation, and the potential for new markets such as bio-resource trading and water resources, can be found on page 11.

In April, we released the latest in our series of Charting a Sustainable Course publications, which sets out how we believe incentives can be made to work better at the next price review. This builds on Ofwat's Water 2020 framework and proposes how regulation could encourage innovation and efficiency whilst protecting customers' interests.

We continue to embrace new competitive markets. As discussed in more detail in the Business Services performance review on page 40, the non-household retail market opened to competition in April 2017. Our wholesale operations have been preparing to serve the retailers in this market, including our new joint venture 'Waterplus' with United Utilities. This has included agreeing service levels for the critical activities we'll provide to retailers and setting up processes for monitoring those service levels. We've also created a business retailer contact team.



Break-through of the Bleddfa tunnel as part of the Birmingham Resilience Project

We also contribute to developing new ways of working that will benefit the broader industry. Following our improvements to processes at our large water treatment works, the DWI invited us to lead work to strengthen the resilience of sites that are 'too critical to fail', due to the large numbers of people they serve.

Creating an awesome place to work

We want our people to be part of an organisation that celebrates diversity and individual thinking, that provides recognition and reward whenever it's due, and offers opportunities to do satisfying work and to develop careers. We also look to achieve the highest possible standards of health, safety and wellbeing.

Safety is always a priority for us. In 2016/17 we reduced our lost time injury ('LTI') rate within Severn Trent Water Limited from 0.25 to 0.22 LTIs per 100,000 hours worked. This reduction was less than we aimed for and we are continuing to seek more engaging ways to deliver further sustainable improvements. In our supply chain, continued collaboration has seen further reduction to the lowest ever LTI rates, and we also reduced total accidents by another 7%, following a 25% reduction last year, sustaining and embedding improvements.

We are also proud of our progress in protecting our people's wellbeing this year, in particular in the area of mental health. Our campaign included #elephanttalks, aimed at breaking down the stigma associated with mental health, providing personal tools to help individuals identify their own mental health issues and training managers to spot the symptoms. This has been well received and has already begun to reduce levels of absenteeism.

Mental Health First Aid Training

We have trained over 230 of our employees to be Mental Health First Aiders, to equip them with the skills required to assist an employee in crisis and to be able to offer support to all members of their teams. They are easily recognisable throughout the business by their yellow lanyards. We have also made the Lite course mandatory for all of our line managers. This 3.5 hour course covers the stigma of mental health illness, looks at the signs and symptoms and how a manager can help educate their teams and make discussions around mental health business as usual. Towards the end of last year we ran a campaign asking our employees to talk more about mental health. The Elephant in the Room campaign proved to be a real talking point around the business with a number of our employees sharing their personal journeys through our internal communication channels. A survey undertaken at the beginning of the year showed that we had started to make some in-roads into changing some of the perceptions around mental health.

MHFA England

Diversity and inclusion are important for success and we have always made them a priority. Our Severn Trent Water Limited workforce remains broadly in line with the sector averages, with female employees accounting for 31.3% of the total compared with 33% across the industry. 8.9% of our employees are Black, Asian or Minority Ethnic ('BAME'), against an industry average of 5%.

To help improve diversity, we've introduced an innovative approach to attracting and assessing candidates for our new talent schemes. Instead of looking at what experience candidates have, we now focus on their strengths. This helps people who have fewer opportunities to gain work experience, which can be an issue for BAME candidates and those from lower income households. It gives us a more balanced picture of candidates and more people from BAME backgrounds are coming through the process.

We also ran a pilot with a social mobility charity to give students who might not consider a career with Severn Trent the opportunity to learn more about the organisation. The programme offered the students an introduction into the world of work and gave them practical experience of the application and interview process. Several of the programme members secured graduate and apprentice positions with us.

Severn Trent has strong gender diversity among our most senior management. We were recognised by the Hampton-Alexander Review for our leading performance in this area among the FTSE 100. More information on diversity can be found within the Nominations Committee report and our Corporate Responsibility report on pages 82 and 69 respectively.

In 2016/17, we introduced a simplified bonus structure for all employees. Bonus levels depend on PBIT, achieving customer ODIs and our health and safety performance. This means that our employees' and managers' reward are based on the same measures right through the whole company, as explained in more detail on page 107. In addition, our all employee share scheme has a remarkable 70% take-up and our market leading pension scheme has 98% of employees enrolled. The Our Brilliant People recognition scheme is also proving successful, with our people being nominated 17,087 times for recognition for excellent work. In 2017/18, the bonus structure for all employees will introduce a further performance measure on customer satisfaction.

We invest significant sums in training and development and in total we delivered 20% more training days in 2016/17. Inspiring Great Performance is our approach to having great conversations about development, so we can create programmes that meet business and personal needs. We continued to run our Awesome Leaders Programme, which is our flagship programme for team managers. More than 400 people have now been through it. We also developed 65 middle managers, to help them embed this programme with their team leaders.

This year, we rigorously reviewed the personal development plans for our senior and middle managers. As a result, we're developing a programme for our middle managers, which will cover areas such as building networks, improving stakeholder engagement and commercial knowledge.

In addition, we've designed a programme of technical development for operational managers, which provides 15 days of training across 25 subject areas. We've also introduced a comprehensive training programme called Skilled by Choice, for team managers and staff at our water treatment works.

With many skilled people in our workforce set to retire in the next 10 years, bringing the next generation of talent through is critical. This year we therefore trebled the number of apprentices we took on and doubled our graduate intake. We were recognised for our work as regional winners in the National Apprenticeship Awards and Asian Apprenticeship Employer of the Year. We also run a wide range of careers events in schools, colleges and universities, to inspire young people to study science, technology, engineering and maths subjects, and consider a career with us.

The response rate to our annual employee survey increased from 80% to 84% and our people gave us higher scores in every category. Our overall engagement score improved by three percentage points and is above the global benchmark, reflecting our considerable efforts to respond to the findings of last year's survey. One third of our teams have a top quartile engagement score and we continue to receive high scores in health, safety and the environment; diversity and inclusion; and customer focus. Areas where we're looking to improve include collaboration across teams, career progression and employee recognition.

Outlook

While we're pleased with many aspects of this year's performance, we're aware that we have much more to do to achieve the high standards we, our customers and our other stakeholders expect.

In 2017/18, we'll continue to focus on our customer ODIs so we improve customer service. We'll look to do better for customers when things go wrong and reduce the level of water quality complaints. We'll also continue to strive to be the environmental leader in everything we do and to be a key player in helping the industry to strengthen its long term asset management approach.

Case study

Delivering our vision and purpose through our strategy and values

ACTING WITH INTEGRITY

Strategic goals

Reduction in unwanted calls

15,000

Being transparent and putting customers in charge with our new bill design

In previous years, too many customers had to call us because they couldn't understand their bills. To improve their experience, we analysed their calls and engaged with our frontline agents, to identify the common complaints. We then ran focus groups and surveyed more than 1,000 people, to find out exactly what our customers want.

The outcome is a new bill which highlights the most important information. It makes clear what our customers get for their money, with easily understood descriptions, and puts them in control by setting out their payment options and the help that's available. The bill also shows metered customers how much water they've used and relates it to the equivalent in pints, showers or cups of tea, encouraging them to cut their usage.

The new bills have been a real success. This year, we've had 15,000 fewer unwanted calls in just the first five weeks of our main billing season.

"The new bill design makes sure customers have all the information they need to make informed decisions, giving them more control over the service they receive."

Catherine McGuinness,
Business Change Specialist


We've improved the billing experience by asking what we could make easier for you
SEVERN TRENT
Back
Plus, some new features for metered customers
MacBook Air



SEVERN TRENT BUSINESS SERVICES

Business Services business model

Turnover from continuing operations

£309.6m

Underlying PBIT

£37.2m

Reported PBIT

£39.8m

Severn Trent's Business Services portfolio allows us to apply our water and waste water services knowledge to create and deliver services to customers in the UK, Ireland and the USA.

Generating returns through the value chain

We have expertise, skills and a good track record in water and waste water related operations and maintenance. Business customers are looking for partners that they can trust to deliver a compliant, reliable and cost-effective service, which is exactly what our brand speaks to. We will continue to build on our established business which can be split broadly into two categories:

1. Operations and Maintenance Offers – whereby we use our technical expertise to efficiently operate water and waste assets on behalf of others. In the UK, such customers include the Ministry of Defence and the Coal Authority whilst in the USA we look after the assets of over 290 customers and municipalities across 18 states.
2. Service Offers – whereby we link our customers to other expertise they might need such as water hygiene monitoring, plumbing and drainage insurance through our strategic partnership with HomeServe, and property searches through Severn Trent Utility Services.





Our business model

The resources and relationships critical to our success

Read more on page 39

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 40

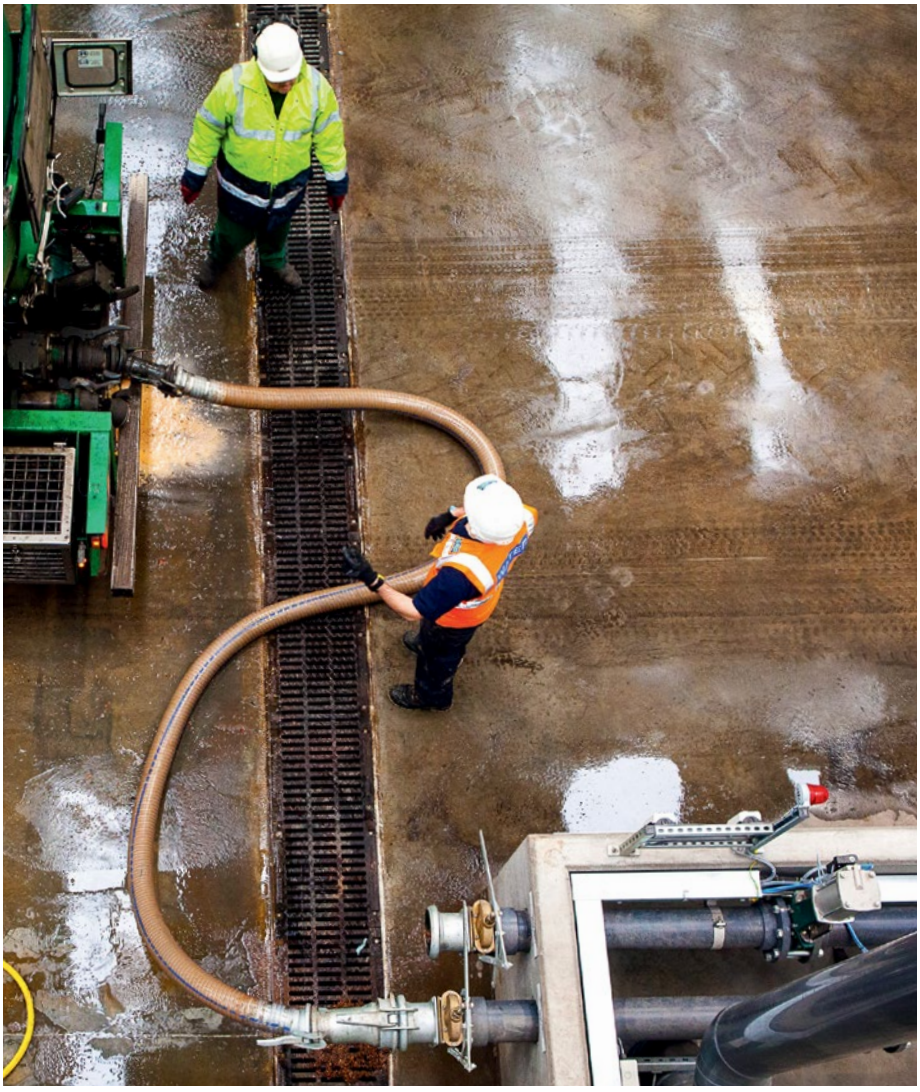
Renewable Energy

Read more on page 38

Associated risks

Read more on page 39

Business Services business model continued



Operations at our food waste plant.

The majority of our business is generated and retained through long term agreements. These agreements are collaborative partnerships, which include performance commitments setting out what we will deliver and how. Revenue and profitability is driven by base contract fees, supplemented by additional growth work that comes from the provision of enhanced services.

Renewable energy

At the beginning of AMP6, we set out our plan to invest in a range of renewable technologies, with all projects achieving double digit returns. Our target is to generate the equivalent of 50% of Severn Trent Water's energy needs by 2020 and we're on track to achieve that, having generated 34% of Severn Trent Water's energy needs in 2016/17. Our renewable energy business contributed PBIT of £19.4 million this year. The majority of the remaining gas we produce is supplied to the national grid, in support of the Government's aim to decarbonise the UK economy.

To date, we've spent or committed around £130 million of the £190 million investment we have planned for AMP6, with new regulated sludge anaerobic digestion assets accounting for roughly 37% of that. The remaining spend, on non-regulated assets, includes our investment in solar in 2015/16 and food waste anaerobic digestion this year.

Our second food waste plant, at Roundhill, was commissioned in May 2017. It can inject enough gas into the national grid to heat over 3,000 homes. We've obtained planning permission for our next food waste site in Derby, with the aim of completing it in 2018.

The investment we've made in recent years puts us at the forefront of our industry for renewable energy generation. This was recognised by Utility Week, which gave us its Environment Award for the second year running.

Our critical resources and relationships

Customers

Business Services' customers are public sector bodies, including municipalities, and industrial and commercial organisations. They retain us on multi-year contracts to provide water and waste water services, often operating and maintaining assets owned by the customers themselves. They look to us to deliver these services more cost-effectively and efficiently than they could manage themselves.

Employees

Our approach to attracting, retaining, developing and engaging our people is common across the Group. More information can be found in the discussion of our regulated business on pages 32 and 33.

Partners

We provide non-household retail services through Waterplus, our joint venture with United Utilities. More information on this joint venture can be found in the performance review on page 40.

We have another joint venture in Ireland with Response Engineering called Severn Trent Response which operates two waste treatment operation and maintenance contracts in Letterkenny and Limerick.

We have just renewed our contract agreement with HomeServe for another six years through which we refer customers to HomeServe for insurance policies.

Associated risks

Business Services continues to address the risks to its strategy and business model, which are outlined below.

Processes

Hazardous processes may injure our people.

Principal risk 7
Read more on **page 53**

Failures

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

Principal risks 3 and 7
Read more on **pages 51 and 53**

Changes

Regulatory or political changes could reduce demand for our services.

Principal risk 2
Read more on **page 51**

Energy

We may be exposed to increased volatility in energy prices.

Planning

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

Business Services performance review

Business Services had a strong year. Turnover from continuing operations increased by £32.9 million, including £22.8 million from exchange rate impacts, to £309.6 million, while underlying PBIT was 31% higher at £37.2 million.

Operating Services in the UK is now in the 13th year of our 25 year, £1 billion operating and maintenance contract with the Ministry of Defence ('MoD'), which continues to perform well. Despite reductions in the volume of water the customer uses, we've grown revenue through sales of additional services, such as a contract to upgrade the facilities at RAF Marham. We've also delivered an improvement in key operational metrics. For example, clean water sample failures are down 20% this year, while incidents of sewer blockages, floodings and supply interruptions are 11% lower. We've focused on developing our relationship with our customers in the MoD and are delighted to maintain a positive net promoter score with the MoD.

The Coal Authority contract is also performing well. The water we pump from the mines contains iron oxide and we've worked in partnership with our customer to find uses for it. As a result, the first contract has recently been signed to sell this by-product from our operation.

In Developer Services, we've continued to deliver improvements in our service to customers who need new water and waste water connections. We were pleased to be placed in the top three companies for water connections by Ofwat. In waste, whilst we had fewer service level agreement failures than last year, we only placed in the middle of the pack, so we are determined to improve. We are undergoing a reorganisation to align better with different customers' needs and to streamline our processes. The team were delighted to receive an acknowledgement of our performance from the Homebuilders' Federation who awarded us their 'Utility of the Year' award.

Our business in Italy also did well this year. However, our desire to focus on our core activities led us to sell it to our former joint venture partner, Acea S.p.A., which we believe is the right strategic owner for it.

We continued to improve performance in our USA Operating Services business. We have rationalised our contract portfolio to ensure we're operating with customers and on contracts where our focus on excellence and compliance truly adds value, and where we can earn the right financial returns. The $14 million Oklahoma City contract has started well and we've continued to win work with other customers, as well as retaining 90% of our existing contracts at rebid. Our environmental performance in the USA also improved during the year, with a 99.8% compliance rate across water and waste water.

One of the key developments in the year was the creation of our Waterplus joint venture with United Utilities, ahead of the opening of the non-household retail market in April 2017. Waterplus is an independent company, with its own management team and a new office in Stoke-on-Trent. All non-household customers have transferred to the company.

This is an exciting development. As the largest player in the market, WaterPlus aims to provide industry-leading retail services, which respond to customer needs as the market develops. As described on page 32, our regulated wholesale business has also gone through the necessary preparations to serve retailers in this market, meaning that we're in great shape for competition in the non-household sector.

Business Services achieved a notable increase in its employee engagement score this year, which rose six percentage points. The improvement resulted from our focus on communications and the training and development programmes we've put in place.

Outlook

Our aim in the coming year is to focus on delivering great customer service in our UK, Ireland and USA Operating Services businesses. At the same time, we'll continue to invest in renewable energy, as we make further progress towards our 2020 target.

Chief Financial Officer's review

The Group has delivered strong financial performance in 2016/17, reflecting the hard work and dedication of my colleagues. Our Regulated Water and Waste Water business has continued to reduce operating costs as our efficiency programmes deliver results. In Business Services we have delivered growth as promised both in revenues and underlying PBIT. We have enhanced our dividend policy for the remainder of AMP6, with effect from 2017/18, and will now increase the dividend by at least RPI +4% each year.

This year we have completed a number of strategic transactions that will allow us to build value in our core strengths of water, waste and renewable energy:

- On 1 June 2016 we completed the disposal of our non-household retail activities to Waterplus, our joint venture with United Utilities. These activities have been reported as a discontinued operation and the previous year's figures have been restated to reflect this. Details of the restatement were set out in a stock market announcement on 8 September 2016.
- On 15 February 2017 we completed the acquisition of Dee Valley Water for total consideration of £84 million. We have made rapid progress in integrating the acquisition into our regulated business and we expect to see the benefit of our anticipated synergies in 2017/18.
- On 23 February 2017 we sold our Operating Services business in Italy to our former joint venture partner, Acea S.p.A., resulting in an exceptional gain before tax of £2 million.

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

- Group turnover from continuing operations was £1,819.2 million (2015/16: £1,753.7 million), an increase of 3.7% as our allowed prices in Regulated Water and Waste Water increased by 1.5% and Business Services' external turnover grew by 13.1%.
- We increased underlying PBIT by 4.3% to £525.1 million (2015/16: £503.4 million). Our efficiencies in Regulated Water and Waste Water enabled operating cost savings (excluding infrastructure renewals and depreciation) of £9.4 million year-on-year.
- Reported Group PBIT was up 7.8% to £543.7 million (2015/16: £504.4 million).
- Cash from operations was up £53.5 million (6.7%).

On pensions, we have made good progress in managing our risks:

- We have successfully agreed the funding plan for the Severn Trent defined benefit pension schemes following formal closure of the triennial valuation. The new asset backed funding arrangement will provide index-linked annual payments, starting at £15 million in 2017/18, for 15 years or, if sooner, until no longer needed. In addition we will make annual payments of £10 million for three years starting in 2016/17 and we made a further payment of £15 million in 2016/17 in lieu of the payment from the new asset backed funding arrangement.
- We have agreed arrangements to reduce exposure to interest and inflation rate volatility on our pension liabilities.
- We completed the pension increase exchange arrangement announced at the half year, generating a finalised gain of £16.6 million, which we have disclosed as an exceptional item.

The accounting net deficit of the Severn Trent pension schemes has reduced from £711.7 million at 30 September 2016 to £574.6 million at 31 March 2017.

On financing, we have a strong funding position, with all our projected investment and cash needs through to January 2019 covered by cash or committed facilities. Moody's moved their outlook on our long term rating from negative to stable during the year, reflecting their anticipation of the Group benefiting from ODI rewards, totex outperformance, financing outperformance and a more favourable inflation environment.

- We raised £400 million in a sterling bond issue at the lowest coupon we have ever achieved and £100 million through a floating rate bank loan.
- Net finance costs were £204.0 million (2015/16: £209.3 million). Our effective interest rate was 4.4%, down from 4.5% in 2015/16 and down from 5.4% since the beginning of AMP6.

Our underlying effective tax rate was 16.6%, down from 18.5% in 2015/16, as we benefited from allowances on our increased capital programme.

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,528.8 million (2015/16: £1,506.1 million) and underlying PBIT was £494.7 million (2015/16: £482.5 million). As noted in our announcement on 8 September 2016, the prior year underlying PBIT has been restated by £9.6 million to reflect the share of costs incurred in Regulated Water and Waste Water that was previously reallocated to the non-household retail operations. As these activities are not transferring to the joint venture, they are deemed to remain with Regulated Water and Waste Water.

Chief Financial Officer's review continued

	2017 £m	2016 (restated) £m	Better/(worse) £m	Better/(worse) %
Turnover	**1,528.8**	1,506.1	22.7	1.5
Net labour costs	**(140.8)**	(144.7)	3.9	2.7
Net hired and contracted costs	**(146.1)**	(150.4)	4.3	2.9
Power	**(86.8)**	(89.1)	2.3	2.6
Bad debts	**(20.6)**	(20.3)	(0.3)	(1.5)
Other costs	**(186.8)**	(186.0)	(0.8)	(0.4)
	(581.1)	(590.5)	9.4	1.6
Infrastructure renewals expenditure	**(136.2)**	(126.0)	(10.2)	(8.1)
Depreciation	**(316.8)**	(307.1)	(9.7)	(3.2)
Underlying PBIT	**494.7**	482.5	12.2	2.5

Turnover increased by 1.5%, as higher tariffs, including the impact of the annual RPI increase on prices, increased revenue by £22.6 million. Higher consumption added a further £3.1 million, offset by meter optants and other small movements that reduced revenue by £3.0 million. Dee Valley Water contributed £2.2 million for the six weeks from the date of acquisition.

Net labour costs were £3.9 million (2.7%) lower. Gross employee costs increased by 9.2%, in part as a result of our strategy to bring more work in-house, and the increased activity on capital projects, which resulted in an increase in the level of own labour capitalised, £25.5 million higher than in the previous year.

Net hired and contracted costs decreased by £4.3 million. As well as driving supply chain efficiencies, we have been building our in-house skills and expertise to reduce our use of external consultants.

Our net labour and hired and contracted costs this year included £7.4 million (2015/16: £4.7 million) to prepare the wholesale business for non-household retail competition.

Power costs were £2.3 million lower year-on-year. We implemented a number of actions that successfully reduced consumption, despite higher water production driven by customer demand. The Group manages its power costs through a combination of demand management, self-generation and forward price contracts.

The bad debt charge from household customers remained stable at 1.8% of household revenue. Total bad debt charges were £0.3 million greater, reflecting the increased turnover. Following market opening, retailers now bear the credit risk for non-household customers and Regulated Water and Waste Water bears the credit risk on sales to retailers.

Other costs increased by just £0.8 million, despite the previous year benefiting from a rebate of £4.4 million from the Environment Agency.

Infrastructure renewals expenditure was £10.2 million greater in the year reflecting the planned step up in activity, and the completion of the Bleddfa tunnel (£20.2 million in 2016/17, £4.0 million greater than 2015/16) partially offset by operating efficiencies.

Depreciation of £316.8 million resulted from the impact of the 4% increase in depreciable assets.

Return on Regulated Equity ('RoRE')

RoRE is a key performance indicator for the regulated business reflecting performance on totex, ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2017 and for the two years ended on that date is set out in the following table:

	2016/17 %[1]	AMP6 to Date %[1]
Base return[2]	5.6	5.6
Totex outperformance[3]	2.1	1.4
ODI outperformance[4]	1.3	1.0
Financing outperformance[5]	1.8	1.6
Other[6]	0.2	0.1
Regulatory return for the year	**11.0**	**9.7**

1 Based on RCV of £7,413 million for 2016/17 and £7,324 million for AMP6 to date, both in 2012/13 prices.

2 Based on Final Determination, with an adjustment to the 2016/17 base return to exclude the non-household retail return that is now being earned by Waterplus.

3 Company share of totex outperformance in the year/AMP to date, adjusted for phasing.

4 Company assessment of performance – 2016/17 performance will be subject to Ofwat review in Autumn 2017.

5 Based on actual financing cost and net debt. The nominal finance cost from the Final Determination has been deflated to 2012/13 prices using the Final Determination average RPI inflation for the period. Ofwat have provided further clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly. On this basis we estimate our RoRE would be 10%.

6 Includes land sales and disposals, other income, the Wholesale Revenue Forecasting Incentive Mechanism and element of non-household retail revenue performance earned before the Waterplus joint venture.

We have delivered strong returns of 11.0%, and our performance has been strong across the board – with exceptional customer ODI performance, improved operational and investment efficiency service levels, and continuing outperformance on finance.

Following their review of the RoRE performance reported across the sector, Ofwat have provided further clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly.

In line with this guidance which mainly affects the calculation of financing outperformance, we estimate our RoRE for 2016/17 would be 10.0% and our cumulative RoRE would be 8.2%.

Under either measure we are pleased to be delivering sustained, balanced outperformance for the benefit of our customers and investors.

Business Services

	2017 £m	2016 (restated) £m	Increase £m	Increase %
Turnover				
Operating Services	**255.6**	226.7	28.9	12.7
Renewable Energy	**54.0**	50.0	4.0	8.0
	309.6	276.7	32.9	11.9
Underlying PBIT				
Operating Services	**17.8**	11.5	6.3	54.8
Renewable Energy	**19.4**	16.9	2.5	14.8
	37.2	28.4	8.8	31.0

In our Operating Services business, turnover increased by £28.9 million including £22.8 million from exchange rate impacts and underlying PBIT increased by £6.3 million, as a result of strong performance in our US contracts and exiting some less profitable contracts. We sold our Italian businesses in February of this year, therefore they will not be included in next year's results.

In the Renewable Energy business, turnover increased by 8.0% and underlying PBIT increased by just under 15%, largely driven by growth in generation from both sludge and crops.

The results above exclude the non-household retail business, which was transferred to the Waterplus joint venture during the year and the Water Purification business, which was sold during the prior year. These businesses have been classified as discontinued operations in the current and previous years.

Corporate and other

Corporate overheads were £10.0 million (2015/16: £10.6 million) and our other businesses generated a net profit of £1.2 million (2015/16: £3.1 million).

Exceptional items before tax

An exceptional gain of £16.6 million arose (2015/16: nil) from the net benefit, after implementation costs, of a Pension Increase Exchange arrangement under which pensioners of the defined benefit schemes were offered the opportunity to exchange future non-statutory inflationary increases in a portion of their pensions earned prior to 1997 for a higher pension payment now.

The disposal of our Italian Operating Services businesses resulted in a gain of £2.0 million.

In 2015/16 there was a gain of £1.0 million arising from the release of a provision originally recorded as an exceptional charge.

Net finance costs

At the start of the AMP we took a series of actions to take advantage of low floating interest rates. The benefits of this approach are reflected in our net finance costs this year of £204.0 million, £5.3 million lower than the prior year (£209.3 million). Lower costs on floating rate debt were partially offset by higher inflation in the year, which led to higher finance costs on the 27% of our debt that is index-linked. Finance costs capitalised were higher than the prior year due to the increased level of capital activity in the year.

The effective interest rate, including index-linked debt, for the year was 4.4% (2015/16: 4.5%). The effective cash cost of interest (which excludes the RPI uplift on index-linked debt) was 3.8% (2015/16: 4.2%).

Our profit before interest, tax, depreciation, and amortisation ('PBITDA') interest cover was 4.4 times (2015/16: 4.2 times) and PBIT interest cover was 2.7 times (2015/16: 2.6 times).

Gains/losses on financial instruments

We use financial derivatives solely to hedge risks associated with our normal business activities including:

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

Accounting rules require that these derivatives are revalued at each balance sheet date and, unless the strict 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 as the change in value of the derivative, then an accounting mismatch arises 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 we show underlying earnings figures that exclude these non-cash items. In exceptional circumstances we 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.

We hold interest rate swaps with a net notional principal of £106.9 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 so the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a gain of £11.1 million (2015/16: £53.8 million) in relation to these instruments.

Chief Financial Officer's review continued

Note 13 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed around 85% of our estimated wholesale energy usage for 2017/18.

Taxation

The total tax charge for the year was £7.1 million (2015/16: credit of £13.6 million).

Note 14 in the financial statements sets out the tax charges and credits in the year, which are described in more detail below.

The current year tax charge before exceptional tax was £36.9 million (2015/16: £51.3 million). There was an exceptional credit of £16.4 million (2016: nil) from adjustments following agreement with HMRC of prior years' tax matters and our net tax paid was £11.6 million lower than the previous year.

The deferred tax charge before exceptional tax was £22.4 million (2015/16: £13.7 million).

In common with other utilities, we have a significant deferred tax provision that mainly relates to the benefits received in the past from tax allowances on capital expenditure before the depreciation on those assets was charged to our profits. This provision does not represent a liability for tax payable but is released to the income statement as the depreciation catches up with the tax allowances received. The provision is calculated at the rate of tax applicable when the provision is expected to reverse. In September 2016 the Government enacted legislation to reduce the rate of corporation tax to 17% from 2020. As a result we recorded an exceptional deferred tax credit of £39.8 million as the provision was recalculated at the new lower tax rate. In 2015/16, there was an exceptional deferred tax credit of £78.6 million arising from a reduction in corporation tax rate, enacted in that year, from 20% to 18% with effect from 1 April 2020.

Our underlying effective current tax rate was 16.6% (2015/16: 18.5%). Higher capital allowances have reduced the effective rate in the current year.

Profit for the year and earnings per share

Profit for the year from continuing operations increased by 3.9% to £329.0 million (2015/16: 316.5 million).

The profit for the year from discontinued operations was £13.6 million (2015/16: £14.8 million).

Total profit for the year including discontinued operations was £342.6million (2015/16: £331.3 million).

Basic earnings per share from continuing operations increased by 4.9% to 140.1 pence (2015/16: 133.5 pence). Underlying basic earnings per share were 122.4 pence (2015/16: 102.1 pence). For further details see note 16.

Cash flow

	2017 £m	2016 £m
Cash generated from operations	**851.0**	797.5
Net capital expenditure	**(501.3)**	(410.0)
Net interest paid	**(177.0)**	(189.6)
Acquisition of subsidiaries	**(77.7)**	–
Proceeds on disposal of discontinued operations and subsidiaries	**(19.2)**	45.7
Proceeds on maturity of forward contracts	**4.3**	–
Tax paid	**(21.8)**	(33.4)
Free cash flow	**58.3**	210.2
Dividends	**(190.4)**	(197.0)
Issue of shares	**6.1**	7.3
Purchase of own shares	**–**	(97.1)
Change in net debt from cash flows	**(126.0)**	(76.6)
Non-cash movements	**(133.0)**	5.8
Change in net debt	**(259.0)**	(70.8)
Opening net debt	**(4,823.4)**	(4,752.6)
Closing net debt	**(5,082.4)**	(4,823.4)

	2017 £m	2016 £m
Cash and cash equivalents	**44.6**	55.2
Bank loans	**(1,073.3)**	(1,249.8)
Other loans	**(4,090.0)**	(3,539.7)
Finances leases	**(115.7)**	(117.2)
Cross currency swaps	**43.4**	28.1
Loans due from joint ventures and associated undertakings	**108.6**	–
Net debt	**(5,082.4)**	(4,823.4)

At 31 March 2017 we held £44.6 million (2015/16: £55.2 million) in cash and cash equivalents. Average debt maturity was around 15 years (2015/16: 15 years). Including committed facilities, our cash flow requirements are funded until January 2019.

Net debt at 31 March 2017 was £5,082.4 million (2015/16: £4,823.4 million) and balance sheet gearing (net debt/net debt plus equity) was 84.6% (2015/16: 82.6%). Net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2017 was 61.7% (2015/16: 61.6%).

The estimated fair value of debt at 31 March 2017 was £1,444 million higher than book value (2015/16: £863 million higher). The increase in the difference to book value is largely due to the decrease in the discount rates applied, driven by lower prevailing market interest rates.

Treasury management and liquidity

Our principal treasury management objectives are:

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

We invest cash in deposits with highly rated banks and liquidity funds. We regularly review the list of counterparties and report to the Treasury Committee.

In November 2016 we took advantage of low interest rates to issue a £400 million sterling bond with a maturity of 15 years. The proceeds were swapped to floating rate in line with our current strategy of increasing the proportion of floating rate debt in our mix. We also raised a further £100 million through a floating rate bank loan. This was drawn down in December 2016.

Our policy for the management of interest rates is that at least 40% of our borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2017, interest rates for 51% (2015/16: 55%) of our net debt of £5,082.4 million were fixed.

Our long term credit ratings are:

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

The outlook is stable for both agencies.

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 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 value 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.

Chief Financial Officer's review continued

Pensions

We have three defined benefit pension arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes closed to future accrual on 31 March 2015.

Formal three-yearly actuarial valuations have been completed as at 31 March 2016 for the Severn Trent schemes ('the Schemes') and we have agreed the future funding plan for the Schemes with the Trustee. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, includes:

- Inflation-linked payments of £15 million per annum through a new asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.
- Further payments of £10 million for the three financial years ending 31 March 2019 and an additional payment of £15 million in 2016/17 in lieu of the payment from the new asset-backed funding arrangement, which will start in 2017/18.
- Continued payments under the existing asset-backed funding arrangement, which provides £8.2 million per annum to 31 March 2032.
- In addition to these payments, the Company will directly pay the annual Pension Protection Fund levy incurred by the STPS (£1.2 million in 2016/17).

We have agreed with the Trustees to enter in to additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Dee Valley Water participates in the Dee Valley Water plc section of the Water Companies Pension Scheme ('the Section'). The Section funds are administered by trustees and are held separately from the assets of the Group.

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £574.6 million at 31 March 2017. This compares to a deficit of £711.7 million as at 30 September 2016 (31 March 2016: £309.5 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long term liabilities, irrespective of the nature of the scheme's assets or their expected returns. The sharp decrease in corporate bond yields in the first half of the year has partially reversed in the second half and this, together with the continued good performance of the Schemes' assets, particularly equities, has driven a reduction in the pension deficit in the second half year.

The movements in the net deficit during the period were:

	2017 £m	2016 £m
Present value at 1 April	**(309.5)**	(468.9)
Acquisition of Dee Valley Water	**9.8**	-
Change in actuarial assumptions	**(538.8)**	194.2
Asset out/(under)performance	**227.6**	(45.9)
Contributions in excess of income statement charge	**36.3**	11.1
Present value at 31 March 2017	**(574.6)**	(309.5)

On an IAS 19 basis, the funding level was 80% (31 March 2016: 87%).

Exchange rates

The trading results of overseas subsidiaries are translated to sterling at the average rate of exchange ruling during the year and their net assets are translated at the closing rate on the balance sheet date. The impact of changing exchange rates on the subsidiaries' trading results was immaterial.

Dividends

The Board has proposed a final ordinary dividend of 48.90 pence per share for 2016/17 (2015/16: 48.40 pence per share). This gives a total ordinary dividend for the year of 81.50 pence (2015/16: 80.66 pence). The final ordinary dividend is payable on 21 July 2017 to shareholders on the register at 16 June 2017.

We have enhanced our dividend policy for the remainder of AMP6, with effect from 2017/18, and will now increase the dividend by at least RPI +4% each year, taking the 2017/18 dividend to 86.55 pence.

Accounting policies and the 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

Severn Trent is less affected than other companies by the decision to leave the European Union ('EU') – we operate principally in the UK and our supplier base and customers are predominantly domestic. We are, however, subject to some of the broader developments that flow from the decision, such as:

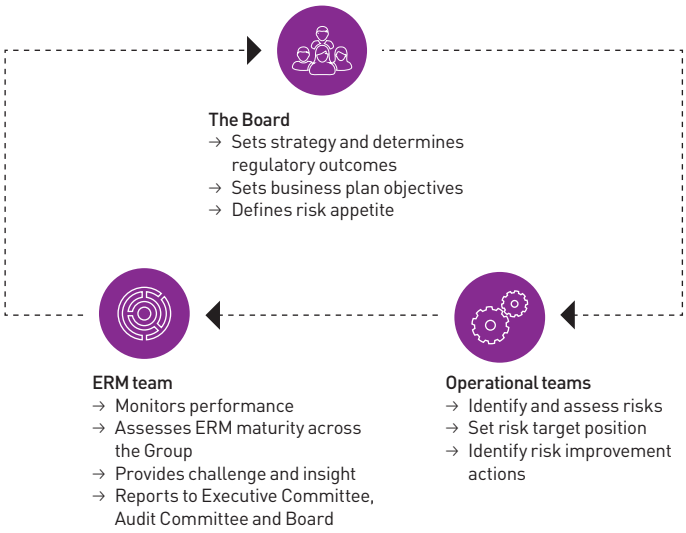
1. The effect on interest rates. Interest rates fell in the wake of the referendum decision. Lower rates reduce our cost of variable rate debt but they have an adverse impact on our pension deficit. (see principal risk 9).
2. The impact on our sources of finance. Where we borrow money from will be affected by broader macro-economic considerations and whether we will still have access to the European Investment Bank (or its equivalent) after leaving the EU (see principal risk 10).
3. Future changes to environmental regulation. EU-derived environmental regulation has historically been a major driver of our investment programmes. The extent to which the UK Government will follow or deviate from EU environmental legislation in the future is unclear.
4. The impact on the domestic economy. The health of the domestic economy can impact the ability of some of our customers to pay their bills.

We don't consider the uncertainty surrounding the Brexit negotiations as a principal risk in itself, but it will be an influencing factor on the potential causes of some of our principal risks. Understanding the implications of the Brexit negotiations will therefore form a key part of future ERM risk review process and the assessment of our principal risks.

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 ability to achieve 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 ERM process



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.

Risk management continued

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 Regulated Water and Waste Water business is such that there are some significant inherent risks, as illustrated on pages 50 to 55. 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.

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 50 to 55.

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 monthly basis, the status of open risk mitigation actions across the Group is reported into the Executive Committee by the central ERM team. The level of ERM maturity in each business unit is assessed half-yearly and reported to the Executive Committee. Where necessary, improvement plans are agreed to ensure ERM is fully embedded and effective, and during 2017/18 we will integrate Dee Valley into our risk management processes. An overview of accountability for our ERM process is illustrated in the diagram on page 47.

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 need. This is part of our normal business planning process (see principal risk 2). 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 10). The pension fund Trustees and Company regularly monitor our net 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 9).

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.

Long Term Viability Statement

The Directors' assessment of the Group's current financial position is set out in the Chief Financial Officer's review on pages 41 to 46 and their assessment of the Group's principal risks is set out in the Principal risks section on pages 50 to 55.

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 2020, 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 2020.

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.

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?

Regulated Water and Waste Water business

Link to how we're achieving our strategy (pages 20 and 21)

Embed customers at the heart of all we do

Link to our values (page 1)

We put our customers first

We are passionate about what we do

We act with integrity

ODIs

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?

The last 12 months have been a continuation of driving a culture to put customers first by improving proactive communication and getting things right first time. We have launched a new website which makes it easier for customers to self-serve and find the information they want. In the next year we will be extending this by launching our new web self-service offering. We have also seen an increase in usage of webchat, Facebook and Twitter.

We have continued to embed the performance and quality framework and expanded it to all contact centre teams driving the quality of the experience and conversation, not just the actions. An assessment and upskilling activity has taken place across all the contact centres to ensure we have the right capability when answering customer queries. The next year this will continue and be supported by a new customer management portal that will allow agents to have information about customers more visible so they can personalise the experience more. In addition to this we are in the process of multi-skilling a proportion of agents so we can cope with peaks in demand during the year, e.g. when an incident occurs.

Our voice of the customer programme has continued to feed insight to drive improvement. Over the next 12 months we will be implementing a new solution which will allow us to extend our channels so more customers' voices get heard. It will also give us the capability to develop a customer forum so we can get feedback on broader ideas before implementing them.

We recognise we need to focus on the full end to end customer journey and have some targeted improvement plans being delivered through the water, waste and retail upper quartile programmes. This includes a full end to end review of the water processes where we currently experience some customer experience challenges.

Movement in net risk exposure

Key:

- Increase in net risk exposure
- No change in net risk exposure
- Decrease in net risk exposure

Legal and regulatory environment

2

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?

Group-wide

Link to how we're achieving our strategy (pages 20 and 21)

Change the market for the better

Invest responsibly for sustainable growth

Link to our values (page 1)

We put our customers first

ODIs

N/A

What does it mean for us?

Severn Trent Water 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.

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 Ltd, the body which will oversee competition in the non-household retail market.

We continue to participate in discussions with Ofwat regarding the development of the future regulatory environment and their consultation documents relating to Water 2020. 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



3

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 (pages 20 and 21)

Drive operational excellence and continuous innovation

Change the market for the better

Invest responsibly for sustainable growth

Link to our values (page 1)

We act with integrity

We protect our environment

ODIs

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 are designed to ensure our ongoing compliance with all applicable laws and regulations.

The introduction of non-household retail competition meant we needed to refresh our policy framework. We have developed 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. We will continue to monitor the framework to ensure we remain compliant.

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



Principal risks continued

Operations, assets and people

4

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 (pages 20 and 21)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Link to our values (page 1)

We put our customers first

ODIs

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 National Cyber Security Centre ('NCSC') we added a number of additional cyber security controls during 2016 to improve our capability to prevent, detect and respond to external cyber attacks including greater protection of our customers' personal data.

IS teams have been working with Wholesale operations at our major water treatment works during 2016 to ensure that physical security and resilience for the technology is improved.

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



5

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?

Regulated Water and Waste Water business

Link to how we're achieving our strategy (pages 20 and 21)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Invest responsibly for sustainable growth

Link to our values (page 1)

We put our customers first

We are passionate about what we do

We protect our environment

ODIs

ODIs 1-45

What does it mean for us?

If we are unable to meet operational performance targets, we may be subject to 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.

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.

We are continuing our Cleanest Water Plan which drives the delivery of our inspection, cleaning and repair of storage tanks, increasing our capital maintenance interventions, optimising our operation and maintenance tasks and formalising our processes, standards and operating procedures involved in delivering clean water.

We target serviceability of our assets through prioritising and targeting our capital maintenance. We use asset deterioration models to do this, informed by our operational risk management systems. Our governance boards also regularly review investment needs against performance and balance the programme accordingly.

We use leading measures on our comm cells and performance meetings to track delivery against customer ODIs and performance commitments so that we can intervene in a timely fashion if performance is drifting.

Movement in net risk exposure



6

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 (pages 20 and 21)

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Invest responsibly for sustained growth

Link to our values (page 1)

We put our customers first

We are passionate about what we do

ODIs

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?

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 mains burst in Birmingham being a prime example. 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



7

What is the risk?

Due to the nature of our operations a failure of our procedures could endanger the health and safety of our people, contractors and members of the public as well as harm our local and wider environment.

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (pages 20 and 21)

Drive operational excellence and continuous innovation

Invest responsibly for sustained growth

Create an awesome place to work

Link to our values (page 1)

We protect our environment

We act with integrity

ODIs

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 for 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 & Wellbeing framework to ensure all of 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 ODI commitments we have made to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance. In AMP6 we will be delivering our largest ever environment 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. We have been provisionally rated 3* this year by the Environment Agency in their Environmental Performance Assessment.

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, driving energy efficiency and generating renewable energy. We aim to increase the amount of renewable energy we generate and to invest in ways to make our processes more energy efficient, and our target is to generate 50% of Severn Trent Water's energy needs by 2020.

More details can be found in the Corporate Responsibility report on pages 57 to 69.

Movement in net risk exposure



Principal risks continued

8

What is the risk?

Failure to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or changes to 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 (pages 20 and 21)

Drive operational excellence and continuous innovation

Invest responsibly for sustained growth

Link to our values (page 1)

We protect our environment

ODIs

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

What does it mean for us?

Climate change (hotter and drier summers, wetter winters and more storms) could result in an inability to meet customer demand, lower river levels, decreased raw water quality, flooding of our water or waste works, sewer capacity being exceeded and increased land movement. Climate change could also be a contributing factor for principal risks 1, 5, 6 and 7 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.

Work is now gathering momentum on putting together our next water resources management plan. Understanding the impact of climate change is central to this process.

Our analysis for the National Flood Resilience Review ('NFRR'), that was instigated by Defra/the Cabinet Office after the flooding of winter 2015/16, identified our non-infrastructure (overground) sites that are at risk from river or surface water flooding using a new higher standard called the 'Extreme Flood Outline'.

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 ODI commitments will increase our resilience from 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/waste 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 7 above, there are a number of ways in which we are addressing our impact on the environment.

Movement in net risk exposure



Financial risks

9

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to how we're achieving our strategy (pages 20 and 21)

Invest responsibly for sustained growth

Link to our values (page 1)

We act with integrity

ODIs

N/A

What does it mean for us?

We already provide significant funding but could be asked by the Trustee to provide more money to reduce pension deficits in our defined benefit schemes.

What are we doing to manage the risk?

Following the Brexit vote, our main defined benefit pension scheme has seen a significant growth in the accounting value of liabilities due to the fall in long term interest rates. These financial conditions are likely to remain for the foreseeable future. The growth in the accounting deficit has adversely impacted the headroom on some of our credit ratios, such as gearing, which are relevant for debt covenant and credit ratings purposes. It also has a reputational impact that could have a bearing on investment and distribution decisions. We have commenced the process of immunising our financial covenants from adverse movements in the accounting deficit, gaining approval from relevant banks and the European Investment Bank ('EIB'). We have also clarified with rating agencies that their focus is more on the impact of cash repair payments on credit metrics, rather than movements in the accounting value of the deficit. Importantly we have agreed cash repair payments with the Trustee until the next Triennial Valuation as at 31 March 2019. We have also commenced working with the Trustee to implement additional inflation and interest rate hedging and introduce downside protection to the fund's equity holdings. It is planned to complete the new hedging arrangements by the summer of 2017, from which point the potential volatility in terms of valuation will be reduced considerably.

Movement in net risk exposure



10

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 (pages 20 and 21)

Invest responsibly for sustained growth

Link to our values (page 1)

We act with integrity

ODIs

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?

Whilst Brexit may impact our access to funding from the EIB, an attractive source of finance, we have other sources of funding we can call upon. In November 2015 we raised £471 million through a US Private Placement debt issue and in November 2016 we raised £400 million through a sterling bond issue. Despite some initial volatility following the Brexit vote, global debt capital markets continue to deliver substantial levels of liquidity, derived from the continuation of loose monetary policy in the G7.

See our Viability Statement on page 49.

Movement in net risk exposure



Case study
Delivering our vision and purpose through our strategy and values

PROTECTING OUR ENVIRONMENT

Strategic goals



Partnership working to protect our water

Metaldehyde from slug pellets is particularly hard to remove from water, so we're working with farmers to prevent this pesticide getting into our region's rivers. Over the next five years, we're investing £21 million to help farmers sustainably improve our water quality, which protects the environment and reduces our treatment costs.

"Our scheme covers 4,000 farmers and 10,000 km^2 of land, showing the scale of our efforts to protect the environment and keep our water clean."

Katherine Filby,
Catchment Management Planner

Corporate Responsibility report

Acting responsibly

Building trust can't be achieved through a single activity, but we believe that by adopting responsible business practices, making sustainable choices and living our values, we will achieve our vision and purpose.

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, which drives our two Corporate Responsibility ambitions. We are also working closely with our suppliers to support our vision.

Highlights this year

Our approach to Corporate Responsibility is broad ranging, ensuring we are delivering the commitments expected of a leading socially and environmentally responsible business. Some of the highlights this year include:

- Delivering 12,000 home water efficiency checks, helping our customers to reduce their water use by an average of 10%.
- Supporting 50,903 vulnerable customers, through our various support mechanisms, including our social tariff.
- Engaging with over 640 farmers as part of our water catchment management scheme.
- Launching an innovative employee volunteering scheme, working in a consistent structure across the business alongside key partners to clean up across 40 km of riversides within our region.

Our vision

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

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

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

Values

1. Put our customers first
2. Be passionate about what we do
3. Act with integrity
4. Protect our environment
5. Be inspired to create an awesome company

Our suppliers support our values and ambitions

Corporate Responsibility report continued

Our responsible commitments and our performance against them

Objective	Our commitment	How we are measuring our performance	This year's performance	2016/17 target	2020 target	
Ambition One: We will make our region the most water efficient in the UK	We will empower our customers to save up to 25Ml/d by 2020	Water efficiency level achieved	4.91Ml/d	5Ml/d	25Ml/d	
	We will improve understanding of our services through education	Number of customers we have educated from 2015 to 2020	167,024	160,000	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	44% (in 11 out of 12 catchments)	44% (in 12 catchments)	80% (in 12 catchments)	
	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)	15	n/a	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	-29.74	n/a	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	58%	47%	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 and assistance schemes	50,903	50,000	50,000	
We are passionate about what we do	Our employees are passionate about what we do	Group % engagement score from our annual employee survey	55%	50%	–	Benchmark*
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 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)	7	6	0	
	We reduce our carbon footprint	% reduction in Group carbon emissions (scope 1 and 2 – our direct emissions and those from the energy we use)	8%	4%***	19%	
We are inspired to create an awesome company	No one is hurt or made unwell by what we do	STW – LTI rate	0.22	0.18	–	
		Business Services – LTI rate	0.04	–	–	
	We believe a diverse and inclusive workforce is a key factor in being a successful business	STW – Total workforce % female	31.3%	33%**	–	Benchmark**
		Group – Total workforce % female	29.5%	–	–	
		STW – Total workforce % BAME	8.9%	5.0%**	–	
		Group – Total workforce % BAME	14.8%	–	–	
Our suppliers support our values and ambitions	We are a responsible payer	% invoices paid to terms, including self bill (12 month financial year average)	97%	97%	97%	

* Global benchmark from Aon Hewitt.
** Business in the community industry benchmark 2015.
*** Severn Trent Water Limited ODI target.

Materiality of our Corporate Responsibility metrics

We recognise that our activities have broad ranging impacts on the social, economic and environmental wellbeing of our region and beyond. In order to build a lasting water legacy we need to consider these impacts across the broad spectrum which we operate, both now and in the future. As such, our Corporate Responsibility framework is centred on our customer ODIs, built on extensive customer research completed at the time of the last price review. This ensures that we are focused on issues that are most important to our customers and the communities we serve. They shape our day-to-day activities to underpin our performance as a sustainable business. Acting in a responsible manner isn't just important to our customers; our annual employee survey illustrates that working for a company 'Doing the Right Thing' and being socially and environmentally responsible is a key motivational driver for our people. We also know our investors and wider stakeholders value our environmental, social and governance performance. Our Corporate Responsibility framework ensures that we reflect our values, for example creating an awesome place to work through supporting a diverse and inclusive workforce.

Our employees' reward is directly linked to our Corporate Responsibility performance, due to the significant proportion which both customer ODIs and health & safety, our key CR metrics, contribute to the bonus which our employees receive.

Performance and external recognition

We believe that by focusing on the issues most important to our customers our Corporate Responsibility framework has the right balance, and we are proud that we have again been recognised by FTSE4Good. We also continue to support the UN Global Compact Principles.

FTSE4Good

United Nations Global Compact

Corporate Responsibility risks

Our approach to Corporate Responsibility is aligned with our strategic framework. Corporate Responsibility and sustainability risks are treated in the same way as all our other company risks, and are captured at a local level by responsible teams and managed centrally through our established ERM process. By the nature of what we do several of our principal risks have a sustainability or environmental focus. You can find more details about the Group's approach to risk management and our principal risks on pages 50 to 55.

Corporate Responsibility ambitions

In order to achieve our vision of being the most trusted water company by 2020, we seek to demonstrate environmental leadership wherever we operate. We have an important role to play in protecting and sustaining water as a natural resource and the environment as a whole. With challenges around water scarcity, meeting tightening environmental standards, coping with extreme weather events and a growing population, we need to be more efficient with our use of water, the sector's use as a whole, for example through water trading, and playing our part in ensuring the health of our region's rivers. These sustainability challenges form the basis of our two Corporate Responsibility ambitions.

The water sector has a huge role to play in improving our common environment, and although we are starting in a strong and improving position we're the first to admit there is more to do. The key for future environmental success is for us all to play our part; the water sector, Government, regulators, landowners, NGOs and the general public.

Assurance of Corporate Responsibility metrics

All our customer ODI data, and therefore the majority of our Corporate Responsibility metrics, are independently assured by Jacobs. As our customer ODIs are our most material Corporate Responsibility commitments, the remaining Corporate Responsibility metrics, including health & safety and human resources metrics, have a proportionate level of assurance applied.

Corporate Responsibility report continued

Ambition 1
We will make our region the most water efficient

Securing long term access to water is a massive environmental and economic issue, which is essential to the long term future of our planet, and one in which we have an essential part to play. Some of the key ways in which we can help this are through reducing leakage and helping our customers use less water. Our objectives to achieve this ambition are set out below.

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

We have an important role in changing customer behaviours to use less water, and are committed to helping them to become more water efficient. We have set ourselves an ambitious target to help customers save 25 million litres per day (Ml/d) by 2020. We can help our customers through advice and a range of free water efficiency products (https://www.savewatersavemoney.co.uk/severntrent/free-water-saving-products).

We will improve understanding of our services through education

We have now engaged with a total of 284,752 customers during AMP6, and are confident of reaching our ambitious 2020 target of 700,000. Engagement is focused on two key themes: water efficiency; and ensuring our drains remain clear and blockage free. Both of these themes have wide reaching environmental benefits: reducing water use; and preventing blockages which consequently prevents pollutants entering water courses.

Engagement is carried out through three main groups: our customer advisers; our sewer blockages team; and our water efficiency home checks.

We are committed to reducing leakage by 6%

We will continue to drive leakage levels down year-on-year to outperform our AMP6 targets and we expect to continue reducing leakage during AMP7. This will help us to balance supply and demand by reducing losses from our network. Finding and fixing leaks will continue to be the mainstay of our leakage control strategy, but this must be done more efficiently through technological improvements in network monitoring and leak detection techniques.

Much greater focus is being placed on accounting for water in such a complex network of 47,055 km of water mains. With only 44% of domestic customers metered (through New Build and Free Optant policies) we have to make estimates of water consumption. We know from studies that there are many factors that affect usage; environmental, socioeconomic, weather and metering policies to name but a few. As we better understand and influence these factors, our estimation changes and in turn where we need to focus our efforts on unaccounted for water and actual water lost improves.

Twice the number of Water Efficiency Audits

After a successful trial in 2015/16, this year we have expanded our water efficiency home check programme. Customers in and around the Coventry area can sign up for a free home check, including a home visit, fitting of water saving devices and advice on how they can save water and check for simple leaks.

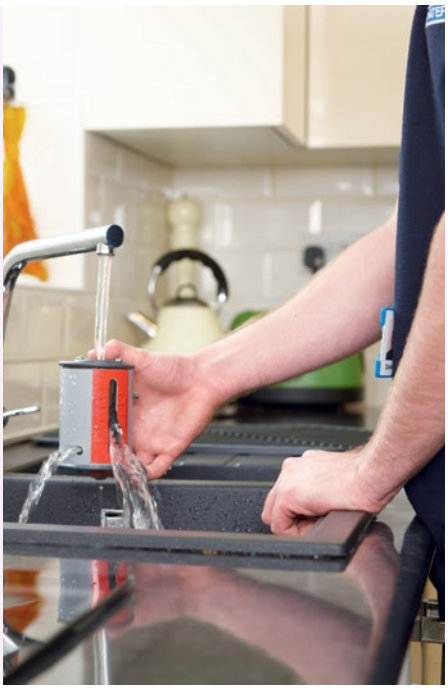
Saving customers on average 10% of their water use, this free service will help customers not only save water, but energy and money too! We've doubled the number of audits completed, with over 12,000 home checks this year. We've received great feedback from customers commenting on how helpful and informative it is, and are planning on building on this success in the future.

Securing supplies for the long term

Our plans ensure we have enough water to meet our changing customer demands and changes associated with climate change for the next 25 years. Every five years we prepare a water resources management plan which sets out what investment we need to ensure we can continue to provide enough water for our customers, describing the work we carry out to reduce leakage and promote efficiency. We also produce a drought plan detailing how we will manage our resources and supply systems in droughts to maintain our service to our customers in an environmentally sensitive way. More information about our plans is available (https://www.stwater.co.uk/about-us/plan-and-strategy/other-plans/).

Non-household activity – Retail competition

With the introduction of non-household competition, retailers have adopted responsibility for this element of our water efficiency programme. As such, we are increasing our household water efficiency activities to ensure we deliver the savings we have committed to, and are exploring options to reduce programme delivery costs and increase water savings over years three to five.



Ambition 2
We will play a leading role to help make our region's rivers even healthier

We know we have a responsibility to leave our environment in a better condition for future generations. Our objectives to achieve this ambition are set out below.

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

We're taking a more joined-up approach to making environmental improvements through a process we call catchment management, working in partnership with farmers and landowners to reduce agricultural run-off into our region's rivers. This includes preventing pesticides getting into the water and polluting it, thereby improving river quality, reducing treatment costs and improving the river environment as a whole. Our agricultural advisers have engaged with over 1,200 farms since the team formed last year, and are confident of delivering the target of working with 4,000 farms, covering an area of about 10,000km^2 over the next four years. Our farmer grant scheme, Severn Trent Environmental Protection Scheme ('STEPS'), offers grants to farmers to undertake infrastructure improvements and land management changes which will help reduce diffuse pollution, such as through the installation of bio beds. To date we have received over 500 applications. Farmers are also being rewarded for their contribution to reduced metaldehyde, from slug pellets, in farm run-off through our Farmers as Producers of Clean Water scheme. 26,000ha were signed up to this scheme in 2016. The environmental benefits of catchment management extend well beyond just water quality. The right behaviours promote conservation of soil and water, flood mitigation, sustaining landscapes, wildlife and aquatic ecosystems, biodiversity and reducing carbon footprints.

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

Our WFD programme is targeting improvements in 1,500 km of river. We have started to contribute our fair share, completing five sewage treatment works projects this year, improving over 64 km of river length. In total we will be upgrading 10% of our sewage works, and over the next three years will be upgrading over 100 works to produce higher quality effluent. We have also finalised our proposals with the Environment Agency where abstraction has been proven to be unsustainable, and have revoked or varied abstraction licences at eight sites reducing our abstractions by 40Ml/d, against a target of 85Ml/d by 2020.

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

We have agreed with Natural England the actions and activities we will take at 11 Sites of Special Scientific Interest or Special Areas of Conservation to either improve or stop deterioration in biodiversity. For example, we have a forestry management regime at Dimminsdale to improve the broadleaved, mixed and yew woodland. The management of these species is vital as they support other notified species. Year one had a planning focus and from Year two and moving forward there is a strong focus on implementing projects identified and monitoring progress with a completion date of 2020. We also have management plans at all our operational sites to ensure our activities have a minimal impact on the environment.

Taking a catchment based approach

Catchment Based Approach ('CABA') partnerships were brought in by Defra in 2011 to help achieve the Water Framework Directive initiatives. They bring together a wide range of local organisations with an active interest in their local water environment including NGOs, water companies, local authorities, landowners, angling clubs, farming groups, academia, and local businesses. The partnerships aim to drive cost-effective delivery on the ground. This results in multiple benefits including improvements to water quality, enhanced biodiversity, reduced flood risk, resilience to climate change, and greater community engagement with local rivers. There are 14 CABA partnerships in the Severn Trent region, of which Severn Trent hosts the Tame, Anker & Mease group and joint-hosts the Lower Trent & Erewash group. Hosting these partnerships is a great opportunity for us to demonstrate environmental leadership by driving improvements to our local river systems.

We are also expanding our catchment based thinking to water resources by piloting a local multi-sector approach in the highly water stressed Idle and Torne catchment in Nottinghamshire. We will share benefits and linkages to wider catchment approaches once these have been evaluated.

Corporate Responsibility report continued

Value 1
We put our customers first

We exist to serve our customers and we can earn their trust, focusing on their needs and delivering a service they can rely on and consider to be good value. We also have a responsibility to support those customers who struggle to pay their bills.

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. That's why we developed our 'Customers and Communities First' guidelines to ensure we deliver a great customer experience every time we or our suppliers 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 Britain. In an independent quarterly study of our customer base, 58% of our customers view our service as good or very good value for money. Our research suggests that our customers' perceptions around value for money are not only driven by the bill amount, but by their personal experience and customer service too.

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

We work hard to ensure our bills are affordable for all and we have the lowest combined water and sewerage charges in Britain. However, we understand that some customers may need additional help. In 2016/17 we are proud to have supported 50,903 customers through our assistance schemes – such as metering, Watersure or our social tariff the Big Difference Scheme – three times more than last year. We have also created a dedicated care and assistance team who are specially trained to support customers who may be suffering from financial hardship, diminished mental wellbeing or experiencing a difficult time in their lives.

The Big Difference Scheme is designed for anyone who is struggling to pay their bills, regardless of their employment status. If accepted, customers can qualify for a reduction in charges of between 10-90% of our average bills. In addition, the Severn Trent Trust Fund, which is an independent charity providing financial assistance to those most in financial difficulty, has been able to assist 3,474 customers either by a grant to help clear water bill arrears or through the purchase of essential household items.

You can find out more information about how we are meeting our customers' changing needs on pages 28 and 29.

What a big difference the Big Difference Scheme can really make

Errol has a number of serious health conditions including being a chronic haemodialysis patient. He has had a triple heart bypass, and is undergoing treatment for a form of cancer. Not being able to work and trying to sort out his health led to him growing concerned that the debt was mounting up and he felt that he had no one to turn to. Fortunately Errol then heard about The Big Difference Scheme through one of our partners – The Severn Trent Trust Fund – which he applied for and was accepted onto. He is now paying £3 per month for a 12 month period which has helped him immensely. The Severn Trent Trust Fund has helped Errol with his water arrears through a grant and also bought him household items to make his recovery at home more comfortable. Errol was also registered with our Priority Services Register which will ensure we're aware of his circumstances in the event of any supply issues in the area.



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

The Water Forum is an independently chaired, multi-stakeholder group that has a continuing role to challenge how well we engage with our customers on our future plans and whether we're delivering our current commitments. This year we worked with the Chair to further strengthen and expand the expertise of the Water Forum by recruiting new members with expertise in customer research, capital project appraisal, environmental economics and social responsibility. These four new experts joined existing members over the course of the year and took part in discussions ranging from our current performance to how we develop investment plans. A principal focus for the Forum this year was how we'll engage with our customers as we develop our business plan for 2020-25. The Forum has constructively challenged and contributed to both the content and form of our research, drawing on its wide-ranging expertise. Over the coming year the Forum will be reviewing the outcome of our research and how we are using it to develop the services we offer to our customers in the future.

Value 2
We are passionate about what we do

We have a wide diversity of skills, abilities and talents in our business. We're united and fired up about what we do – so that we truly build a lasting legacy.

Our people make a positive difference in the community through volunteering

In February 2017, we launched our new employee volunteering programme 'Community Champions'. Closely aligned to our Corporate Responsibility ambitions, our employees will have the opportunity to use their two annual volunteering days working alongside key partners: the Canal and River Trust, Waterside Care, the Severn Rivers Trust and the Trent Rivers Trust, to help clean up across 40 km of riversides within our region. 15% of the workforce signed up within the first month and lots of teams have already been out making a difference in our communities. In March 2017, a number of our people spent a day working alongside our contract partners BNM Alliance, clearing up a stretch of the River Trent in Newark, where we are carrying out a £60 million waste and water improvement scheme. Wayne Ball, volunteer development coordinator for the Canal and River Trust, said: "The volunteers did a fantastic job and we're really grateful for all their hard work. As a charity, the support they've given us is invaluable and really helps in our efforts to make the river a more attractive, welcoming place for the local community. We'll now be able to plant up the hedgerow which will make it even more attractive – and a better place for wildlife."

20,000 hours of volunteering from dedicated community volunteers at our visitor experience sites

Our visitor sites are a great resource for our communities. Our ranger team lovingly cares for a number of public access sites across the Severn Trent region, managing biodiversity and the natural environment, looking after acres of woodlands and forests, and wildlife habitats. The ranger team is supported by a group of dedicated volunteers, who have contributed over 20,000 working hours in the past year. Many of our volunteers have been with us for over 10 years – they turn up every week, in all weathers and give their all, all for the love of their sites. They support the rangers by laying new pathways and fencing, maintaining the traditional skills of hedge-laying, as well as creating new habitats for declining species. Caring for our environment at our public access sites in this way helps to attract millions of visitors each year. Once on site, our customers also benefit from great outdoor recreational facilities, which also supports Severn Trent's health and wellbeing initiatives.



Corporate Responsibility report continued

We support our corporate charities

Severn Trent was one of the founding members of WaterAid in 1981 and we have been committed in our support ever since. WaterAid's vision is to see access to safe water, hygiene and sanitation for all by 2030. Fundraising balls, the Severn Trent Mountain Challenge, bill inserts and cakes sales are just some of the ways our staff raise money for this cause, which is so close to our hearts. We also support WaterAid through awareness raising and campaigning. Our staff have taken part in the Water Innovators training scheme, developing real life solutions, and have visited country programmes. This year we raised £140,945, with the first £100,000 contributing to projects in Ethiopia, which is our chosen country to support.

This year our employees also helped to support Comic Relief, through fundraising activities and by once again manning a National Red Nose Day Call Centre. Our team of 230 volunteers gave up their time to take calls throughout the night.



Value 3
We act with integrity

Acting with integrity and 'Doing the Right Thing' for our customers, communities, investors, regulators and colleagues is an essential part of being trusted. Our Company values are at the heart of any decision we make, and we will only work with suppliers and partners who care about this as much as we do.

We act in line with our values

Acting in line with our values is key to ensuring we act as a responsible business and achieve our vision and purpose. This year we've increased our focus on our Company values, communicating our revised code of conduct which guides us to do the right thing all of the time, and rolling out training for our people to make responsibilities clear. This training forms an important part of our employee induction, so our values are really embedded from day one. Our employee recognition scheme, 'Our Brilliant People', is now also aligned with our Company values to further promote and celebrate the right behaviours.

Our suppliers support our values

Our impact on the environment and society extends well beyond our own operations into our supply chain. We want our supply chain to both live by and reflect our values, and all suppliers are required to adhere to our code of conduct, 'Doing the Right Thing'. This year, to firmly establish our intent and ambition we have created a 'Sustainable Supply Chain Charter' which acts as a call to action to our suppliers to engage with us, align efforts and drive our Corporate Responsibility agenda. We've made good progress this year developing targets on waste to landfill and delivering joint community and volunteering projects. We have also made changes within our tendering process to ensure sustainability has a rating in our decision for on-boarding new suppliers. We recognise that we have a role to play to be a responsible client and are committed to paying our suppliers to agreed terms. Working collaboratively with our suppliers on sustainability will remain a focus, progressing to tangible goals on key issues such as water efficiency, carbon emissions and community impact.

We have a zero tolerance to modern slavery

We strive to take all reasonable efforts to play our part in eradicating modern slavery and take our obligations under the Modern Slavery Act 2015 seriously. This year, in line with our revised code of conduct, we have built on our processes and taken further steps to mitigate the risk of slavery and trafficking within both our business, and our supply chain. Our approach has focused on ensuring we have the appropriate policies and procedures in place to make our zero tolerance position clear in all that we do. We have taken a risk-based approach, using guidance set out by the Chartered Institute of Procurement, with an initial focus on our Tier One supply chain. Our scope will broaden as our approach matures. We have focused on establishing appropriate due diligence, reporting, training and communication. Our full statement is available on our website (www.stwater.co.uk/about-us/responsibility/modern-slavery-statement/).

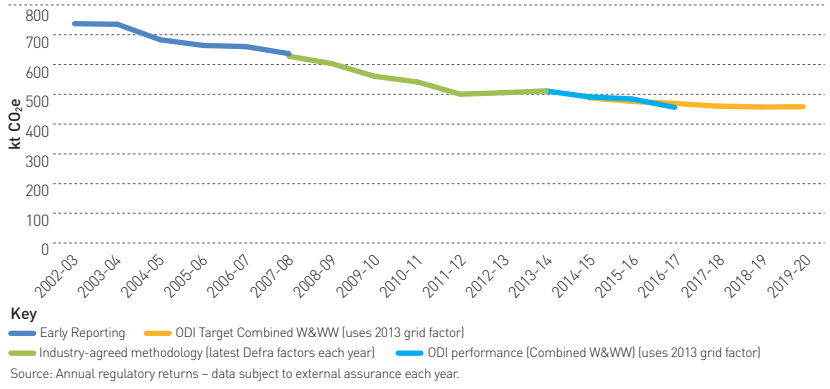
Value 4
We protect our environment

We're always aiming to minimise our impact on the environment, produce the cleanest water and generate more renewable energy, so that we make a positive contribution to the future and fully embrace sustainability.

We are committed to reducing our carbon footprint

The UK is playing a leading part in reducing carbon emissions. As the majority of our carbon emissions are driven by our use of energy, managing carbon means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy. We are achieving both of these aims, and this year we have seen another reduction in overall carbon emissions, although we did not achieve our ODI target. We've seen a consistent reduction since 2002 when we began publicly reporting on our greenhouse gas emissions.

Severn Trent Water Carbon Emissions



Source: Annual regulatory returns – data subject to external assurance each year.

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 also continue to report to the Carbon Disclosure Project ('CDP') for investors each year. During the year, we increased renewable energy generation and across Severn Trent we now generate an equivalent of 34% of Severn Trent Water Limited's energy needs. We continue to lead the UK water industry, and we are on track to meet our target of generating the equivalent of 50% of our energy needs by 2020. For more information see our Business Services performance review on pages 36 to 40. We plan to continue to reduce our emissions within our regulated Water and Waste Water business by a further 5% by 2020, primarily by reducing our energy use and to continue to increase renewable energy generation mainly by our Business Services division. 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.

CDP CLIMATE DISCLOSURE LEADER 2015

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Corporate Responsibility report continued

Reduction in Group carbon emissions since 2015/16

8%

This year we generated more renewable energy than ever before; with more energy generated from sludge and food waste and a full year of generation from solar power. We generated the equivalent of 34% of our own electricity needs and our target is to reach 50% by 2020.

Reducing our greenhouse gas emissions

This is the fourth year Severn Trent has been required to report on greenhouse gas ('GHG') emissions. For Severn Trent Water, which accounts for 98% of total Group emissions, we have been publicly reporting on our emissions since 2002. In that time we have reduced our emissions primarily by being more energy efficient and generating more renewable energy. Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO_2e), for the year 1 April 2016 to 31 March 2017. Our total net emissions have fallen this year, due to our reduction in energy use since last year, our increased generation of renewable energy and in part due to reducing fuel and process emissions. A decrease in the emissions intensity of grid electricity in the UK has also had a significant impact this year. Our GHG data 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 independent assurance by Jacobs.

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tonnes CO_2e)	2016-17	2015-16	2014-15	2013-14
Emissions from combustion of fuel and operation of facilities (Scope 1)	**138,131**	**134,584**	**132,406**	**132,535**
Emissions from electricity purchased for own use (Scope 2)	**294,426**	**337,028**	**357,756**	**330,679**
Total Annual Gross Operational Emissions	**432,557**	**471,612**	**490,162**	**463,214**
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	42,069	45,085	38,878	21,672
Total Annual Net Operational Emissions	**390,488**	**426,527**	**451,284**	**441,542**

Annual GHG intensity ratio (t CO_2/unit)	2016-17	2015-16	2014-15	2013-14
Operational GHG emissions of Severn Trent per £m turnover	**214.0**	**234.7**	**255.2**	**248.6**

This year we have revised our Scope 1 process emissions to correct a historic over-estimation of the amount of methane released to atmosphere from our digestion process. This has reduced our total emissions for each year. The restated values for previous years are shown in the table. Note that 2016/17 values include an estimate for the emissions from Dee Valley Water in the first quarter. These are less than 0.5% of our total emissions.

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. We have used the 'location based' methodology rather than the newly introduced 'market-based' method in order to ensure consistency with previous years. 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 11' (released April 2017). 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.

We are committed to reducing the amount of waste we produce

As a company we produce large amounts of waste – 2.6 billion litres of waste water per day which is treated and returned to the environment, 147.4 tonnes of bio-solids which are recycled to land, material on sites, retired assets, and our staff produce office waste too. We are committed to reducing the amount of waste we produce and to minimising our impact on the environment. This year we have started a new contract with Biffa, and have an aspirational 'zero waste to landfill' target. A key part of reducing waste is understanding what we produce and where and therefore we have focused on collecting robust data at each site, and have developed a live portal, making data management easier for site managers. The benefits have included the ability to monitor waste production and recycling at site level, enabling sites to identify low use containers that may not be needed on-site. Challenges have been cultural change to what we have always done. Going forward we are focusing on increasing recycling and moving to a more co-ordinated waste management approach on-site.

We do everything we can to prevent polluting the environment

We continue to drive hard for improved environmental performance. Six of our environmental performance metrics have improved this year. This year we have significantly reduced our number of category 3 pollutions against our regulatory target, but were disappointed to finish the year with one serious pollution ahead of our target. We complete an in-depth root cause for each pollution regardless of category and severity to ensure we build the learnings into the way we run the business, as we are committed to reducing our impact on the environment.

Driving energy efficiency

Energy is our primary driver of carbon emissions, and increasing energy prices and demand for water provide significant cost pressures for our business. To ensure we manage this, we have set up a new Energy Management Programme with the aim of improving energy efficiency and managing energy costs. This programme has successfully delivered estimated energy saving benefits of £1.5 million over the year through a combination of 'spend to save' investment, behaviour change and improved operational processes.

We delivered great performance during the high-cost triad season this winter, which has more than offset the 15% peak price increase we saw this year. We have also started to deliver 'grid balancing services' alongside National Grid for the first time. This means making very small tweaks in our energy intensive assets to help the grid manage frequency on the network and receive an income. Our first site began operating in March and we have more installations planned next year.



We operate in line with an Environmental Management System

Our environmental policy is supported by an Environmental Management System ('EMS') certified to an internationally recognised standard, ISO 14001, for our Waste Water Treatment processes. The EMS provides a framework to help us drive improvement and ensure mitigation measures are identified and implemented for our environmental risks and legal obligations. We expanded the scope of our EMS in 2016 to include combined overflows and sewage pumping stations to comply with the Environmental Permitting Regulations 2010. We've also implemented a Quality Management System for water quality, which will create an opportunity for an integrated management system in the future. There is continued focus on maintaining and embedding the EMS as a 'business as usual' process.

Our interaction with the environment is broad ranging, you can find more information on our environmental performance on pages 29 and 30.

Case study
Delivering our vision and purpose through our strategy and values

PASSIONATE ABOUT WHAT WE DO

Strategic goals



Providing a great apprentice experience

We want our apprentices to develop both professionally and personally. Training together creates a sense of belonging and opens them up to opportunities across the Company. We also match every apprentice with a specially trained mentor and line manager, to give them vital support at the start of their career.

"We've transformed our approach to attracting, training and developing our apprentices, to ensure we've got the talent we need for the future."

Mark Smith,
Leadership & Development Co-ordinator

Corporate Responsibility report continued

Value 5
We are inspired to create an awesome company

Our brilliant people are vital to our success and we care about each and every one of them. We aim to create an awesome place to work, in part by looking after employee health, safety and wellbeing and encouraging diversity and inclusiveness.

No one is hurt or made unwell by what we do

Our vision is that no one gets hurt or made unwell by what we do, and that includes our supply chain partners, customers and the communities in which we work. We have a clearly defined strategy to achieve this, which includes focusing on: people knowing what is safe, ensuring compliance with our standards, understanding the risks, and creating a culture in which everyone cares about health, safety and wellbeing. During the year we focused on compliance with our standards and ensuring our colleagues have easy access to the right information and training to show them how to work in a safe way. We are now focusing on how we ensure that people are working in the right way. We have agreed an assurance framework that enables us to identify where we can improve our health and safety performance, and then quickly take steps to change our ways of working. The framework includes proactive steps to prevent incidents happening in the first place, and from reoccurring. For example, we regularly check our sites for safety issues and application of our standards, with a view to removing and fixing issues before they cause an incident. You can find out more information about our Health, Safety & Wellbeing strategy/performance on page 32.

We are investing in the wellbeing of our colleagues

We're proud of our Occupational Health programme, which is dedicated to the physical, social and mental wellbeing of our colleagues and we'll always make sure that our workplaces are safe, enjoyable places to be. We are committed to supporting the wellbeing of our employees and, in particular, to promoting good mental wellbeing. We want our employees to feel comfortable talking about mental health and we are passionate about helping to remove any stigma and discrimination. See page 32 for more information.

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

Diversity and inclusion are business imperatives, and we aim to have a workforce that reflects the diversity of our local communities. Our priorities remain the same: encouraging more women into operational leadership roles, increasing women and BAME (Black, Asian and Minority Ethnic) representation in engineering positions and increasing BAME representation in technical operator positions.

We are proud to be ranked joint first in the FTSE 100 companies in the Hampton-Alexander Review, an independent review aimed at increasing the number of women in senior positions in the FTSE 350. For more information about our diversity statistics, please see page 82.

You can find out more details about our focus on skills, talent and career development on pages 32 and 33.

'Teaming Up' to improve employability

We want to encourage young people from all backgrounds to consider a career in our industry. In July 2016, we therefore launched the Team Up Employer Pathway programme. The programme, delivered in partnership with social mobility charity Team Up, introduced 13 sixth form and university students from diverse and less affluent backgrounds to the world of work, teaching them practical application skills.

The programme also provided a route onto our New Talent schemes and we're delighted that following the week they spent with us, two students have joined us for a placement or work experience and a further two secured places on our 2017 graduate intake.

We'll be running the employability week again in 2017, building on this initial success. We intend to increase the number of locations, schools, universities and students, to support even more young people into the workplace.

The Strategic report, as set out from the inside front cover through to page 69, has been approved by the Board.

By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary

22 May 2017

Leadership & Effectiveness

Governance report
Chairman's introduction to governance



Andrew Duff
Chairman

"My role, together with your Board, is to make sure that Severn Trent operates to the highest standards of Corporate Governance."

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).

We are pleased to confirm that Severn Trent Plc was compliant with all of the provisions set out in the Code for the period under review.

A new edition of the Code was published in April 2016 which applies to reporting periods beginning on or after 17 June 2016. As our 2016 reporting period began before this date, we are continuing to report against the 2014 edition of the Code, although we have adopted some of the new provisions earlier than required.

Governance of subsidiaries

The membership of the Board of the listed Company, Severn Trent Plc, is the same as that of the Group's regulated subsidiary Boards, being Severn Trent Water Limited and Dee Valley Water plc, (together referred to as the 'Board'). This structure was implemented in 2007, and updated during the year to incorporate Dee Valley Water plc, to make sure that the highest standards of corporate governance are applied at the regulated subsidiary level and to foster greater visibility and supervision by the Severn Trent Plc Board.

Severn Trent Water Limited also complies with the Code to ensure the highest standards of governance. We will be ensuring that Dee Valley Water plc operates to the same standards as Severn Trent Water Limited moving forward.

Dear Shareholder

I am pleased to introduce our Governance report for 2017 on behalf of your Board in accordance with the Code. Following your feedback on our 2016 report, we have again structured our report to reflect the themes of the Code. As such, the pages that follow provide details on the activities and governance processes of the Board, and its Committees.

During the year, the Board spent a significant proportion of its time on **operational delivery, retail market opening, risk management** and **future strategy development**. Further detail on the scope of the Board's activities, discussions and resulting actions can be found on page 79 of this report.

My role, together with your Board, is to make sure that Severn Trent operates to the highest standards of corporate governance within a solid governance framework to effectively deliver the Group's strategic objectives and to meet its obligations to the Company's stakeholders, as required by our Charter of Expectations.

The Board sets the Group's long term **strategy** and monitors, challenges and supports the work of the Executive Committee in delivering that strategy. During 2016, the Board held a dedicated strategy day along with the Executive Committee to consider areas of future value creation across the Group. Topics included asset strategy and potential future disruptors, regulatory strategy and growth strategies across our portfolio of businesses. You can find additional details on our strategy and our progress on pages 20 and 21 of the Strategic report.

The Board continues to focus on the Group's **risk management and internal control systems** during the year, with Board and Audit Committee discussion, and challenge centred on ensuring adequate mitigation of risks faced by the Group. In addition, there were two dedicated Board risk workshops in October 2016 and March 2017. You can read more about how we identify and manage risks on pages 47 and 48 of our Strategic report and further detail of how we carried out our risk assessment activities in the Audit Committee report on pages 85 to 90.

Severn Trent's strength lies in the quality of its people, wherever they work in the Group and whatever their role is. We have clearly defined values and standards of behaviour which we expect from everyone who works for Severn Trent. During the year, we have relaunched our code of conduct 'Doing the Right Thing – the Severn Trent Way' across the Group, through an all-employee training programme, to make sure that all of our people embody **Severn Trent's values: we put our customers first; we are passionate about what we do; we act with integrity; we protect our environment; and we are inspired to create an awesome company**, to help us to achieve our vision of being the most trusted water company by 2020.

We know that the right culture must be set from the top and we have conducted an annual review of the key metrics which indicate what kind of culture exists in Severn Trent.

My focus continues to be on maintaining a strong, value adding team, with a broad range of professional backgrounds, skills and perspectives. **Succession planning** continues to be a key priority for the Board and Nominations Committee. Following the retirement of Martin Lamb and Gordon Fryett after the 2016 Annual General Meeting ('AGM'), Kevin Beeston and Dominique Reiniche were appointed to the Board on 1 June and 20 July 2016. Both Kevin and Dominique benefited from a bespoke, tailored induction programme. During the year, the induction process has been reviewed in light of their feedback, to keep it refreshed, effective and informative. Further details of their induction programmes can be found on page 80.

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 clearly defined roles of the Chairman, Chief Executive, Chief Financial Officer, Senior Independent Director and Non-Executive Directors, the operation of 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 the Code, there is a clear division of responsibilities between the roles of Chairman and CEO set out in writing in the Charter of Expectations.

The Charter of Expectations is reviewed annually, with the last review undertaken in March 2017. It's also used to assist in the ongoing annual assessment of the effectiveness of the Board and its Committees and that of individual Directors (details of which can be found on page 83), and is available on our website (www.severntrent.com).

Board focus during 2016/17

- Operational delivery
- Retail market opening
- Risk management
- Future strategy development

The Board and Nominations Committee continue to drive the agenda of **diversity** across the Group and we are proud of the progress made, particularly in regards to female representation on the Board and Executive Committee (now at 44% and 60%). There is also a continual focus on promoting wider diversity. We believe that our Company should reflect our communities and customers, and embrace a diverse range of perspectives, experiences and expertise to support our long term viability and commercial success.

We are committed to developing our talent pipeline, to make sure we have appropriate representation from minority ethnic candidates, as well as other relevant diverse groups. You can find additional details on our progress and ambitions on page 82 of the Nominations Committee report and details of diversity across the Severn Trent Group on page 33.

This Annual Report remains the principal means of reporting to our shareholders on the Board's governance policies and sets out how our approach to good corporate governance has been applied in practice. We welcome any feedback on this report and I would like to encourage our shareholders to attend our AGM. We look forward to the opportunity to meet with you and I hope you will take the opportunity to do so this year.

Andrew Duff
Chairman

Leadership & Effectiveness

Board of Directors

STRONG LEADERSHIP



1. John Coghlan BCom, ACA (59) A, D, F

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. 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
- Chairman of Freight Transport Association Ireland Limited

2. James Bowling BA (Hons) Econ, ACA (48) C, F

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.

3. Dr. Angela Strank BSc PhD, CEng, FIChemE (64) B, D, E

Independent Non-Executive Director
Appointed to the Board on 24 January 2014
Chairman of the Corporate Responsibility Committee

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 of The University of Manchester

4. Olivia Garfield BA (Hons) (41) B, C

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

5. Andrew Duff BSc FEI (58) B, D, E

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

6. The Hon. Philip Remnant CBE FCA MA (62) A, D, E, F

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.

6. 7. 8. 9.



Committee membership key

A Audit Committee
B Corporate Responsibility Committee
C Executive Committee
D Nominations Committee
E Remuneration Committee
F Treasury Committee

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

7. Emma FitzGerald MA, DPhil Oxon, MBA (50) C

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. 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
- BUPA – Association Member
- Non-Executive Director of DCC plc

8. Dominique Reiniche MBA (61) B, D

Independent Non-Executive Director
Appointed to the Board on 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 and PayPal (Europe). 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. Until April 2017, Dominique was a Non-Executive Director of AXA SA.

External appointments
- Non-Executive Director of Mondi Plc
- Non-Executive Director of PayPal (Europe)
- Independent Vice Chairman of CHR Hansen Holdings A/S

9. Kevin Beeston FCMA (54) A, D, E, F

Senior Independent Director
Appointed to the Board from 1 June 2016

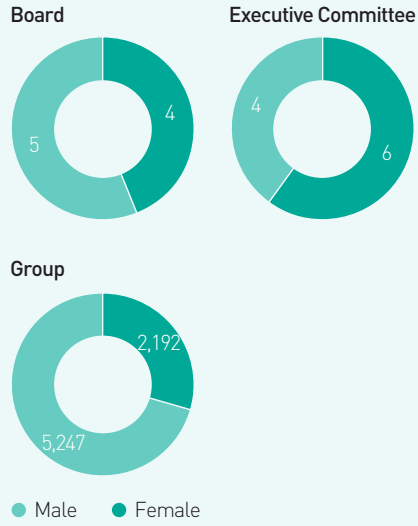
Kevin has a wealth of commercial, financial and high level management experience. Kevin is Chairman of Taylor Wimpey plc and Equiniti plc and also a Non–Executive Director of The Football Association Premier League Limited and Marston Corporate Limited. Previously Kevin spent 25 years at Serco plc, where 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
- Non-Executive Director of Marston Corporate Limited

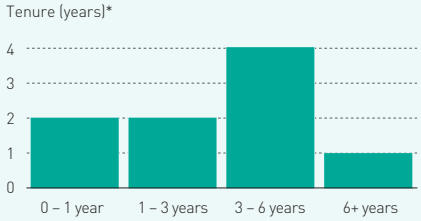
Board diversity

The below graphics provide an illustration of our Board's diversity, including gender split (with comparisons against differing levels of the Group), sector experience and Board tenure. Further information on our Board Diversity Policy can be found in the Nominations Committee report on page 82.

Gender diversity as at 31 March 2017



Tenure of Non-Executive Directors



* Figures as at the date of this report.

Leadership & Effectiveness

Executive Committee





















1. Olivia Garfield BA (Hons) (41) [B, C]

Chief Executive

Please see full biography on page 72.

2. James Bowling BA (Hons) Econ, ACA (48) [C, F, G]

Chief Financial Officer

Please see full biography on page 72.

3. Emma FitzGerald MA, DPhil Oxon, MBA (50) [C]

Managing Director, Wholesale Operations

Please see full biography on page 73.

4. Dr. Tony Ballance BSc (Hons), MA (Econ), PhD (52) [C, G]

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

5. Sarah Bentley BSc (Hons), Management Science with Computing (45) [C]

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

Committee membership key

A Audit Committee
B Corporate Responsibility Committee
C Executive Committee
D Nominations Committee
E Remuneration Committee
F Treasury Committee
G Disclosure Committee

6. Evelyn Dickey BSc (Hons) (54) [C]

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

7. Martin Kane BSc, CEng, CEnv, MICE, MIWEM, FIW (64) [C]

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
– Chairman of Coventry and Warwickshire Growth Hub – a subsidiary Board of the Local Enterprise Partnership

8. Bronagh Kennedy BA (Hons) (53) [C, G]

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 and HR Director 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.

External appointments

– Independent Non-Executive Director and Chairman of the Remuneration Committee of British Canoeing

9. Helen Miles CIMA (46) [C]

Chief Commercial Officer

Helen joined Severn Trent in November 2014 as the Chief Commercial Officer and brings with her a wealth 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) (56) [C]

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 wide 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 and Chairman of the Remuneration Committee of Diploma PLC

Leadership & Effectiveness

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 2017.

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, Group Commercial and General Counsel), which provides additional expertise and a Group-wide perspective.

Governance framework

The Board is responsible to all stakeholders, including the Company's shareholders, for the approval and delivery of the Group's strategic objectives. It makes sure 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 practical 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 respective 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, and reflect the requirements of the revised UK Corporate Governance Code April 2016, as part of their annual review in March 2017.

The sub-committee structure is detailed in the governance framework overleaf and key responsibilities are set out on page 76.

Leadership & Effectiveness

Governance report continued

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 — 5 4

The Board's role is to: understand and meet its obligations to the Company's stakeholders; lead the Group within a framework of practical 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 — 3

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 85.

TREASURY COMMITTEE*
Chair – John Coghlan — 4

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 — 3 1

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 96.

CORPORATE RESPONSIBILITY COMMITTEE
Chair – Dr. Angela Strank — 1 3

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 91.

NOMINATIONS COMMITTEE
Chair – Andrew Duff — 4 2

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 81.

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') — 4 6

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 — 2 2

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 pages 72 and 73.

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, a non-Board position.

Male Female — Indicates membership of each Committee, including gender.

Key Board 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	• Develops and implements the Group's strategy, as approved by the Board. • Responsible for the overall commercial objectives of the Group. • Promotes and conducts the affairs of the Group with the highest standards of integrity, probity and corporate governance, and sets the cultural tone of the organisation.
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') – Kevin Beeston	In addition to his responsibilities as a NED, Kevin Beeston: • 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 it; • leads the appraisal of the Chairman's performance with the Non-Executive Directors; and • together with the Board Committees, Chairman, and NEDs, has a key role in succession planning for the Board.
Independent Non-Executive Directors ('NEDs') – John Coghlan, Dominique Reiniche, 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 that internal controls are robust and that the External Audit is undertaken properly. • Responsible for agreeing appropriate levels of remuneration for Executive Directors. • Together with the Board Committees, Chairman, and SID, have a key role in succession planning for the Board.
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 Board members and the annual effectiveness review of the Board and its Committees. • Provides advice and services to the Board.

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 72 and 73.

Leadership & Effectiveness

Governance report continued

Matters Reserved to the Plc Board

The schedule of Matters Reserved to the Board sets out the processes in place regarding the Board's tasks and activities and the matters specifically reserved for the Board's decision-making. A copy is available on our website (www.severntrent.com).

The Board has reserved the following matters, amongst other things, for its own consideration:

- the Group's strategic and operating plans;
- financial reporting and controls;
- major acquisition and disposals;
- key Group policies; and
- GAA.

Board meetings and attendance

The composition and attendance of members at Board meetings, as at year end, was as follows:

Director	Meetings attended	Max possible
Andrew Duff	7	7
James Bowling	7	7
John Coghlan	7	7
Dominique Reiniche (Appointed 20 July 16)	4	4
Liv Garfield	7	7
Kevin Beeston (Appointed 1 June 16)	5	5
Emma FitzGerald	7	7
Philip Remnant	7	7
Dr. Angela Strank	7	7
Martin Lamb (Retired 20 July 16)	3	3
Gordon Fryett (Retired 20 July 16)	3	3

The Board held seven scheduled meetings during the year, and individual attendance is set out above. For additional information on the activities of the Board, see page 79.

As part of this year's Board effectiveness review, full consideration was given to the number of external positions held by each Non-Executive Director. As a result of this review, the Board did not identify any instances of overboarding, and confirmed that all individual Directors have sufficient time to commit to their role as a Director of Severn Trent Plc.

In addition to the seven standing Board meetings, there were 12 additional ad hoc meetings of the Board or Committee of the Board convened throughout the year to consider such matters as the operation of the non-household retail market, our joint venture with United Utilities, the acquisition of Dee Valley Plc, Severn Trent Plc's preliminary and interim results, quarterly management statements and regulatory disclosures.

Board strategy day

In addition to formal meetings at which strategic items are regularly received, in October 2016 the Board held a dedicated strategy meeting along with the Executive Committee to consider areas of future value creation across the Group and spent time considering asset strategy and potential future disruptors, regulatory strategy and growth strategies across our portfolio of businesses.

Independence of NEDs

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board evaluation exercise. Further details can be found on page 83. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence.

The Board recognises the Code's recommendation that Directors serve a fixed term of appointment and considers plans for orderly succession to the Board to maintain an appropriate balance of skills and experience within the Company. As such, the Company maintains a clear framework of Non-Executive Director tenure and the skill sets that each Director provides. Individual Director biographies can be found on pages 72 and 73.
In accordance with the Code, all the Directors will retire at this year's AGM and submit themselves for reappointment by shareholders. Each of the Non-Executive Directors seeking reappointment are considered to be independent in character and judgement.

Conflicts

The Board formally considers conflicts of interest at every meeting, and reviews the authorisation of any potential conflicts of interest every six months.

Leadership & Effectiveness

Board activities

The table below sets out the main matters considered by the Board in 2016/17 at its scheduled Board meetings. The Board's agenda is ordinarily structured as follows:

- performance review (including health and safety, operational, customer and financial matters);
- strategic items;
- matters for approval;
- matters to note;
- governance and regulatory matters; and
- committee reports.

This structure ensures that Matters Reserved for the Board are addressed appropriately and that the Board's time is spent effectively.

Topic	Activities/Discussion
Customers	• Discussion and review of performance and engagement reports at every meeting. • Discussion and review of digital technology. • SIM performance discussions. • Discussion and review customer strategy updates.
Shareholders	• Review and discussion of feedback following stakeholder meetings with CEO and CFO, investor roadshows, conferences and Capital Markets Day.
Strategy	• Approach in respect of contract and materials management. • Review and discussion of capital programme management. • Review and discussion of the Group's security and resilience strategy, including physical, cyber and people. • Review and discussion of shareholder feedback.
Environment, Health & Safety	• Discussion and review of health and safety performance at every meeting. • Discussion and review of environmental matters. • Discussion and review of renewables updates.
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 and individual Directors. • Annual review of Terms of Reference for all Board Committees. • Reappointment of the External Auditor. • Review of the effectiveness of the Group's internal controls and risk management processes. • Bi-annual Enterprise Risk Management and Assurance Map 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. • Gifts and Hospitality register, conflicts of interest and interest of Directors. • Material Litigation. • Cyber Security reports from the Audit Committee.
Financial	• Review of annual performance, including approval of full year, half-year results and trading updates. • Distributions to shareholders. • Annual Report and Accounts. • Regular Treasury funding discussions. • Group Budget 2016/17, medium term financial plan and regulated business ODIs. • Disposal of Operating Services Italy. • Review of the Group's financial performance against budget and forecast.
Regulation	• Regulatory reporting and annual submissions to Ofwat. • Non-household retail market opening discussions at every meeting. • Regulatory business discussions at every meeting. • Engagement with regulators, including Consumer Council for Water and Drinking Water Inspectorate. • Discussion and review of water quality and environmental performance updates. • Acquisition of Dee Valley plc.
Employees & Leadership	• Discussion and review of employee engagement across the Group from the results of the employee engagement ('QUEST') survey. • Regular discussion and review of talent development and succession planning across the Group. • Regular pension fund discussions. • Review the composition and succession of the Board and its Committees.
Ethics	• Discussion and review of the Group's ethics culture.

Governance report continued

Board Training Sessions 2016/17

Date	Topic	Board attendance
April 2016	Operational Effectiveness Programme Presentation	100%
May 2016	Communities of Practice	100%
October 2016	Risk Management Session	100%
November 2016	Data Centre Session	100%
January 2017	Security – Physical, Cyber and People	100%
March 2017	Risk Identification and Horizon Scanning – Board Workshop	100%

Training and continuing professional development

As well as Board agenda items, training sessions in relation to specific topics of interest that were presented to Directors during the year are set out below.

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.

Directors' resources

An online resource library and Continuing Professional Development ('CPD') repository is available for use by the Directors, which is constantly 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 contains a further reading section which covers 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 2016/17.

Succession

Director inductions – Kevin Beeston and Dominique Reiniche induction

The induction programmes for Kevin and Dominique were comprehensive and tailored to their individual understanding of the Group and Board Committee membership. They were facilitated by the Company Secretary and covered the below topics, with supporting meetings with members of Executive management and external advisers as appropriate.





In addition, Kevin and Dominique took part in an extensive tour of our key operational and office sites in order to understand our water treatment and distribution processes, and the customer journey, in a live environment, as follows:

- Water process – from rain to tap.
- Waste water process – from drain to river.
- Customer journey – from moving into a new home, to moving out.

We will continue to enhance the Board's induction process following feedback from Kevin and Dominique.

Induction programme content
Ofwat pre-appointment process.
Company structure including regulatory overview and performance.
Company strategy.
Key stakeholder relations including employees, customers, suppliers and service providers.
Key operations and processes including operational areas and key sites.
Financial performance including analyst and investor opinion.
Our people – including health, safety and wellbeing, talent and succession, trade unions and an overview of our remuneration policy.
Group risk profile and our approach to risk.
Board procedures including our governance framework, GAA, Doing the Right Thing and Group policies.
Board calendar, effectiveness reviews and action plans.

Additional sessions were held with Kevin and Dominique to reflect their individual Board Committee membership as follows:

- Kevin – Insight into key Internal Audits and areas of focus.
- Dominique – Corporate Responsibility framework and strategy.

Leadership & Effectiveness

Nominations Committee report



Andrew Duff
Chairman of the Nominations Committee

"A significant part of the Committee's work this year has been in developing our talent pipeline with a focus on the need for diversity within our talent pipeline."

Attendance table

Member of the Nominations Committee	Meetings attended	Max possible
Andrew Duff (Chairman)	2	2
John Coghlan	2	2
Dominique Reiniche (Appointed 20 July 16)	1	1
Kevin Beeston (Appointed 1 June 16)	1	1
Philip Remnant	2	2
Dr. Angela Strank	2	2
Martin Lamb (Retired 20 July 16)	1	1
Gordon Fryett (Retired 20 July 16)	1	1

The members of the Committee in 2016/17 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.

Introduction

As Chairman of the Nominations Committee, I am pleased to introduce the report of the Nominations Committee which details the role of the Committee. The pages that follow provide additional details on the role of the Committee and the work it has undertaken during the year.

Elsewhere in this Annual Report I provided details on the Board changes during the year. The Committee has continued to play a key role in supporting the Board in discharging its succession planning and diversity responsibilities, culminating with the appointment of Kevin Beeston and Dominique Reiniche as Non-Executive Directors with effect from 1 June and 20 July 2016 respectively. Following the 2016 AGM, Martin Lamb and Gordon Fryett retired from the Board, at which point Kevin Beeston succeeded Martin as Senior Independent Non-Executive Director and Dr. Angela Strank succeeded Gordon as Chair of the Corporate Responsibility Committee.

As well as these specific appointments, much focus continues to be given to the Group's succession and contingency planning and diversity needs, with discussion centred on the importance of developing, and maintaining, a diverse range of perspectives, skills, experiences and expertise, essential to ensuring our long term viability and commercial success.

Other significant parts of the Committee's work this year have been the evaluation of the Board, its Committees and Directors and developing our talent pipeline for Directors and high performing individuals below Board level with a focus on the need for diversity within our talent pipeline.

Andrew Duff
Chairman of the Nominations Committee

Nominations Committee responsibilities

The responsibilities of the Nominations Committee include:

- review of the structure, size and composition (including the skills, knowledge, experience, time available and diversity) of the Board;
- review the leadership needs of the Company, both Executive and Non-Executive, at regular intervals;
- review of the adequacy of Board and Executive succession planning in the long and short term;
- ensure an effectiveness review is conducted annually of the Board, its Committees and Directors;
- recommend to the Board the appointment or reappointment by shareholders of Directors at the AGM, in accordance with the Code; and
- annual review of the Company policy on Board level diversity.

The Nominations Committee terms of reference, which were updated in March 2017, can be found at www.severntrent.com.

Leadership & Effectiveness

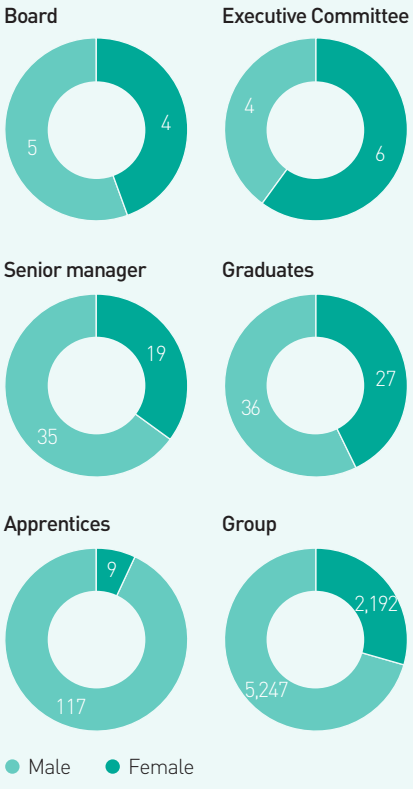
Nominations Committee report continued

Nominations Committee activities

Diversity and succession planning

As highlighted earlier in the report, the Board and Nominations Committee continue to drive the agenda of diversity across the Group and are proud of the progress made, especially in respect of female representation on the Board and Executive Committee (now at 44% and 60% respectively). A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2017 is set out below.

Gender diversity as at 31 March 2017



Severn Trent Board diversity figures



* Figures as at the date of this report.

The Board also remains focused on promoting broader diversity, and creating an inclusive culture. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Board is committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work to strengthen our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts.

At Board level, the Nominations Committee reviews the Board's 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 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. To support this, we continue only to engage with executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

Talent development

Severn Trent recognises the importance of developing our people, and talent management remained a key topic of discussion. During the year, the Committee reviewed progress against the Group's five year talent plan, which focuses on building both technical and leadership capability within the Group. We have a total of 63 graduates and 126 apprentices in training and 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 Programme, aimed at our team leaders and team managers, continues to nurture and develop our internal talent, particularly in relation to succession planning for senior positions within the Company.

Development for Executive Directors and high performing individuals below Board level continues to be an area of focus. Coaching and mentoring is provided to develop and enhance specific skill sets, and the Committee believes the benefits of this approach are critical for developing our own talent for the future.

Details can be found on page 33.

Evaluation of the Board

The effectiveness of the Board is reviewed at least annually, and conducted according to the guidance set out in the Code. The last externally facilitated evaluation was conducted by Manchester Square Partners in 2015, with the next externally facilitated session scheduled for 2018.

The 2016/17 evaluation was internally conducted by the Chairman with support from the Company Secretary through a series of one-to-one meetings in February and March 2017 and supported by a questionnaire.

1. QUESTIONNAIRE:

A comprehensive questionnaire with an opportunity to provide qualitative feedback in respect of all areas covered was sent to all Board members, along with a summary of the previous year's evaluation, action plan and a progress update against actions identified.

2. ONE-TO-ONE MEETINGS:

Board members participated in one-to-one meetings with the Company Secretary.

3. EVALUATION AND REPORTING:

The Company Secretary compiled responses from questionnaires and one-to-one meetings into a report, identifying areas requiring further focus and attention, where appropriate. The report included recommendations taking account of best practice, the Code and other corporate governance guidance.

4. DISCUSSION WITH CHAIRMAN, NOMINATIONS COMMITTEE AND BOARD:

Draft conclusions were discussed with the Chairman and subsequently the Nominations Committee and then the Board in April 2017. Separate meetings were held to consider the effectiveness of the CEO led by the Chairman, and of the Chairman led by Kevin Beeston.

Board evaluation highlights 2016/17

The evaluation concluded that excellent progress had been made in respect of areas for further focus identified in the 2016 review as detailed below. It also concluded that the effectiveness of the Board and its Committees remained strong, and that the planned succession and induction process for Non-Executive Directors was operating effectively.

The following matters were identified during the 2016/17 internally facilitated review as requiring further focus and attention:

Continue development of talent management and succession planning below Executive Committee level;
Whilst excellent progress had been made in respect of diversity, including skills, experience and gender across the Group, there remained an opportunity to further consider opportunities to enhance the ethnic diversity of the Board;
Further development of the NED induction programme to include one-to-one follow up sessions on regulatory topics;
Board and Committee forward plans to be reviewed against strategic priorities identified as part of the 2017 review and used to refine focus areas for debate at future meetings;
External facilitation to be investigated for future Board strategy days; and
More detailed discussion on communication of Board Committee proceedings to the Board as a whole.

The evaluation also concluded that the Board and its Committees were effective and that all Directors were considered to have demonstrated considerable commitment and time to their roles, well in excess of that required by the Charter of Expectations notwithstanding any other positions held by them outside of Severn Trent.

In addition, the review concluded that all Non-Executive Directors continued to demonstrate their independence and objectively challenge management. In addition, the review concluded that all Non-Executive Directors were considered to be independent in judgement and there were no relationships or circumstances which were likely to affect, or could affect this. This was also the case for those Directors who had served a term in excess of six years by the time the AGM notice was issued.

Leadership & Effectiveness

Nominations Committee report continued

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. We reviewed Directors' other appointments, including the time commitment required for each, as part of the evaluation exercise. The outcome of which can be found below:

Director	Number of Listed Company Appointments as Chairman (including Severn Trent Plc)	Number of Listed Company Appointments as Non-Executive Director (including Severn Trent Plc)
Kevin Beeston	2	1
James Bowling	0	0
John Coghlan	0	2
Andrew Duff	2	0
Emma FitzGerald	0	1
Liv Garfield	0	0
Dominique Reiniche*	0	3
Philip Remnant	1	2
Dr. Angela Strank	0	1

* Dominique Reiniche was a Non-Executive Director of AXA SA until April 2017, and retired from the AXA Board at their 26 April AGM.

As a result of this review, the Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc.

The full list of external appointments held by our Non-Executive Directors can be found on pages 72 to 73.

Progress against 2015/16 Action Plan

The following matters were identified during the 2015/16 internally facilitated review as requiring further focus and attention:

Area for further focus identified in 2015/16 internal review	Progress against areas for further focus identified in 2015/16 internal review
Talent management and succession planning below Executive Committee level to remain a regular Board agenda topic.	Regular discussion and review of talent and succession at 2016/17 Board meetings. 2017 plan submitted to the Nominations Committee.
Board strategy day to be scheduled outside of the normal Board meeting calendar and preferably off-site.	2016 Board Strategy Day held outside of the normal Board meeting calendar. 2017 Board Strategy Day held off-site outside the Board meeting calendar.
Ensure a breadth of skills and general business experience to balance subject matter expert members on the Board going forward.	Kevin Beeston and Dominique Reiniche, appointed to the Board on 1 June and 20 July 2016 respectively, broadened the range of skills, business experience and perspectives on the Board.
Additional Board time to be spent on health, safety and ethics.	Discussion and review of health and safety held at all 2016/17 Board meetings. Ethics culture discussed at the Board during the year with a dedicated Board training session scheduled for 2017/18.

Accountability

Audit Committee report



John Coghlan
Chairman of the Audit Committee

"The Committee continues to focus on ensuring the adequate mitigation of risks faced by the Group."

Attendance table

Member of the Audit Committee	Meetings attended	Max possible
John Coghlan (Chairman)	4	4
Philip Remnant	4	4
Kevin Beeston (Appointed 1 June 16)	3	3
Martin Lamb (Retired 20 July 16)	0	1

Martin Lamb was prevented from attending the May 2016 Audit Committee meeting due to a clash with another business commitment. In advance of the meeting, Martin provided comments on the matters to be considered to the Chairman.

In addition to the attendance set out above, the Chairman, CEO, CFO, 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, without executive management present. The Chairman regularly holds separate one-to-one meetings with the CFO, Head of Internal Audit and External Auditor to better understand any issues or areas for concern.

During 2016/17 the Committee held one additional quorate meeting convened at short notice.

Introduction

As Chairman of the Audit Committee, I am pleased to introduce the report of our role and the work we have undertaken during the year. The pages that follow provide additional detail on the activities and discussions of the Committee and provides an overview of the significant issues the Committee assessed and steps taken to address any issues identified.

The Committee has continued to play a key role in supporting the Board in discharging its oversight responsibilities for the integrity of the Company's financial statements and matters relating to the Group's system of internal controls and risk management. As such, there is a continued focus on ensuring the adequate mitigation of risks faced by the Group. This report provides additional detail of how we carried out our risk assessment activities and you can read more about how we identify and manage risks on pages 47 and 48 of our Strategic report.

Other significant parts of the Committee's work this year have included: oversight of the relationship with our External Auditor, including the assessment of its ongoing objectivity; overseeing the assurance of regulatory returns made by Severn Trent Water Limited to Ofwat; accounting for the Waterplus joint venture; and evaluation of the Severn Trent Pension Scheme deficit and consideration of mitigating actions in conjunction with the Scheme's Trustee.

John Coghlan
Chairman of the Audit Committee

Audit Committee responsibilities

The responsibilities of the Audit Committee include:

- oversight of financial statements and accounting policies;
- review of risk management and internal controls;
- oversight of Internal and External Audit;
- 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 Financial Reporting Council ('FRC') reporting requirements on Going Concern and Viability Statements; and
- regulatory reporting obligations of our subsidiaries Severn Trent Water Limited and Dee Valley Water plc.

The Audit Committee Terms of Reference, which were updated in March 2017, can be found at www.severntrent.com

Accountability

Audit Committee report continued

Audit Committee activities

A summary of the matters considered at each meeting is set out below:

Meeting	Matters considered
May 2016	• Financial results 2015/16 • Severn Trent Plc Annual Report and Accounts 2015/16, including fair, balanced and understandable review • Severn Trent Water Limited Annual Report and Accounts 2015/16 • Regulatory: Annual Performance Report and Annual Regulatory Compliance Statement • Regulatory: Annual Performance Report assurance, including ODIs • Internal control and risk management effectiveness • External Audit: Deloitte year end final report • Pensions update • Whistleblowing update
September 2016	• Internal Audit: half-year report • External Audit: 2016/17 plan and terms of engagement • External Audit: Review of non-audit fees • External Audit: Management letter on the 2016 Audit • Enterprise Risk Management update • Property regulation compliance • Energy risk management • Whistleblowing update
November 2016	• Interim results • External Audit: Deloitte half-year report • Regulatory: Annual Performance Report commitments half-year assurance, including ODIs • Report from the Disclosure Committee • Property regulation compliance • Material litigation update • Whistleblowing update
March 2017	• Finance: Year end considerations and Viability Statement update • Regulatory: Year end considerations, Annual Performance Report and Annual Regulatory Compliance Statement • External Audit: Effectiveness review • External Audit: Non-audit fees policy and review of non-audit fees • External Audit: Update to audit plan • Committee Terms of Reference • Internal Audit plan 2017/18 • Internal Audit update • Enterprise Risk Management update • Report from the Disclosure Committee • Insurance liabilities • Material litigation update • Whistleblowing update • Bribery and fraud prevention and detection

In addition to the matters considered above, the Committee reviewed the proposed presentations to analysts in conjunction with the draft results announcements for both the interim and full year results, applying particular attention to the tone of the announcements and presentations to maintain 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 CFO.

An ad hoc meeting of the Committee was held in July 2016 to approve the PR16 submission and year end regulatory report and compliance statement. The Audit Committee also reviewed the outcome of the process to confirm that the Annual 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 124.

Significant financial statement reporting issues

The Committee looked carefully at those aspects of the financial statements which required significant accounting judgements or where there was estimation uncertainty. These areas are explained in note 5 of the financial statements on page 141.

The Committee receives detailed reports from both the CFO 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 and satisfies itself that the judgements made by management are robust and should be supported. The significant issues that the Committee considered in 2016/17 were:

Issue –	How the issue was addressed by the Committee –
Going concern basis for the financial statements and long term viability statement.	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 statements in the Strategic report on going concern and long term viability.
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.
Revenue recognition in relation to the estimation of unbilled metered revenue in Severn Trent Water Limited.	The Committee reviewed the process for calculating the unbilled metered revenue estimate and considered the accuracy of past estimates.
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited.	The Committee considered the application of the Group's accounting policy during the year, focusing in particular on changes to the application of the policy.
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.
Determination of current and deferred tax balances.	The Committee considered the nature of the Group's uncertain tax positions and determined whether appropriate provisions had been made.
Acquisition and disposal accounting.	The Committee reviewed the proposed accounting treatment for such transactions and the corresponding disclosures in the Group's financial statements.

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

Effectiveness of the Audit Committee

The Committee's performance was considered and reviewed as part of the annual review of the Board and its Committees, details of which can be found on page 83.

The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries and that all members have competence relevant to regulated and/or utilities businesses as well as significant recent and relevant financial experience.

Following the Board Effectiveness Evaluation, John Coghlan was commended for the significant additional time and focus given by him personally in respect of the remit of the Audit Committee during the year in relation to regulatory requirements and associated assurance obligations.

Accountability

Audit Committee report continued

Internal and External Audit

Internal Audit and internal controls

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management.

The role of Internal Audit is to provide assurance that the Group's risk management and internal control systems are well-designed and operate effectively and that any corrective action is taken in a timely manner. Each year, Internal Audit develops an annual audit plan for approval by the Audit Committee and onward monitoring of the plan's execution throughout the year. Audits are designed to assess the operating effectiveness of controls and recommend process improvements as necessary.

The effectiveness of the controls over financial reporting is also monitored by the Audit Committee, which receives regular reports of the testing conducted by the External Auditor.

The Audit Committee is confident that, where any failings or weaknesses are identified in the course of its review of internal control systems, management puts in place robust actions to address these on a timely basis.

An 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.

The Internal Audit function is supported by a co-sourcing arrangement. The Committee believes that this arrangement adds value, through greater access to specific areas of expertise and the ability to independently challenge management.

External Auditor

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. Deloitte contributes a further independent perspective on certain aspects of the Company's financial control systems arising from its work, and reports both to the Board and the Audit Committee.

Following a formal tender process in 2015/16, Deloitte LLP were reappointed as Auditor at the 2016 AGM. The senior statutory auditor, Kari Hale, has overseen the audit of the Severn Trent Group since 2015/16. The Company intends to put the External Audit out to tender at least as often as is required by applicable law, rules, regulations and best practice in line with the Competition and Markets Authority and EU requirements for mandatory tendering and rotation of the audit firm. Under current regulations the External Audit must be put out to tender by 2025 and Deloitte will not be able to participate. The Company has complied with the provisions of the CMA Audit Order during the financial year.

The Committee considers the effectiveness of the External Auditor every year and, further to Deloitte's reappointment, a full effectiveness review was conducted during this year. The review involved assessment of the Auditor by the Committee and key Executives and evaluation of whether the Auditor meets minimum standards of qualification, independence, expertise, effectiveness and communication.

The FRC's Audit Quality Review team ('AQRT') selected for review the audit of the 2016 Severn Trent Plc financial statements as part of their 2016 annual inspection of audit firms. The Chairman of the Audit Committee received a full copy of the findings of the AQRT and has discussed these with Deloitte. There were no significant areas for improvement identified within the report. We are also satisfied that there is nothing within the report which might have a bearing on the audit appointment.

Based on our consideration of the responses to the effectiveness review, and taking into account the AQRT report, the Committee remains satisfied with the efficiency and effectiveness of the audit.

Non-audit fees

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 and separately sets out those non-audit services which are prohibited, since the independence of the External Auditor could be threatened.

The process for approving all non-audit work provided by our Auditor is overseen by the Committee in order to safeguard the objectivity and independence of the Auditor. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from Deloitte rather than another supplier. Where Deloitte have been chosen, this is as a result of their detailed knowledge of our business and understanding of our industry as well as demonstrating that they have the necessary expertise and capability to undertake the work cost-effectively.

The policy was revised in early 2016, ahead of new EU regulations coming into force in June 2016, to provide that non-audit fees and independence of our Auditor would continue to be subject to ongoing review in light of those rules. The current policy, which was reviewed by the Committee during the year, continues to comply with the EU regulations and requires approval by the Committee or its Chairman if a non-audit service provided by the Auditor is expected to cost more than £100,000. The policy also prohibits aggregate fees from 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.

Accountability

During the year, Deloitte received £660,000 in fees for work relating to the audit services they provide to the Group, including audit-related assurance work. Non-audit related work undertaken by Deloitte amounted to fees of £494,000 this year, which amounts to 43% of the total fees paid to them. Fees paid to Deloitte are set out in note 8 of the financial statements on page 145, but details of significant non-audit work undertaken are set out below:

Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor. The same safeguards that apply to the External Audit also apply to this work.	54
Assurance of regulatory returns	Audit of sections 1 and 2 of Dee Valley Water plc's and Severn Trent Water Limited's Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	32
Reporting under Group financing documents	These documents require reports from the Auditor.	48
Subtotal		134
Services related to taxation	Include access to Deloitte's software for managing capital allowances.	61
Other assurance services		
Assurance in connection with regulatory reports to Ofwat	Agreed-upon procedures relating to Section 4 of Dee Valley Water plc's and Severn Trent Water Limited's Annual Performance Reports and Severn Trent Water Limited's wholesale scheme of charges.	171
Assurance services related to Open Water	Deloitte are the market leading firm for these services.	95
Other assurance services		33
Subtotal		360
Total 2016/17 non-audit fees		**494**

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.

Regulated subsidiaries

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

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

For each of Severn Trent Water Limited and Dee Valley Water plc, Deloitte provides an audit opinion on the regulatory financial reporting and price control segmentation sections of the respective Annual Performance Reports, and assurance of certain aspects of additional regulatory information that is included. The respective Annual Performance Reports also provide an overall picture of performance, covering many aspects which are not financial including performance against commitments and ODIs for each of Severn Trent Water Limited and Dee Valley Water plc. Both Severn Trent Water Limited and Dee Valley Water plc appoint independent engineering consultants, Jacobs and Black & Veatch respectively, to report and provide assurance on those aspects. The Committee receives reports from Jacobs and Deloitte on their work for Severn Trent Water Limited, and Black & Veatch and Deloitte for Dee Valley Water plc, as part of its review of the respective Annual Performance Reports.

Risk management

The Audit Committee reviews the processes for, and outputs from, the Group's Enterprise Risk Management ('ERM') process, through which our principal risks and related controls are identified. The Committee also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which to enhance the control and assurance arrangements. The Committee receives half-yearly reports from the Head of Risk 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.

To further enhance the clarity of reporting and insight that can be gained from this ERM information, a reporting dashboard for the Group's significant risks has been developed and implemented during the year. This enhancement has helped to facilitate a more thorough review of the target risk positions considering risk appetite and whether improvement actions to achieve these are on target with the correct prioritisation in place. It has ultimately meant that more information can be reported, but in a clear and concise format.

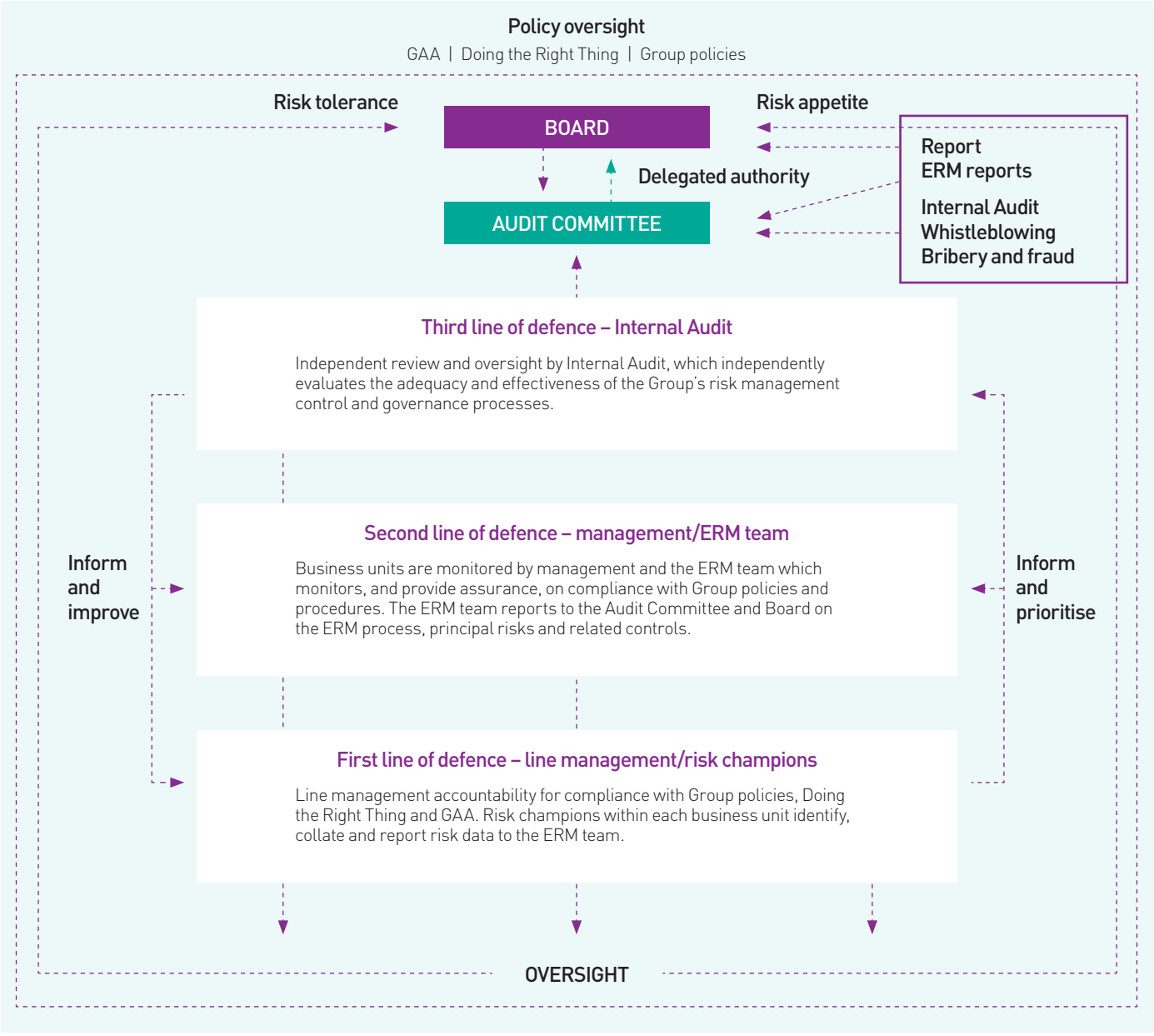
Accountability

Audit Committee report continued

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 2017 and up to the date of this 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'). A dedicated risk identification and horizon scanning session was held with the Board in 2017. During its review of risk management during the year, the Board explicitly considered the target position for significant risks and whether target risk positions are appropriate and confirmed that suitable timescales had been agreed for reaching them.

Risk management governance process

The Group's risk management governance process is based on the three lines of defence model and is scrutinised by the Audit Committee, through delegated authority from the Severn Trent Plc Board.



Stakeholder Engagement

Corporate Responsibility Committee report

Dr. Angela Strank
Chairman of the Corporate Responsibility Committee



"Acting in a responsible way is embedded in everything we do and how we do it, from looking after the mental health of our employees to minimising our impact on the environment."

Attendance table

Member of the Corporate Responsibility Committee	Meetings attended	Max possible
Dr. Angela Strank (Chairman)	4	4
Andrew Duff	4	4
Dominique Reiniche (Appointed 20 July 16)	3	3
Liv Garfield	4	4
Gordon Fryett (Retired 20 July 16)	1	1

In addition to the attendance set out above, the Company Secretary normally attends, by invitation, all meetings of the Committee. Other members of senior management, including the Head of Internal Audit, are also invited to attend as appropriate.

Introduction

As Chairman of the Corporate Responsibility Committee, I am pleased to introduce the report of the Corporate Responsibility Committee which details the role of the Committee and the important work it has undertaken during the year. The Committee has continued to play a key role in supporting the Board, reviewing the Group's key non-financial risks and opportunities and monitoring performance against an agreed Corporate Responsibility framework, including several customer ODIs and key performance indicators.

Dr. Angela Strank
Chairman of the Corporate Responsibility Committee

Corporate Responsibility Committee responsibilities

The responsibilities of the Corporate Responsibility Committee include:

- development of Corporate Responsibility targets and key performance indicators;
- regularly receiving and reviewing reports on progress towards the achievement of Corporate Responsibility targets and indicators;
- consideration of Code of Conduct and associated Group policies for recommendation to the Board. Particular focus includes the provision of a healthy and safe working environment for employees and contractors, human rights and employee diversity;
- development, review and promulgation of workplace policies;
- the creation of environmental standards, particularly where Severn Trent has most significant environmental impact; and
- the promotion of socially responsible values and standards that relate to the social and economic community in which the Company operates.

The Corporate Responsibility terms of reference, which were updated in March 2017, can be found at www.severntrent.com.

Corporate Responsibility Committee activities

A summary of some of the matters considered at each meeting is set out below:

May 2016

- Quarterly Corporate Responsibility performance report
- External activity report – Corporate Social Responsibility
- Environmental Leadership – AMP6 commitments to improve our region's rivers
- Corporate Social Responsibility opportunities as part of the Birmingham Resilience Project
- Internal Audit plan 2016/17 in relation to Corporate Social Responsibility
- Whistleblowing update

September 2016

- Quarterly Corporate Responsibility performance report
- External activity report – Corporate Social Responsibility
- Embedding our Group's values
- Environmental Leadership – Delivering carbon reductions
- Responsible supplier management
- Risk management update – Political and economic environment
- Whistleblowing update

November 2016

- Review of our approach to Corporate Responsibility – The value of acting responsibly
- Sustainability West Midlands review of our Corporate Responsibility report
- External activity report – Corporate Social Responsibility
- Review of our approach to employee volunteering – Love our Network
- Anti-slavery and human trafficking update
- Whistleblowing update

March 2017

- Quarterly Corporate Responsibility performance report
- Deep dive on Diversity – One Diverse Severn Trent
- Our approach to fluoride
- Anti-slavery and human trafficking update
- Committee terms of reference
- Whistleblowing update

Stakeholder Engagement

Corporate Responsibility Committee report continued

Our Corporate Responsibility framework

Our Corporate Responsibility ('CR')framework is ambitious, and broad ranging, underpinned by stretching targets, to ensure we are delivering the commitments expected of a leading socially and environmentally responsible business. Acting in a responsible manner is integral to supporting our purpose of serving our communities, building a lasting water legacy and achieving our vision to be the most trusted water company by 2020.

We hold ourselves to account against our CR framework and agreed metrics through an effective performance management system. Internally we report on a quarterly basis to the Committee, and externally on an annual basis through our Annual Report and Accounts, our website and through selected Environmental, Social and Governance indices.

Ambition One
We will make our region the most water efficient in the UK
Read more on page 60

Ambition Two
We will play a leading role to help make our region's rivers even healthier
Read more on page 61

Values

1. We put our customers first
Read more on page 62

2. We are passionate about what we do
Read more on page 63

3. We act with integrity
Read more on page 64

4. We protect our environment
Read more on page 65

5. We are inspired to create an awesome company
Read more on page 69

Key areas of focus for 2016/17

The Committee provides Board oversight of our CR strategy and our performance against our CR framework. The Committee also regularly reviews reputational risks and non-financial Internal Audit reports, in addition to deep dives into topics in our CR framework and any whistleblowing allegations.

Key areas of discussion and review during 2016/17 included:

- Review of our approach to Corporate Responsibility, ensuring it is driving maximum benefit to build trust, serve our communities and leave a lasting legacy. We also sought an external review.
- A review of external news and trends relevant to Severn Trent and our approach to Corporate Responsibility.
- Development of our approach to employee volunteering and alignment with our Corporate Responsibility ambitions, around healthier rivers and water efficiency, to maximise our impact in the environment and communities in which we operate.
- An update on our responsible supplier management. We have developed a 'Sustainable supply chain charter' which is a 'call to action' to our suppliers to support our approach to Corporate Responsibility.
- Our zero tolerance approach to modern slavery and our plans to take all reasonable efforts to eradicate modern slavery within both our business and our supply chain.

Stakeholder Engagement

Human rights

We have a responsibility to understand our potential impact on human rights and to mitigate or eliminate any potentially negative impacts. We are committed to operating in accordance with the United Nations Global Compact Principles and our code of conduct 'Doing the Right Thing' 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. All suppliers are required to sign up and operate in line with our Code of Conduct, which is built into our procurement tender process as part of the pre-qualification questionnaire template.

Freedom of association and collective bargaining

We recognise the right of all employees to freedom of association and collective bargaining. We seek to promote co-operation 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. This year we have updated our whistleblowing policy to ensure it includes the ability to report any concerns in relation to modern slavery. Ensuring our employees are aware of this independent resource and that they feel comfortable about using our whistleblowing process is important to us. This year we've promoted it through internal channels, reminded staff through revision of code of conduct and included a reminder on employee payslips. All investigations are carried out independently of management and the findings are reported directly through to the Audit and CR Committees.

'Doing The Right Thing – The Severn Trent Way'

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. But there are always going to be times when it isn't as clear, and that's where our code of conduct 'Doing the Right Thing' comes in. 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 clearly sets out the standards we need to follow in our day-to-day activities.

Following a revision of this code and our Group policies, this year we have focused on communicating these with the business, promoting through our internal communication channels and we have rolled out a full e-learning training module to ensure everyone in the business understands our expectations in relation to our values and ethical standards. All our Board Directors, executive and senior management team have completed this training. 'Doing the Right Thing' also forms an essential part of our employee induction, ensuring we are embedding our Company values from day one.

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 all Group employees 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 corporate strategy. For more information about our CR framework, our ambitions and values, and our performance against them, please see our CR report on page 57.

Stakeholder Engagement

Investor relations

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.

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 2017, a significant majority of shareholders, 85%, now view and download the Annual Report online, whilst 15% continue to receive a hard copy. The next consultation will take place in 2019.

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

Additional investor engagement

Presentations are made to shareholders and city analysts following the release of the half-year and year end results. Furthermore, the Chief Executive and Chief Financial Officer regularly meet shareholders during the year.

The Chairman and Senior Independent Director also meet with shareholders without the Executive Directors at least once every year and are 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. The Chairman, Chief Executive and the Chief Financial Officer report to the Board at least quarterly the views of shareholders about the Company. The Company Secretary also provides regular updates on wider investment and institutional sentiment.

In March 2017, the Board reviewed and approved an investor relations strategy, setting out the Investor Relations team's approach to identification of and engagement with the Company's shareholders, sell-side analysts and debt investors.

2016/17 engagement

During 2016/17, the key topics for our investors have been a combination of company specific, performance-orientated factors and broader regulatory and macro factors.

At a company level, much of the interest has been around Severn Trent's outperformance against its regulatory contract, specifically in the three key areas which feed into the return on regulatory equity ('RoRE') calculation; customer outcome delivery incentives ('ODIs'), totex, the pension deficit and financing. Our current debt strategy has also been a source of interest, with upcoming maturities and new debt issuance creating opportunities to reduce our cost of debt. Our sector-leading renewable energy programme attracted a greater degree of interest as it grows in importance, and our acquisition during the year of Dee Valley captured the attention of investors in the second half of the year. The progress on the formation of our joint venture with United Utilities, enabling us to compete more effectively in the recently opened non-household retail market, was also of interest.

At a broader level, investor focus has been on the further clarity received from Ofwat on a number of regulatory developments, giving us greater visibility through to the end of the next regulatory period in 2025. Such developments include the introduction of competitive markets for water resources and bio-resources, the phased introduction of Consumer Price Index ('CPI') indexation and changes to the methodology for calculating the cost of debt. Ofwat's review of the benefits of introducing competition to the retail household market also attracted attention. More widely, increases in the Retail Price Index ('RPI') and its impact on the business, as well as the consequences of the leave vote in the European Union membership referendum, were of great interest to our investors.

Stakeholder Engagement

Primary investor events

May 2016	London Roadshow
May 2016	Edinburgh Roadshow
June 2016	New York Roadshow
June 2016	Netherlands Roadshow
June 2016	Credit Suisse Global Energy Conference
June 2016	Paris Roadshow
June 2016	Bank of America Merrill Lynch Utilities & Renewables Conference
June 2016	Private Client Roadshow – London
September 2016	Private Client Roadshow – London
September 2016	North American Roadshow
September 2016	Morgan Stanley Power and Utilities Summit
September 2016	Bernstein Strategic Decisions Conference
November 2016	London Roadshow
November 2016	Edinburgh Roadshow
November 2016	JP Morgan Utilities Conference
December 2016	London Roadshow
December 2016	Private Client Roadshow – London
December 2016	Frankfurt Roadshow
January 2017	Citi European Utilities Conference
January 2017	USA Roadshow
February 2017	Australia Roadshow
March 2017	Barclays Utilities Sector Update Conference
March 2017	Severn Trent Digital, Innovation & Technology showcase event

Looking ahead to 2017/18

We have already established a structured programme of investor engagement for 2017/18, incorporating roadshows to many of the key locations where our shareholder base is located, including London, Edinburgh, North America and several cities throughout Europe. We have also confirmed attendance at a number of industry conferences.

We expect the main themes for investors in the coming year to be focused around regulatory developments. Ofwat will be publishing further clarification on their proposals for the next regulatory period, AMP7, later in 2017, which will give stakeholders a greater understanding of the impacts of proposed changes and what that means for Company business plans. At a Company level, we expect focus will continue to be on how well we are performing against the current regulatory contract.

Remuneration

Directors' remuneration report



Philip Remnant
Chairman of the 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.

The Remuneration Committee Terms of Reference were updated in March 2017 and can be found at www.severntrent.com

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Chairman's Statement

Dear Shareholder

Our performance

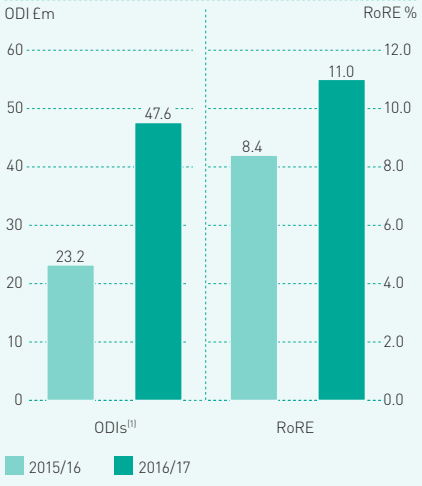
This year the management team has made good progress towards our goal of being the most trusted water company by 2020, as well as delivering great performance in a number of key areas. This is the second consecutive year where we have outperformed on the commitments that our customers care most about. In particular, we have outperformed on sewer flooding, interruptions to supply and pollution, resulting in fewer incidents. This has resulted in better outcomes for our customers and a customer Outcome Delivery Incentive ('ODI') reward of £47.6 million, up £24.4 million year on year. We continue to invest responsibly for sustainable growth; through our capital programme we have invested around £680 million for the future of our network and we continue to have the lowest combined bills in Britain. In addition, strong financial performance continues, delivering a Return on Regulatory Capital Value ('RoRCV') of 1.27 times the Final Determination and a Return on Regulated Equity ('RoRE') of 11.0%.

The charts to the right show:

- our customer ODI and RoRE performance since the beginning of the current AMP; and
- how continued outperformance by the Company is reflected in the absolute and comparative total shareholder return.

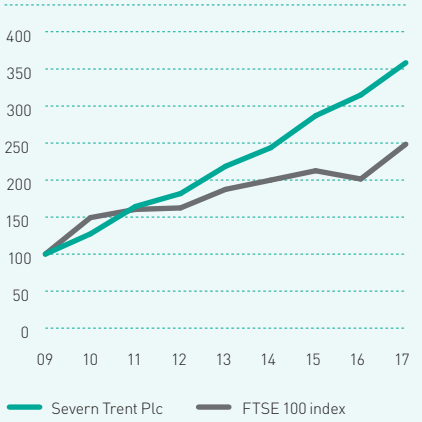
Demonstrating the alignment between the Remuneration Policy and the Company strategy, this strong sustained level of performance has flowed through to the level of reward received by our Executive Directors, including for the year under review.

Severn Trent performance



1 Based on 2012/13 prices pre-tax.

Total shareholder return (value £)



Source: Datastream

Remuneration for the year under review

The business has continued to perform strongly in 2016/17 against a set of stretching annual bonus targets, which required delivery of improvements across all areas, as well as absorbing a number of headwinds. Respective outturns were 91.0% of base salary for the Chief Executive Officer, 90.4% of base salary for the Chief Financial Officer and 90.6% of base salary for the Managing Director, Wholesale Operations, out of a maximum annual bonus opportunity of 120% of base salary.

The long term incentive plan ('LTIP') based on RoRCV over the three years to 31 March 2017 will vest in full for the Chief Executive Officer. The Recruitment Awards for the Chief Financial Officer and Managing Director, Wholesale Operations, which are based on the same performance measures, will also vest in full. This is representative of outstanding performance in financing and total expenditure delivering RoRCV of 5.03%, up by 0.67% year on year.

There is a detailed breakdown of the targets set and the payments under the annual bonus and LTIP on pages 107 to 109.

Our success as a business is shared by all our employees through our bonus scheme. Set out on pages 104 to 105 is more information on this and on our approach to pay and benefits throughout the organisation.

Application of the policy for 2017/18

The Committee continues to operate within the Remuneration Policy agreed by 97.99% of shareholders at the 2015 AGM. Set out below is 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 2017, in line with the average level of increase for the wider workforce.
- Benefits and pension: there will be no changes to benefits and pension during 2017/18.
- Annual bonus: the maximum bonus opportunity remains 120% of salary and 50% of any bonus paid will be deferred in shares for three years. We have delivered excellent performance in customer service shown by our ODI outperformance and we want to deliver the same performance in customer experience. Therefore, we have introduced a customer experience measure into our bonus, based on reducing written complaints, to drive improvements in customer experience and improve the alignment between incentives and strategy. Driving a reduction in written complaints is important as it ensures we are resolving issues earlier for customers and ultimately building strong customer focus into all our processes to minimise complaints at any stage. It is a measure which is well understood by all key stakeholders (employees, customers, investors and regulators) and the Consumer Council for Water ('CCW') report on the reduction in customer complaints in their annual report on water companies, making it an externally recognised measure. 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.
- Long term incentives: in line with 2016 levels, awards worth 150% of salary for the Chief Executive Officer, 100% of salary for the Chief Financial Officer and 80% for the Managing Director, Wholesale Operations will be made in June 2017. The performance targets for the awards to be granted in 2017 will require average RoRE equal to 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 the Final Determination stretch target remains challenging because it would require very significant outperformance on customer ODIs, financing and total expenditure efficiencies. The target requires Severn Trent to deliver upper quartile RoRE performance, based on AMP6 sector wide performance to date.

Remuneration
Directors' remuneration report continued

Wider workforce considerations

Embedding customers at the heart of what we do is a key goal for us and we understand that our people are crucial to achieving this. We seek to create an inclusive working environment and reward our employees in a fair manner. The Committee and management are committed to aligned pay across the organisation, and we are pleased to have made significant progress in recent years, which is outlined in the information on the wider workforce remuneration set out in this report. We believe that employees should share in the success of Severn Trent and, as such, we have ensured that reward is aligned with performance and that all of our people benefit from our success, both through the all-employee annual bonus plan we introduced two years ago and the opportunity to purchase shares through the tax advantaged Save As You Earn Scheme. All-employee bonus measures are aligned with management and the executive, and we report on progress against these targets to employees explaining where we are performing well and seeking input into how we could perform better. We also offer excellent benefits in addition to salary and bonus, including a comprehensive flexible benefits package and a market leading defined contribution pension scheme.

We have an active Company employee forum which meets every quarter to discuss business challenges and opportunities. The forum is chaired jointly by a member of the Executive Committee and the Trade Unions. Members include representatives from HR, joint Trade Unions and employees from other individual employee Business Forums representing each part of our business. The objectives of the Company employee forum are to:

- involve employees by sharing information on the future of our business and the water industry;
- work together on issues which affect our employees; and
- work in partnership to deliver better solutions that improve the way we work.

During 2016/17 the Chief Executive Officer discussed with the Company employee forum the health of the business, key financial information and ideas for efficiencies.

Future policy

The Committee will not bring a policy vote to this year's Annual General Meeting ('AGM') and therefore will be operating within the policy approved by shareholders in 2015. The Committee intends to engage fully with shareholders in a timely manner on a new policy prior to seeking shareholder approval at the 2018 AGM.

Board changes

Emma FitzGerald joined Severn Trent's Executive Committee as Managing Director, Wholesale Operations on 1 July 2015 and was appointed to the Board on 1 April 2016. Details of Emma's remuneration package are contained within this report.

Structure of the report

This year, we have amended the structure of the remuneration report by adding an 'At a Glance' section, which sets out our remuneration framework, how the Remuneration Policy was implemented in 2016/17 and how the Committee intends to apply the Remuneration Policy in 2017/18. The Policy Report is now detailed in an Appendix on page 115 for reference. We believe that you will find the new structure of the report easier to navigate and more transparent.

I trust 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

At a Glance

The following section sets out our remuneration framework, how the Remuneration Policy was implemented in 2016/17 and how the Committee intends to apply the policy in 2017/18.

Approach to remuneration

The approach to remuneration throughout Severn Trent is guided by a framework of common principles, which are outlined below.

Reward principles
• Design will be as simple and transparent as possible, and it will be easy to understand and communicate;
• Reward will be relevant to our business goals and objectives, and be affordable;
• Performance measures and targets will be objectively determined; and
• We aim to be competitive in the market so we can attract, recruit and retain talented people.

How our executive pay supports our strategy

The Committee believes it is important that for Executive Directors and senior management a significant proportion of the remuneration package is performance related and performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The following table sets out how each of our key strategic objectives are reflected in the annual bonus and LTIP.

Key objectives	Measure	Incentive scheme
Embed customers at the heart of what we do	Customer ODIs	Annual bonus and LTIP
	Customer experience measure	Annual bonus
Drive operational excellence and continuous innovation	Profit before interest and tax (PBIT)	Annual bonus
	Customer ODIs	Annual bonus and LTIP
	Health & safety	Annual bonus
Invest responsibly for sustainable growth	RoRE	LTIP
Change the market for the better	Personal objectives	Annual bonus
Create an awesome place to work	Health & safety	Annual bonus

2016/17 remuneration outcomes

This table shows how the successful implementation of our strategy has flowed through to the rewards provided to our Executive Directors. The table below provides a summary total single figure of remuneration for 2016/17 and the 2015/16 total for comparison. The full explanatory notes for each element of remuneration are detailed on page 106 following the total single figure of remuneration table in the Annual Report on Remuneration.

Executive Directors	Year	Salary (£'000)[i]	Benefits (£'000)	Annual bonus (£'000)	Long term incentive plan (£'000)	Pension (£'000)	Other (£'000)	Total 2016/7 (£'000)	Total 2015/6 (£'000)
CEO	2016/17	673.7	18.0	615.8	974.8	168.4	–	2,450.7	2,493.6
CFO	2016/17	406.0	19.8	368.7	324.7	101.5	–	1,220.6	1,264.8
MD, Wholesale Operations[ii]	2016/17	395.9	17.6	360.2	333.5	99.0	–	1,206.2	–

(i) Base salaries are shown before the deduction of benefits purchased through the Company's salary sacrifice scheme.

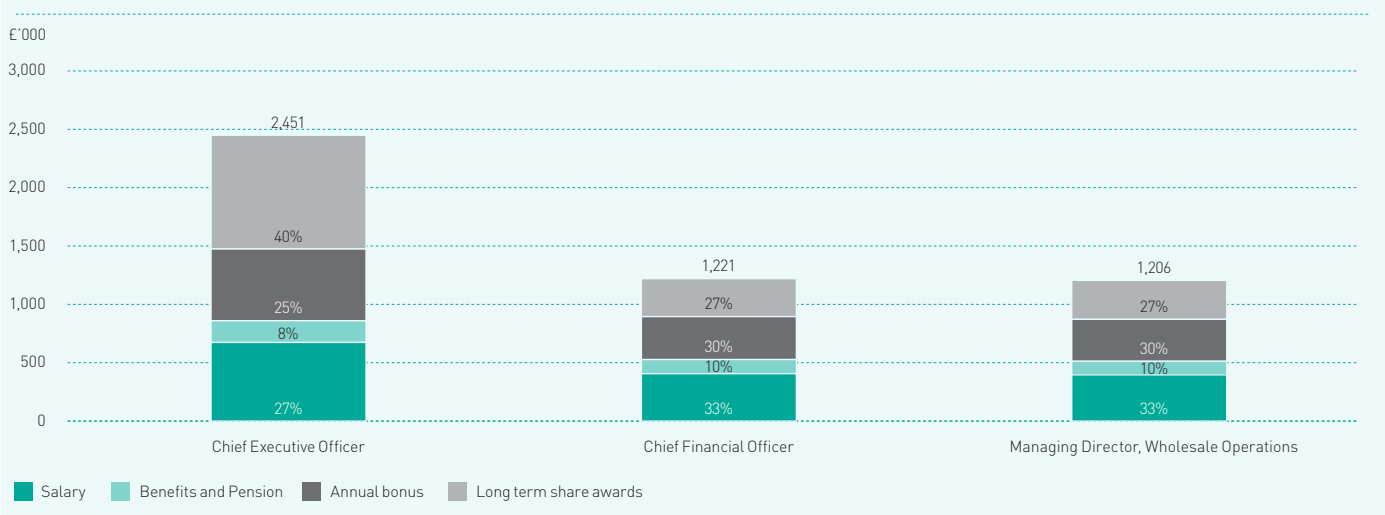
(ii) Emma FitzGerald (Managing Director, Wholesale Operations) was appointed to the Board on 1 April 2016.

Remuneration

Directors' remuneration report continued

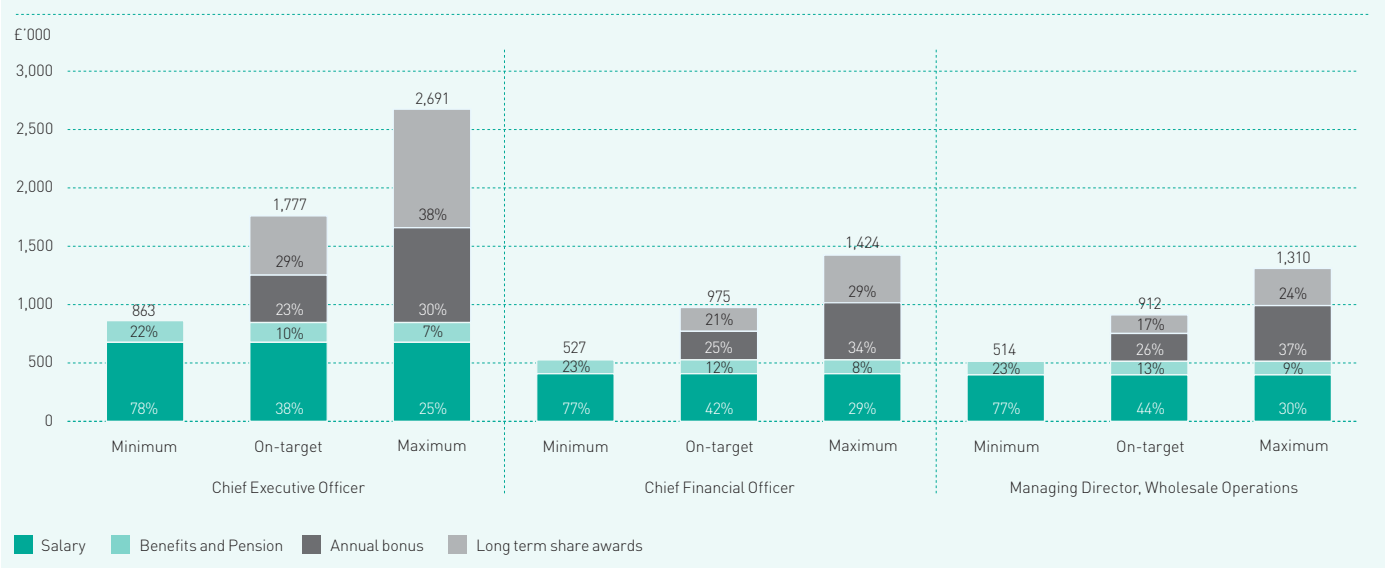
Total single figure of remuneration 2016/17

The total single figure of remuneration for each Executive Director for 2016/17 is shown in chart form below.



Remuneration scenarios

At the time the Remuneration Policy was approved the Company set out the potential remuneration received by the Executive Directors for various performance levels. The following chart shows the remuneration scenarios under our approved Remuneration Policy.



Note: Minimum remuneration is fixed pay only (i.e. salary + benefits + pension). On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of base salary) 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 remuneration includes fixed pay and assumes 100% vesting of both the annual bonus (worth 120% of base salary) and the LTIP awards. No share price growth has been factored into the above 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 2017. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2017. The Executive Directors are also permitted to participate in HMRC tax advantaged all-employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus

An annual bonus was awarded of 75.8% of maximum for the Chief Executive Officer; 75.3% of maximum for the Chief Financial Officer and 75.5% for the Managing Director, Wholesale Operations. Annual bonus payments for the Chief Executive Officer and Chief Financial Officer are circa 12% lower than last year. This is reflective of the stretching targets we set ourselves at the start of the year, which required significant and sustained improvements in all areas.

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting (% total award)	Outcome (% total award)
Severn Trent Water Limited Group PBIT[i]	(£493.5m)	(£506.6m)	(£519.9m)	47%	73%
STW customer ODIs[ii]	(£10.0m)	(£15.0m)	(£20.0m)	25% (35% in respect of the MD, WO)	100%
Business Services PBIT[iii]	(£34.2m)	(£36.1m)	(£37.1m)	10% (excluding MD, WO)	68%
Health and safety[iv]	(0.18)	(0.16)	(0.14)	8%	0%
Personal performance				10%	95% – CEO 90% – CFO 60% – MD, WO

Details on page 108

(i) The outturn figures shown in the table above include six weeks of Dee Valley's revenue and costs. These are immaterial with a net £0.4 million loss for the period. STW PBIT shown pre exceptional items.

(ii) Based on 2012/13 prices pre-tax.

(iii) The outturn is calculated using the same exchange rate as setting the targets (as approved by the Remuneration Committee) and as such differs from the PBIT of £37.2 million reported in the financial statements.

(iv) Measured as no. of lost time incidents divided by no. of hours worked multiplied by 100,000.

Full details of the bonus targets, their calibration and satisfaction are set on page 108.

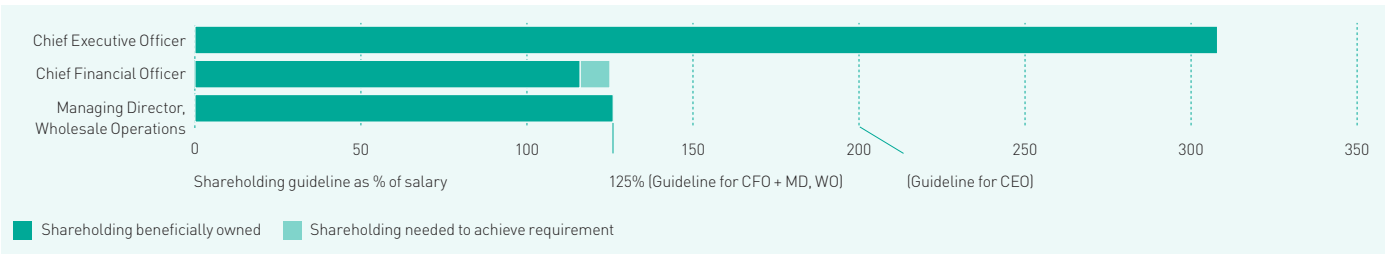
Long term incentive plan

The table below provides a summary of the 2014 LTIP, which vested at maximum. Further information is provided on pages 109 and 110.

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Vesting outcome as % of award		
				CEO	CFO	MD, WO
RoRCV – measured against multiple of Ofwat Final Determination	(1x)	(1.02x)	(1.07x)	100%	100%	100%

Shareholding requirements

The Committee believes that it is an essential part of the Company's Remuneration Policy that Executive Directors become material shareholders. The retention and build up of equity is important in a long term business such as Severn Trent as it encourages decisions to be made on a long term sustainable basis for the benefit of customers and shareholders. The Chief Executive Officer and Managing Director, Wholesale Operations have now exceeded the shareholding requirement of 200% and 125% of base salary. The Chief Financial Officer is on track to meet his shareholding requirement of 125% of base salary in 2017.



Remuneration

Directors' remuneration report continued

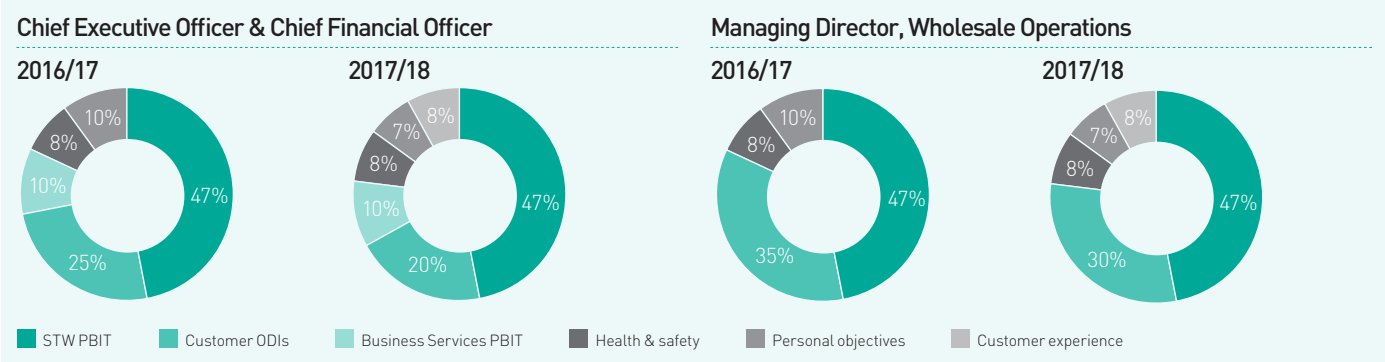
Summary of Remuneration Policy and Implementation in 2016/17 and 2017/18

The table below summarises key information relating to our Remuneration Policy, how it was implemented during the year and how the Committee is proposing to implement the Policy in 2017/18. The Remuneration Policy was approved by 97.99% of shareholders for three years from the date of 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 2017 AGM. For a full version of the Remuneration Policy, please refer to the Appendix on page 115.

Element and link to strategy	Key features of policy	How we implemented the policy in 2016/17	How we will implement the policy in 2017/18
Salary To recruit and reward Executives 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.	Executive Director salaries for 2016/17 were as follows: • CEO – £677,000 • CFO – £408,000 • MD, Wholesale Operations ('WO') – £397,800 Salary increases were 2% in 2016/17, in line with the average increase that applied to the general UK workforce.	A salary increase of 2% will be applied at the salary review date. From 1 July 2017, Executive Director salaries will be: • CEO – £690,600 • CFO – £416,200 • MD, WO – £405,800 The general employee base salary increase is 2%.
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.	Executive Director pension arrangements for 2016/17 were as follows: • CEO – 25% of base salary • CFO – 25% of base salary • MD, WO – 25% of base salary	No changes are proposed for 2017/18.
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.	The annual bonus is normally delivered: • 50% in cash • 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting). Malus and clawback provisions apply.	Maximum opportunity in 2016/17 was as follows: • CEO – 120% of base salary • CFO – 120% of base salary • MD, WO – 120% of base salary. For details of 2016/17 performance measures, see page 103.	A customer experience measure has been introduced. For details of 2017/18 performance measures, see page 103. All other performance conditions will remain the same. No changes to maximum opportunity are proposed for 2017/18.
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. A clawback mechanism applies to allow the recoupment of vested incentive awards within three years of vesting.	Grant level for 2016/17 was as follows: • CEO – 150% of base salary • CFO – 100% of base salary • MD, WO – 80% of base salary The performance measure was Return on Regulated Equity ('RoRE') over the three year period to 31 March 2019.	The following grant levels will apply in 2017/18: • CEO – 150% of base salary • CFO – 100% of base salary • MD, WO – 80% of base salary The performance measure will be RoRE. The performance conditions will remain the same.

Annual bonus measures in 2017/18

We have reviewed the current bonus measures against our vision and how we operate, and whilst they remain well aligned to our key strategic drivers, we believe the addition of a specific customer experience measure worth 8% of the total annual bonus will serve to strengthen the link between what our people do and desired outcomes for customers. The metric will assess reduction in written complaints. Driving a reduction in written complaints is important as it ensures we are resolving issues earlier for customers and ultimately building strong customer focus into all our processes to minimise complaints at any stage. It is a measure which is well understood by all key stakeholders (employees, customers, investors and regulators) and the CCW report on the reduction in customer complaints in their annual report on water companies, making it an externally recognised measure. A corresponding reduction in the customer ODI measure from 35% to 30% and of the personal objectives from 10% to 7% will also apply. The diagram below sets out how the annual bonus measures in 2017/18 will differ compared with 2016/17:



Chairman and Non-Executive Directors' fees (audited)

From 1 April 2017, Non-Executive Director base fees were increased by 2% from £52,400 to £53,450 and the Chairman's fee was increased by 2% from £275,000 to £280,500. These increases are the same as awarded to the wider workforce.

An additional supplementary fee, of £15,000 per annum, has been introduced in respect of the Chairmanship of the Treasury Committee from 1 April 2017, in recognition of the significant time commitment involved in chairing this Board Committee.

The current fee levels and those for the future financial year are set out in the table below:

	Fees 2017/18	Fees 2016/17	Increase %
Chairman's fee	£280,500	£275,000	2%
Base fee paid to all Non-Executive Directors	£53,450	£52,400	2%
Supplementary fees:			
– Senior Independent Director	£10,000	£10,000	0%
– Audit Committee Chairman	£15,000	£15,000	0%
– Remuneration Committee Chairman	£15,000	£15,000	0%
– Corporate Responsibility Committee Chairman	£13,000	£13,000	0%
– Treasury Committee Chairman	£15,000	n/a	n/a

The Chairman and Non-Executive Directors normally serve for terms of three years. The current expiry dates of their letters of appointment are Kevin Beeston (1 June 2019), Dominique Reiniche (20 July 2019), John Coghlan (23 May 2020), Andrew Duff (9 May 2019), Philip Remnant (31 March 2020), and Dr. Angela Strank (24 January 2020). However, all of the Directors are subject to annual appointment or reappointment at the AGM.

Remuneration

Directors' remuneration report continued

Employment at Severn Trent

Embedding customers at the heart of what we do is one of our core goals and we recognise that our employees are crucial to achieving this. We seek to create an inclusive working environment and reward our employees in a fair and equitable manner by providing all our employees with:

Item	Details
A competitive pay package	We position ourselves as a median employer in relation to the external market. At Severn Trent our policy is to ensure that employees who are not on a training rate of pay receive at least the voluntary Living Wage as set by the Living Wage Foundation.
An opportunity to share in our success	We operate an all-employee bonus plan based on Company performance, whereby all employees are aligned with the same measures. This aligns employee reward with our key objectives and ensures everyone shares in the success of the business. We also operate a Save As You Earn Scheme which gives employees a chance to save up to £500 per month over three or five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.
A tailored benefits offering	We provide a flexible benefits scheme and we believe our offering is amongst the industry best. It includes insurance and health cover, and retail and childcare vouchers to support a positive work-life balance.
An opportunity to save for the future	We offer a market leading defined contribution pension scheme and double any contributions employees make (up to a maximum of 15% of salary).
Training and development opportunities	We are focused on leadership and technical development across the whole organisation, and have delivered: • a 20% increase in training days this year; • a new comprehensive training programme, 'Skilled by Choice', within Wholesale, assuring the competency of over 300 staff and team managers operating our Water Treatment Works; and • 40 training sessions to over 550 colleagues to help them write personal development plans that drive development and performance. We have an established programme of training and development, and have trebled our intake of apprentices and doubled our graduate numbers. We were recognised as a top 100 Apprenticeship Employer in 2016 at the National Apprentice Awards. In addition, we were recently named top employer for engineering and manufacturing at the 2016 Asian Apprenticeship Awards. This investment in growing our own talent has strengthened our career progression activity and has resulted in almost 700 internal moves with 141 being promotions.
A diverse and inclusive workplace	We are recognised for leading performance in the FTSE 100 for women's representation at Board and Executive Committee level. We continue to have great scores for diversity and inclusion in our global employee engagement survey.

Alignment of pay throughout Severn Trent

The Committee recognises that pay should be fair throughout the Company. Therefore, part of how the Committee makes decisions in relation to the structure of executive pay is in the context of the cascade of pay structures throughout the business, shown in the diagram below:

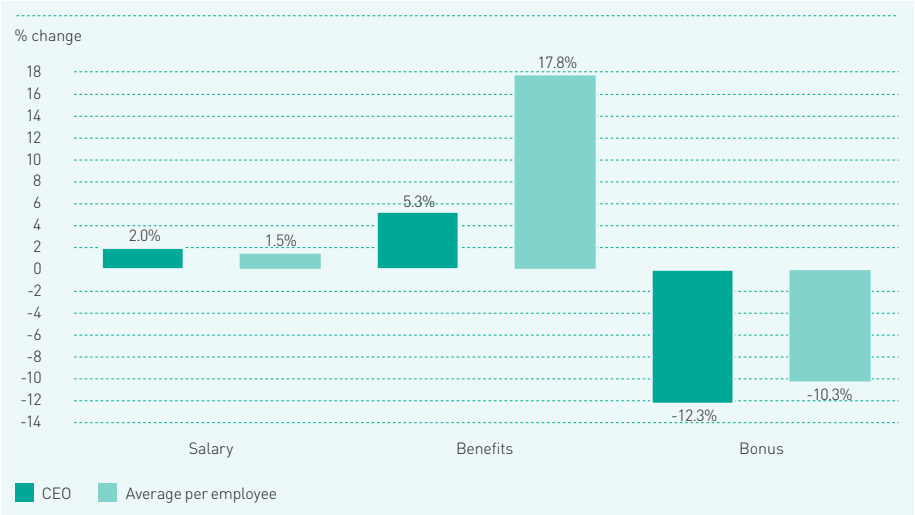
Element of pay	CEO	Board	Executive Committee	Senior Management	Management	Wider workforce
LTIP	✓	✓	✓	✓*	✓*	
Annual bonus (all employees aligned to the same measures)	✓	✓	✓	✓	✓	✓
Pension	✓	✓	✓	✓	✓	✓
Benefits	✓	✓	✓	✓	✓	✓

* A proportion of this population by annual invitation.

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 (Chief Executive Officer) between the current and previous financial year compared with that of the average employee. The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Company.

	Chief Executive Officer (£'000)			Average per employee (£'000)		
	2017	2016	% Change	2017	2016	% Change
– Base salary[i]	677.0	663.7	2.0%	29.9	29.5	1.5[iv]
– Benefits[ii]	18.0	17.1	5.3%	0.4	0.3	17.8
– Bonus[iii]	615.8	702.1	-12.3%	2.0	2.2	-10.3



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 is Severn Trent Water employees based in the UK as this is where the vast majority of employees are based.

(i) The base salary figures shown are based on full time equivalent comparisons.

(ii) The benefits figures include car allowance and family level private medical insurance for senior and middle managers. Benefits were not increased during the year therefore the increase shown relates to changes in the employee populations receiving benefits.

(iii) The figures shown are reflective of any bonus earned during the respective financial year. Bonuses are paid in the following June.

(iv) The average pay increase for the wider workforce during the year was 2.0%. The average change in base salaries due to the composition of the employee comparator group was 1.5%.

Directors' remuneration report continued

Annual Report on Remuneration

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 19 July 2017. The information on pages 106 to 114 is audited.

Total single figure of remuneration (audited)

The total single figure of remuneration table below sets out the remuneration received by the Directors for 2016/17 (or for performance periods ending in 2016/17 in respect of the long term incentives) and, for the purposes of comparison, for 2015/16. Where necessary, further explanations of the values provided are included below. This table and the explanatory notes below this table have been audited.

	Year ending 31 March 2017							Year ending 31 March 2016						
Executive Directors	**Salary and fees (£'000)[i]**	**Benefits (£'000)[ii]**	**Annual bonus (£'000)[iii]**	**Long term incentive plan (£'000)[iv]**	**Pension (£'000)[v]**	**Other (£'000)**	**Total (£'000)**	Salary and fees (£'000)[i]	Benefits (£'000)[ii]	Annual bonus (£'000)[iii]	Long term incentive plan (£'000)[vi]	Pension (£'000)[v]	Other (£'000)[vii]	Total (£'000)
Liv Garfield	**673.7**	**18.0**	**615.8**	**974.8**	**168.4**	**–**	**2,450.7**	660.2	17.1	702.1	936.4	165.1	12.7	2,493.6
James Bowling	**406.0**	**19.8**	**368.7**	**324.7**	**101.5**	**–**	**1,220.6**	400.0	18.8	416.0	320.6	100.0	9.4	1,264.8
Emma FitzGerald[viii]	**395.9**	**17.6**	**360.2**	**333.5**	**99.0**	**–**	**1,206.2**	–	–	–	–	–	–	–
Non-Executive Directors	**Salary and fees (£'000)**	**Benefits (£'000)**	**Annual bonus (£'000)**	**Long term incentive plan (£'000)**	**Pension (£'000)**	**Other (£'000)**	**Total (£'000)**	Salary and fees (£'000)	Benefits (£'000)	Annual bonus (£'000)	Long term incentive plan (£'000)	Pension (£'000)	Other (£'000)	Total (£'000)
Andrew Duff (Chairman)	**275.0**	**–**	**–**	**–**	**–**	**–**	**275.0**	257.0	–	–	–	–	–	257.0
John Coghlan	**67.4**	**–**	**–**	**–**	**–**	**–**	**67.4**	66.4	–	–	–	–	–	66.4
Gordon Fryett[ix]	**20.0**	**–**	**–**	**–**	**–**	**–**	**20.0**	64.4	–	–	–	–	–	64.4
Martin Lamb[ix]	**19.1**	**–**	**–**	**–**	**–**	**–**	**19.1**	61.4	–	–	–	–	–	61.4
Philip Remnant	**67.4**	**–**	**–**	**–**	**–**	**–**	**67.4**	66.4	–	–	–	–	–	66.4
Kevin Beeston[x]	**50.7**	**–**	**–**	**–**	**–**	**–**	**50.7**	–	–	–	–	–	–	–
Dominique Reiniche[xi]	**36.6**	**–**	**–**	**–**	**–**	**–**	**36.6**	–	–	–	–	–	–	–
Dr Angela Strank	**61.5**	**–**	**–**	**–**	**–**	**–**	**61.5**	51.4	–	–	–	–	–	51.4

(i) Base salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme. This is a change of approach adopted this year for the ease of the reader. In previous years we have shown base salaries after the deduction of benefits purchased through the Company's salary sacrifice scheme. In the 2015/16 Annual Report and Accounts, the base salary figure shown for Liv Garfield in the single figure table was after £49,995 pension contribution made via salary sacrifice to her defined contribution pension scheme. The current year equivalent figure is £9,953. In the table above, these amounts have now been reported as part of the base salary figure rather than as part of pensions. The 2017/18 base salary for James Bowling is reported before £9,983 (2016: £nil) pension contribution made via salary sacrifice to his defined contribution pension scheme. The pension contributions made via salary sacrifice are reported as part of the base salary in the table above.

(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) 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.

(iv) This relates to the vesting of the 2014 LTIP, and the respective Recruitment Awards for James Bowling and Emma FitzGerald which were based on RoRCV performance over the three year period to 31 March 2017. The value of the shares has been estimated using the average share price for the period from 1 January 2017 to 31 March 2017 of £23.00.

(v) The Executive Directors' pension provision is equal to 25% of base salary.

(vi) 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 the figures shown have been updated to reflect the actual share price on vesting (£22.72).

(vii) 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 claimed in accordance with our relocation policy. The expenses typically relate to travel and overnight accommodation.

(viii) Appointed to the Board on 1 April 2016.

(ix) Resigned from the Board on 20 July 2016.

(x) Appointed to the Board on 1 June 2016.

(xi) Appointed to the Board on 20 July 2016.

Salary for 2016/17 (audited)

Base salaries for individual Directors are reviewed annually by the Committee and normally take effect from 1 July. The Committee considered the Executive Directors' pay review in July 2016 in light of pay review budgets across the Group. As a result, the Committee determined that the salaries for the Executive Directors would increase by 2% in 2016/17, in line with the average increase that applied to the general UK workforce. For 2017/18, a 2% increase to salaries for Executive Directors has been agreed, in line with the average increase that will apply to the general UK workforce (see page 105).

	Base salary 01/07/2016	Base salary 01/07/2015	Percentage increase
Chief Executive Officer	£677,000	£663,700	2%
Chief Financial Officer	£408,000	£400,000	2%
Managing Director, Wholesale Operations	£397,800	£390,000	2%

Benefits for 2016/17 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically. In line with our Remuneration Policy outlined in the Appendix on page 115. We show below the benefits received by the individual Directors in the year, and their typical annual value where possible.

	Typical annual value 2016/17	Typical annual value 2015/16	Percentage increase
Car allowance	£15,000	£15,000	0%
Private medical insurance	£1,500	£1,500	0%
Life assurance	Up to 6 x base salary	Up to 6 x base salary	0%
Personal accident cover	As per the group-wide policy	As per the group-wide policy	0%
Biennial health screening	£620 per health screen	£620 per health screen	0%
Incapacity benefits	Worth 50% of base salary for a period of five years (subject to qualifying criteria)	Worth 50% of base salary for a period of five years (subject to qualifying criteria)	0%

Annual bonus outturn for 2016/17 (audited)

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. An annual bonus was awarded of 75.8% of maximum for the Chief Executive Officer, 75.3% for the Chief Financial Officer and 75.5% for the Managing Director, Wholesale Operations. The table below shows a summary of the metrics and targets which were used to determine the annual bonus awards:

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting (% total award)	Outcome (% total award)
Severn Trent Water Limited Group PBIT[i]	(£493.5m)	Actual: (£512.8m) (£506.6m)	(£519.9m)	47%	73%
STW customer ODIs[ii]	(£10.0m)	(£15.0m)	Actual: (£47.6m) (£20.0m)	25% (35% in respect of the MD, WO)	100%
Business Services PBIT[iii]	(£34.2m)	Actual: (£36.7m) (£36.1m)	(£37.1m)	10% (excluding MD, WO)	68%
Health and safety[iv]	Actual: (0.22) (0.18)	(0.16)	(0.14)	8%	0%
Personal performance				10%	95% – CEO 90% – CFO 60% – MD, WO

Details on page 108

(i) The outturn figures shown in the table above include six weeks of Dee Valley's revenue and costs. These are immaterial with a net £0.4 million loss for the period. STW PBIT shown pre exceptional items.

(ii) Based on 2012/13 prices pre-tax.

(iii) The outturn is calculated using the same exchange rate as setting the targets (as approved by the Remuneration Committee) and as such differs from the PBIT of £37.2 million reported in the financial statements.

(iv) Measured as no. of lost time incidents divided by no. of hours worked multiplied by 100,000.

Remuneration

Directors' remuneration report continued

The 2016/17 targets were set on the basis of delivering PBIT growth in a lower RPI environment decreasing revenue growth, and required us to absorb a number of headwinds such as inflation, increasing energy costs and the costs of setting up our non-household retail operation. Against a challenging target in excess of the Final Determination and better than consensus expectations, we delivered Severn Trent Water Limited Group PBIT (pre exceptional items) of £512.8 million. The customer ODI targets are reset at the beginning of each year and the targets for 2016/17 were significantly more challenging, with reduced deadbands and improved performance levels, compared with 2015/16. Delivery of the target would represent improved operational performance on last year, when we delivered exceptionally strong performance and benefited from mild weather. Our outturn of £47.6 million represents an outstanding result, driven by significant improvements in sewer flooding, supply interruptions and sustained performance on category 3 pollutions, while continuing to benefit from another year of relatively benign weather. We assume normal weather patterns will return in the future. In Severn Trent Water we have experienced 22 LTIs resulting in an LTI rate of 0.22 higher than our threshold target of 0.18 and therefore this portion of the bonus lapses. In Operating Services there were no LTIs which will result in that portion of their bonus paying out in full.

Personal objectives for the executives are linked to our strategic framework which will move us towards our ambition to be the most trusted water company. Objectives were shared across the team with each Director leading on the areas which best align with their accountabilities and expertise.

Liv Garfield's key objectives related to improving the financial health and performance of the business, maintaining excellent customer service, ensuring the business is ready for market opening and PR19, supporting industry thinking and creating an awesome place to work. The Committee awarded Liv Garfield a personal performance rating at 95% of the maximum. This is based on the following: identification of a further £100 million in total expenditure efficiencies and strong year on year RCV growth; improved customer service resulting in an ODI reward of £47.6 million; on time delivery of Water Plus, our joint venture with United Utilities, and setting up our Severn Trent Wholesale Market Unit in readiness for non-household competition; on track delivery of the AMP6 asset management strategy; building and maintaining constructive regulatory relationships, contributing to the thinking on opportunities for developing the customer ODI framework and PR19; and delivery of a three percentage point increase in employee engagement, which continues to track above the global benchmark. Whilst acknowledging a strong financial performance and an exceptional operational year, the Board noted that there remains more to do in relation to health and safety and SIM.

James Bowling's key objectives related to strengthening the wider Finance team, including Internal Audit and Enterprise Risk Management, development and delivery of key financial plans, minimising risk and liability in relation to pensions, enhancing investor relationships and creating value in Business Services. The Committee awarded James Bowling a personal performance rating at 90% of the maximum. This is based on the following: transformation of the Internal Audit and Enterprise Risk Management teams, developing a strong co-source function to embed risk management and controls into the way we work; successful development and delivery of our investor engagement plan, cash enhancement plan, and balanced and floating finance plan; management of the defined benefit pension liability through the development of a revised plan following the triennial valuation; successful delivery of Business Services' business plans, including the sale of Severn Trent Italia and growth in Energy and Renewables; and improved development planning within the Finance team to identify and build talent breadth and depth at all levels. Whilst acknowledging a strong financial performance, the Board noted that there remains more to do in relation to financing risk management.

Emma FitzGerald's key objectives related to maximising value from key contracts and capital expenditure, ensuring Wholesale is ready for market opening and PR19, improving customer experience and improving leadership succession planning for operational roles. The Committee awarded Emma FitzGerald a personal performance rating at 60% of the maximum. This is based on the following: implementation of a contract management framework, in collaboration with Group Commercial, to maximise value from key contracts, sustain efficiencies across the capital programme and embed new capital prioritisation mechanisms; delivery of functional separation in readiness for market opening; on track delivery of PR19 work streams including proactive asset management and partnerships with the Environment Agency and Drinking Water Inspectorate; and improved development planning across Wholesale to strengthen leadership development. Whilst acknowledging an exceptional operational year, the Board noted that there remains more to do in relation to health and safety, customer complaints and SIM.

Long term incentive awards vesting in relation to performance in 2016/17 (audited)

The table below shows the outcome of long term share awards which had performance periods ended 31 March 2017:

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	CEO Outcome (vesting as % of award)	CFO Outcome (vesting as % of award)	MD, WO (vesting as % of award)
RoRCV – measured against multiple of Ofwat Final Determination	(1x)	(1.02x)	(1.07x) Actual: (1.27x)	100%	100%	100%

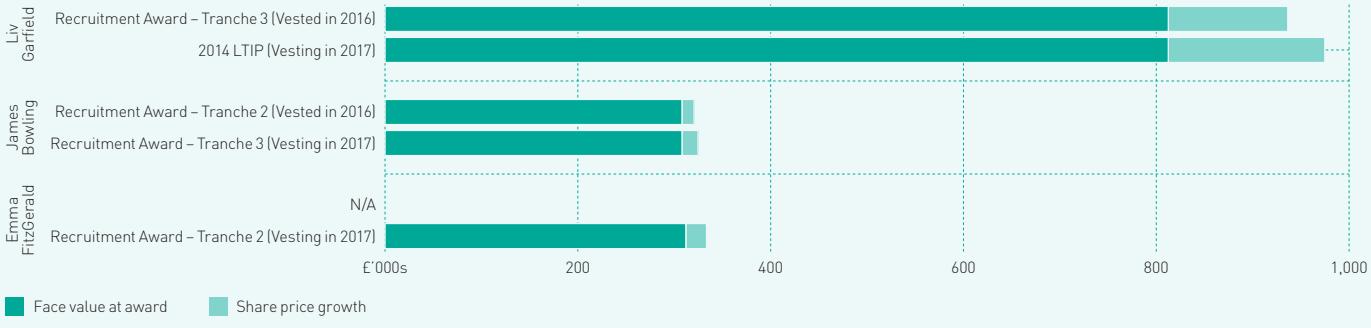
Executive	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Value of resultant award £'000s[i]	Vesting date
CEO	2014 LTIP	16/07/14	42,383	31/03/17	100%	42,383	£974.8	16/07/17
CFO	Recruitment Award (Tranche 3)	29/05/15	14,116	31/03/17	100%	14,116	£324.7	16/07/17
MD, WO	Recruitment Award (Tranche 2)	21/07/15	14,498	31/03/17	100%	14,498	£333.5	16/07/17

(i) Based on the average share price over the final three months of the performance period (£23.00) as the awards will not be released until after the end of the closed period.

LTIP vesting

The chart below sets out a breakdown of the respective LTIP and Recruitment Awards for the Chief Executive Officer, Chief Financial Officer and Managing Director, Wholesale Operations as disclosed in the total single figure of remuneration table. We have split the value of the awards into two components: the face value of the award and the growth in the share price since the awards were made.

Value of long term incentive awards



Directors' remuneration report continued

2014 LTIP outcome

The 2014 LTIP awards were granted as conditional shares and are subject to RoRCV performance condition measured over three financial years. RoRCV is calculated as current cost operating profit less tax paid divided by our average regulatory capital value. 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 the Final Determination and 100% vesting for 1.07 times the Final Determination. Ofwat is no longer publishing a baseline RoRCV figure in AMP6 which 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 and 3.60% for 2016/17.

Our final RoRCV of 1.27 times the Final Determination results in a vesting of 100% of the maximum. This is representative of outstanding performance in financing and total expenditure delivering RoRCV of 5.03%, up by 0.67% year on year.

Recruitment Awards

The third tranche of the Recruitment Award made to James Bowling and the second tranche of the Recruitment Award to Emma FitzGerald vested in respect of the performance period ended 31 March 2017. The performance measures for these awards reflected those under the 2014 LTIP and therefore both awards vested in full.

Outstanding scheme interests, including share awards granted during the year (audited)

The table below sets out details of the Executive Directors' outstanding share awards as at 31 March 2017.

							Awards granted during the year		
Executive	Award type	Maximum number of shares(i)	Percentage vesting at threshold performance	Exercise price (p)	End of performance period	Vesting/ exercise date(ii)	Basis of award	Face value (£'000)	Notes
Liv Garfield	2014 LTIP	42,383	0%	–	31/03/17	16/07/17	–	–	(a)
	2015 LTIP	37,808	25%	–	31/03/18	15/07/18	–	–	(b)
	2015 ABS	9,668	–	–	31/03/15	29/06/18	–	–	(d)
	2015 SAYE	1,136	–	1584	–	May-18	–	–	(e)
	2016 LTIP	46,115	25%	–	31/03/19	21/06/19	150% of base salary	£995.5	(c)
	2016 ABS	16,260	–	–	31/03/16	28/06/19	Deferred bonus	£351.1	(d)
	2016 SAYE	–	–	–	–	–	–	–	(e)
	Total	153,370							
James Bowling	Recruitment Award (Tranche 3)	14,116	0%	–	31/03/17	16/07/17	–	–	(a)
	2015 LTIP	14,890	25%	–	31/03/18	15/07/18	–	–	(b)
	2016 LTIP	18,529	25%	–	31/03/19	21/06/19	100% of base salary	£400.0	(c)
	2016 ABS	9,634	–	–	31/03/16	28/06/19	Deferred bonus	£208.0	(d)
	2016 SAYE	1,044	–	1724	–	May-19	–	–	(e)
	Total	58,213							
Emma FitzGerald	Recruitment Award (Tranche 2)	14,498	0%	–	31/03/17	16/07/17	–	–	(a)
	2015 LTIP	14,518	25%	–	31/03/18	15/07/18	–	–	(b)
	2016 LTIP	14,453	25%	–	31/03/19	21/06/19	80% of base salary	£312.0	(c)
	2016 ABS	7,112	–	–	31/03/16	28/06/19	Deferred bonus	£153.6	(d)
	2016 SAYE	–	–	–	–	–	–	–	(e)
	Total	50,581							

(i) Additional dividend equivalent shares may be released where provided in the rules.

(ii) Awards that are due to vest in a closed period will be released as soon as practicable after the end of the closed period.

a) 2014 LTIP award

The 2014 LTIP awards were granted on 16 July 2014. The share price used to calculate the number of shares granted was £19.17 (being the average price over the preceding three days). Further details of the 2014 LTIP awards are set out on the previous page.

Tranche 3 of James Bowling's Recruitment Award and Tranche 2 of Emma FitzGerald's Recruitment Award are both subject to the performance conditions set out on the previous page for the 2014 LTIP.

Tranche 3 of James Bowling's Recruitment Award was granted on 29 May 2015. The share price used to calculate the number of shares granted was £21.82 (being the average price over the preceding three days).

Tranche 2 of Emma FitzGerald's Recruitment Award was granted on 21 July 2015. The share price used to calculate the number of shares granted was £21.52 (being the average price over the preceding three days).

b) 2015 LTIP award

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).

c) 2016 LTIP award (awards granted during the year)

The 2016 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 1.39 times (equivalent to 7.86%).

The 2016 LTIP awards were granted on 21 June 2016. The share price used to calculate the number of shares granted was £21.59 (being the average price over the preceding three days).

At the start of the AMP we set our RoRE measure (which is also used to calculate LTIP payments) based on the Ofwat measure of RoRE as was published at that time, with two minor exceptions better to reflect our actual performance. First, we used actual gearing rather than the notional capital structure. Secondly, we seek to reflect cash performance through the inclusion of: profit/loss associated with land sales, miscellaneous activities (such as bulk supplies and rental income) and the impact of the wholesale revenue forecasting incentive mechanism.

Ofwat have provided clarificatory guidance on RoRE to ensure consistency across companies and will be reporting on this shortly. On this basis we estimate our RoRE would be 10%. We intend to calculate and publish both RoRE numbers annually, and for LTIP purposes we will continue to use the measure defined at the start of the AMP to maintain internal consistency and because it provides a clearer reference point for an individual year to set targets. This year our performance is 11% on the LTIP measure.

d) 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 2016 award relates to the deferral of the annual bonus for 2015/16. The awards were granted on 28 June 2016. The share price used to calculate the number of shares granted was £21.59 (being the average price over the preceding three days). The deferred shares relating to the annual bonus for 2016/17 will be granted in June 2017.

e) 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 tax-advantaged SAYE Scheme.

Remuneration

Directors' remuneration report continued

External directorships

Emma FitzGerald was appointed as a non-executive director of DCC Plc in December 2016 and, in respect of her appointment for the year ended 31 March 2016, she was paid fees of £18,836 (converted from EUR using the exchange rate of 1 EUR = 0.86105 GBP), which she retained.

Directors' shareholdings and summary of outstanding share interests (audited)

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 2017				
		Outstanding scheme interests				
Director	Beneficially owned	LTIP and recruitment awards	Deferred shares under the annual bonus	SAYE options	Total	% shareholding guideline achieved[i]
Kevin Beeston	2,244	–	–	–	2,244	–
Dominique Reiniche	–	–	–	–	–	–
John Coghlan	2,670	–	–	–	2,670	–
Andrew Duff	8,184	–	–	–	8,184	–
Philip Remnant	1,400	–	–	–	1,400	–
Dr. Angela Strank	459	–	–	–	459	–
Liv Garfield	75,127	126,306	25,928	1,136	228,497	154%
James Bowling	15,263	47,535	9,634	1,044	73,476	93%
Emma FitzGerald	17,703	43,469	7,112	–	68,284	101%

(i) The share price used to calculate the percentage of the shareholding guideline achieved was £23.82 (as at 31 March 2017). The guideline figures include unvested ABS 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 between those set out above and 22 May 2017.

Payments to past Directors (audited)

No payments, other than those disclosed in the total single figure of remuneration table on page 106, have been made to past Directors during the year.

Payments for loss of office (audited)

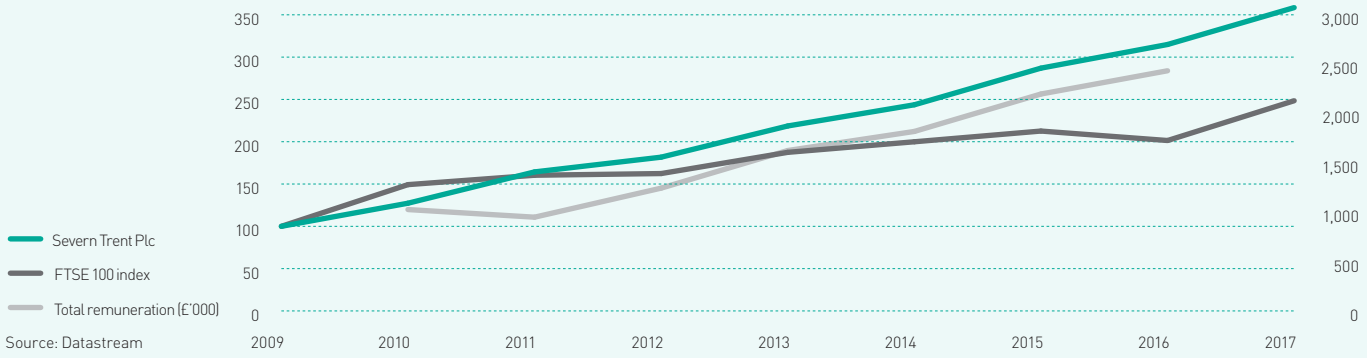
No payments have been made for loss of office during the year.

Total shareholder return chart and total remuneration of the Chief Executive Officer

This graph shows the value at 31 March 2017 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.

The figure of remuneration for the Chief Executive Officer over the last eight financial years is shown in the table below. The annual bonus pay out and LTIP vesting level as a percentage of the maximum opportunity is also shown.

Total shareholder return (value £)



Source: Datastream

	Year ending 31 March							
	2010	2011	2012	2013	2014	2015	2016	**2017**
Chief Executive Officer	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	**Liv Garfield**
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	**2,450.7**
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%	**75.8%**
LTIP vesting (% of maximum)	60.3%	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%	**100%**
SMP vesting (% of maximum)	N/A	N/A	N/A	78.0%	64.3%	N/A	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.

	2017	2016	% Change
Staff costs (£'m)[i]	**356.8**	337.8	5.6%
Dividends (£'m)	**190.4**	197.0	-3.4%

(i) Staff costs from continuing and discontinued operations.

Remuneration

Directors' remuneration report continued

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 UK Corporate Governance Code, with the exception of the Company Chairman who was independent on his appointment. During the year ended 31 March 2017, the Committee met four 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 member	Attendance in 2016/17
Philip Remnant (Chairman)	4/4
Andrew Duff	4/4
Kevin Beeston (Appointed 1 June 2016)	3/3
Dr. Angela Strank	4/4
Martin Lamb (Retired 20 July 2016)	1/1

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 Economic Regulation and Reward & Pensions Manager 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 advisers. During the year, PricewaterhouseCoopers ('PwC') were appointed as independent advisers to the Committee following a competitive tender process and the previous advisers, New Bridge Street ('NBS'), stepped down. Fees for advice provided to the Remuneration Committee during the year were £24,676 excluding VAT to NBS and £68,000 excluding VAT to PwC (2015/16: £77,211 paid to NBS). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. Fees for other work performed by NBS and Aon Hewitt (an associated company) during the year totalled £56,083 excluding VAT and related to remuneration advice to management (£11,083 excluding VAT) and to the execution of the 2016 employee engagement survey (£45,000 excluding VAT). PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent.

How the policy will be applied in 2017 onwards

See pages 102 to 103.

Statement of shareholder voting at the 2016 AGM

At last year's AGM, the Directors' remuneration report received the following votes from shareholders:

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' remuneration report	142,619,806	2,527,085	1,187,566
	(98.26%)	(1.74%)	

The Committee believes that the strong level of shareholder support for both the policy and its implementation in 2015/16 mean that no changes are required for 2017/18.

Philip Remnant
Chairman of the Remuneration Committee

22 May 2017

Appendix: Policy Report

This section sets out the Remuneration Policy approved by 97.99% of shareholders at the 2015 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 Executives 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 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 tax-advantaged Save As You Earn ('SAYE') scheme. 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 Funds[1] 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.

1 Now the Pension and Lifetime Savings Association.

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 Executives 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 106. 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 pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically.

Remuneration

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
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 salary.
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. 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% 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 tax advantaged all-employee share plans on the same terms as other eligible employees.	The maximum limits under the plans are as set by HMRC.

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 106.

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 106.

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 112), 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.

Directors' remuneration report continued

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.

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 in 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, 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 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.
LTIP & legacy SMP	The default treatment is that all awards will lapse on cessation of employment. However, an Executive will be considered a good leaver in certain prescribed circumstances or by the discretion of the Committee. If an Executive 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.

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

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 Committee will seek to align the remuneration package offered to new Executive Directors with the policy but may offer variable remuneration appropriate and necessary to recruit and retain the individual. A summary of the policy is set out below.

Item	Policy
Philosophy	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.
Variable remuneration	Annual bonuses and long term incentives will be awarded in line with the maximum limits outlined in the policy on page 116. Participation in the bonus plan will normally be pro-rated for the year of joining.
Buyout awards	The Committee may make additional cash and/or share based awards if deferred pay is forfeited by an Executive 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.
Expenses	Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.
Internal promotions	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. 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).	Details of the current fee levels for the Directors are set out in the Annual Report on Remuneration. The fee levels are set subject 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.

Other disclosures

Directors' report

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2017. The performance review of the Company can be found within the Strategic report on the inside cover through to page 69. 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 2017. The governance section set out on pages 70 to 124 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 47 to 55.

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 as at 31 March 2017 are shown in note 20 and 48 to the financial statements on pages 153 and 182 respectively.

Areas of operation

During the course of 2016/17, 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 72 and 73.

All of the Directors will be offering themselves for appointment or reappointment at the Annual General Meeting ('AGM'), as set out in the governance report on page 78.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 118. The interests of the Directors in the shares of the Company are shown on page 112 of that report. The Board has a documented process in place in respect of conflicts.

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.

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 10 to the financial statements on page 146.

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 them in employment with us.

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, healthy and well, including an employee assistance programme.

Employee engagement

We continuously engage with our employees in a number of ways to accommodate 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.

Other disclosures

Over 70% of Severn Trent's UK employees participate in one or more of our schemes, with the average participant contributing £265 each month.

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 8 to the financial statements on page 145.

Internal controls

Further details of our internal control framework can be found in the Audit Committee report on page 88.

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 36 to the financial statements on pages 166 to 171. Further details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 45.

Post balance sheet events

Details of post balance sheet events are set out in note 46 to the Group financial statements on page 181.

Dividends

An interim dividend of 32.60 pence per Ordinary Share was paid on 6 January 2017. The Directors recommend a final dividend of 48.90 pence per Ordinary Share to be paid on 21 July 2017 to shareholders on the register on 16 June 2017. This would bring the total dividend for 2016/17 to 81.50 pence per Ordinary Share (2015/16: 80.66 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

We have enhanced our Dividend Policy for the period 2015-2020, with effect from 2017/18, and will now increase the dividend by growth of at least RPI +4% each year. This replaced the previous Dividend Policy of annual growth of the dividend at no less than RPI until March 2020.

The Dividend Policy reflects our strong operational delivery and financial performance, while ensuring that our bills are affordable for all our customers. 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 31 to the Company financial statements on page 163. 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 38 to the financial statements on pages 173 to 175. 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 which can be found on our website, the Articles and the Governance report on pages 70 and 124.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2016 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 because of a takeover bid.

Other disclosures
Directors' report continued

Substantial shareholdings

As at 31 March 2017, 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 $97^{17}/_{19}$p each	Percentage of voting rights and issued share capital
Blackrock Inc	14,983,517	6.36%
Legal & General Group Plc	8,357,689	3.55%

As at 22 May 2017, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: Blackrock Inc 16,102,542 (6.82%); Legal & General Group Plc 8,453,879 (3.58%).

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 2016 to make market purchases of Ordinary Shares up to a maximum number of 23,554,028 Ordinary Shares. During the year, no Ordinary Shares have been repurchased.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,603,888 Ordinary Shares.

The Directors believe that it is desirable to have the general authority to buy back the Company's Ordinary Shares in order to provide maximum flexibility in the management of the Group's capital resources. However, the Directors would only make such purchases if the Board was satisfied at the time that to do so would be in the best interests of shareholders generally (taking into account, for example, the financial resources of the Company, the Company's share price, future funding opportunities and the impact on the Company's earnings per share).

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £312,588 (2016: £86,864). 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 2016 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 2017 the Group incurred costs of £nil (2016: £nil). Those authorities will expire at the 2017 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.

Other disclosures

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 is 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, details of which can be found in the Audit Committee report on page 88, 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:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	Page 147
(4)	Details of long term incentive schemes	Page 109
(8)	Section 7 in relation to subsidiary undertakings	Pages 182 and 183
(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 66.

Accounts of Severn Trent Water Limited and Dee Valley Water plc

Separate Annual Performance Reports for each of Severn Trent Water Limited and Dee Valley Water plc are prepared and provided to Ofwat. Copies will be available on our website or on request to the Company Secretary. There is no charge for these publications.

Annual General Meeting

The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 19 July 2017. 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

22 May 2017

Other disclosures

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 (United Kingdom Accounting Standards and applicable law) 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 judgements 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.

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.
- 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.

This Responsibility Statement was approved by the Board of Directors on 22 May 2017 and is signed on its behalf by:

Andrew Duff
Chairman

22 May 2017

James Bowling
Chief Financial Officer

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 2017 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 FRS 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 that we have audited comprise:

- the Consolidated income statement;
- the Consolidated and Company statements of comprehensive income;
- the Consolidated and Company balance sheets;
- the Consolidated cash flow statement;
- the Consolidated and Company statements of changes in equity; and
- the related Notes to the group financial statements 1 to 48 and the related Notes to the parent company financial statements 1 to 17.

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 FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach	
Key risks	The key risks that we identified in the current year were: • Determination of the provision for impairment of trade receivables in Severn Trent Water Limited; • Revenue recognition risk in relation to the estimation of metered unbilled revenue in Severn Trent Water Limited; • Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited; • Determining the amount of the group's retirement benefit obligations; and • Determination of current and deferred tax balances.
Materiality	The materiality that we used in the current year was £18 million (2016: £18 million) which was determined on the basis of profit before tax, losses/gains on financial instruments and exceptional items.
Scoping	Our audit scoping has resulted in over 90% of the group's net operating assets and profit before tax, gains/losses on financial instruments and exceptional items being subject to audit testing.
Significant changes in our approach	Changes to our scoping approach include: • Audit of the newly incorporated joint venture, Water Plus Limited • Audit of the acquisition balance sheet of Dee Valley Group plc

Independent auditor's report to the members of Severn Trent Plc continued

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 49.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 50 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 50 to 55 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2 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; and
- the directors' explanation on page 49 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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.

There have been no changes to the risks identified in the prior year.

Determination of the provision for impairment of trade receivables in Severn Trent Water Limited (£125.4 million (note 22)	
Risk description	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. Management makes estimates regarding future cash collection when calculating the bad debt provision. 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. The risk has been focussed on the determination of the ageing of the trade receivables balance as this determines the level of provisioning to be recorded. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	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 year using data analytics to understand the collection of previously aged trade receivables and to recompute the ageing analysis. We evaluated the design and implementation of key management review controls and those relating to the production of the data used in the bad debt model.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables and the calculation of the ageing of trade receivable are appropriate and no additional provision was identified from the audit work performed.
Revenue recognition risk in relation to the estimation of unbilled metered revenue in Severn Trent Water Limited (£113.4 million of the £143 million in Severn Trent Water Limited) (note 22)	
Risk description	For water and waste water customers with water meters, the amount of unbilled revenue 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. There is a risk that these estimates are incorrect. The risk has been focussed on the usage estimate, because this is based on historical data and assumptions around consumption patterns upon which management then recognises unbilled revenue. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	We used data analytics to recompute the total level of unbilled revenue for the current year in Severn Trent Water Limited as well as evaluating the design and implementation of key management review controls and those relating to the key data inputs to the model. In addition, 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.
Key observations	We are satisfied that management's assumptions around the recognition of unbilled revenue are appropriate.

Determining the classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited (note 19)	
Risk description	Severn Trent Water Limited has a substantial capital programme (property, plant and equipment additions in the year were £466.4 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 (£136.2 million) in which it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the risk has been focused on the allocation of costs between capital and operating expenditure as this process is inherently judgemental. Whilst under AMP 6, total expenditure, or 'Totex', is a key driver of regulatory performance rather than capital expenditure which was monitored under AMP 5, the accounting distinction between operating and capital expenditure remains, and therefore it is important that capital project expenditure is accounted for correctly in accordance with International Financial Reporting Standards. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a critical judgement in note 5 to the financial statements.
How the scope of our audit responded to the risk	We assessed the group's capitalisation policy to determine compliance with relevant accounting standards and evaluated the design and implementation 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 understanding the initial business case for the project and ensuring that it had been approved by the relevant capital programme board. We also agreed a sample of costs to third party invoices and assessed whether the split between capital and operating expenditure split is aligned to the original approved business plan.
Key observations	Based on our audit of a sample of capital projects, and our review of the project budgets, we consider that the classification of costs between operating and capital expenditure is appropriate.
Determining the amount of the group's retirement benefit obligations (£574.6 million net deficit) (note 29)	
Risk description	This is an area involving significant estimation because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning the discount rate, inflation and pension increases, along with investment returns and the longevity of current pensioners in order to determine the value of the scheme's liabilities. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a key source of estimation uncertainty in note 5 to the financial statements.
How the scope of our audit responded to the risk	We evaluated the design and implementation of key controls and 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 29, specifically challenging the change in methodology in calculating the discount rate, inflation rate and mortality assumptions with reference to comparable market and other third party data.
Key observations	We are satisfied that management's assumptions in the valuation of the retirement benefit obligation, including discount rates are appropriate and within a reasonable range.
Determination of current and deferred tax balances (£7.1 million charge) (note 14)	
Risk description	The group has entered into a number of one-off transactions during the year, which involve complex tax accounting considerations. The risk has been focused on the tax accounting consequences for these one-off transactions, specifically in relation to the acquisition of Dee Valley Group plc and the asset-backed funding structure for the group's pension scheme. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 87. Management has included this as a critical judgement in note 5 to the financial statements.
How the scope of our audit responded to the risk	We evaluated the design and implementation of key controls and with support from the tax specialists within our audit team, using our technical expertise, we have assessed the tax accounting consequences for the one-off transactions in order to test whether the tax outcome is appropriate and the accounting is in compliance with IAS 12 Income taxes.
Key observations	We are satisfied that the tax outcome is appropriate and the accounting for tax related to the one-off transactions is in compliance with IAS 12 Income taxes.

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.

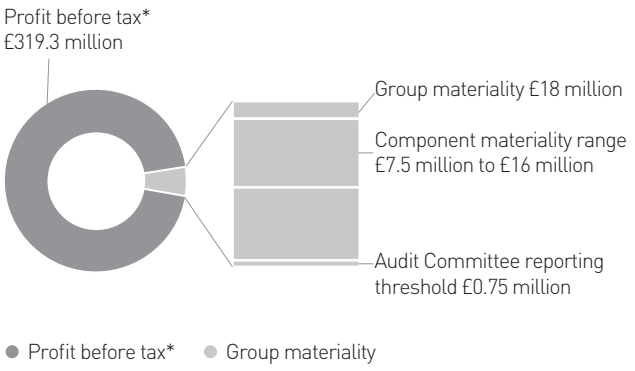
Independent auditor's report to the members of Severn Trent Plc continued

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£18 million (2016: £18 million)
Basis for determining materiality	Approximately 6% (2016: approximately 6%) of profit before tax, losses/gains on financial instruments and exceptional items.
Rationale for the benchmark applied	As in 2016, profit before tax, losses/gains on financial instruments and exceptional items has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting.



* Represents profit before tax, losses/gains on financial instruments and exceptional items.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2016: £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 Regulated Water and Waste Water and Business Services.

Regulated Water and Waste Water

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited which was subject to a full statutory audit using component materiality of £15 million (2016: £15 million) and accounts for over 90% (2016: over 90%) of the group's net operating assets and operating profit. The group audit team performs the audit of Severn Trent Water Limited without the involvement of a component audit team. The audit procedures on Dee Valley Group plc were focussed on performing an audit on the acquisition balance sheet and analytical reviews on the income statement from acquisition date to the year end to component materiality of £7.5 million.

Business Services

The extent of our testing on the Business Services segment 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. These components were subject to full audit scopes. The materiality of each component is lower than that of the group, with materiality of £9 million (2016: £9 million) applied to each of the US and UK components.

Parent company and consolidation

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 audit of Water Plus Limited, the joint venture incorporated during the year, was performed by component auditors to a materiality of £9 million.

The group audit team follows a programme of planned visits to the auditors of each of the significant components of the group not audited by the group team. In years when we do not visit a significant component, we will include the component audit team 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, based on the work undertaken in the course of the audit:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

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, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

22 May 2017

Consolidated income statement

For the year ended 31 March 2017

	Notes	2017 £m	2016 (restated) £m
Turnover	6, 7	**1,819.2**	1,753.7
Operating costs before exceptional items	8	**(1,294.1)**	(1,250.3)
Exceptional items	9	**18.6**	1.0
Total operating costs		**(1,275.5)**	(1,249.3)
Profit before interest, tax and exceptional items	6	**525.1**	503.4
Exceptional items	9	**18.6**	1.0
Profit before interest and tax		**543.7**	504.4
Finance income	11	**73.3**	73.1
Finance costs	12	**(277.3)**	(282.4)
Net finance costs		**(204.0)**	(209.3)
Net (losses)/gains on financial instruments	13	**(1.8)**	7.7
Share of net (loss)/profit of joint venture accounted for using the equity method	20	**(1.8)**	0.1
Profit on ordinary activities before taxation		**336.1**	302.9
Current tax	14	**(36.9)**	(51.3)
Deferred tax	14	**(22.4)**	(13.7)
Exceptional tax	14	**52.2**	78.6
Taxation on profit on ordinary activities	14	**(7.1)**	13.6
Profit for the year from continuing operations		**329.0**	316.5
Profit for the year from discontinued operations	40	**13.6**	14.8
Profit for the year		**342.6**	331.3
Attributable to:			
Owners of the Company		**342.8**	330.0
Non-controlling interests		**(0.2)**	1.3
		342.6	331.3

Earnings per share

		2017 pence	2016 (restated) pence
From continuing operations			
Basic	16	**140.1**	133.5
Diluted	16	**139.5**	132.8
From continuing and discontinued operations			
Basic	16	**145.9**	139.8
Diluted	16	**145.3**	139.1

Consolidated statement of comprehensive income

For the year ended 31 March 2017

	2017 £m	2016 £m
Profit for the year	**342.6**	331.3
Other comprehensive (loss)/income		
Items that will not be reclassified to the income statement:		
Net actuarial (loss)/gain	**(311.2)**	148.3
Tax on net actuarial loss/gain	**56.3**	(26.7)
Deferred tax arising on change of rate	**(3.1)**	(9.6)
	(258.0)	112.0
Items that may be reclassified to the income statement:		
Losses on cash flow hedges	**(8.0)**	(2.7)
Deferred tax on losses on cash flow hedges	**1.3**	0.4
Amounts on cash flow hedges transferred to the income statement	**2.9**	12.2
Deferred tax on transfer to the income statement	**(0.4)**	(2.2)
Exchange movement on translation of overseas results and net assets	**5.2**	(1.1)
Cumulative exchange (gains)/losses taken to the income statement	**(2.8)**	11.7
	(1.8)	18.3
Other comprehensive (loss)/income for the year	**(259.8)**	130.3
Total comprehensive income for the year	**82.8**	461.6
Attributable to:		
Owners of the company	**83.1**	460.2
Non-controlling interests	**(0.3)**	1.4
	82.8	461.6

Consolidated statement of changes in equity

For the year ended 31 March 2017

	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
As at 1 April 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 transfer to the income statement	–	–	(2.2)	–	(2.2)	–	(2.2)
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 non-controlling interest	–	–	–	–	–	(13.7)	(13.7)
Dividends paid	–	–	–	(197.0)	(197.0)	–	(197.0)
As at 31 March 2016	234.3	106.8	116.5	559.8	1,017.4	1.1	1,018.5
Profit for the year	–	–	–	342.8	342.8	(0.2)	342.6
Losses on cash flow hedges	–	–	(8.0)	–	(8.0)	–	(8.0)
Deferred tax on losses on cash flow hedges	–	–	1.3	–	1.3	–	1.3
Amounts on cash flow hedges transferred to the income statement	–	–	2.9	–	2.9	–	2.9
Deferred tax on transfer to the income statement	–	–	(0.4)	–	(0.4)	–	(0.4)
Exchange movement on translation of overseas results and net assets	–	–	5.3	–	5.3	(0.1)	5.2
Cumulative exchange gains transferred to income statement	–	–	(2.8)	–	(2.8)	–	(2.8)
Net actuarial losses	–	–	–	(311.2)	(311.2)	–	(311.2)
Tax on net actuarial losses	–	–	–	56.3	56.3	–	56.3
Deferred tax arising from rate change	–	–	–	(3.1)	(3.1)	–	(3.1)
Transfer net of deferred tax	–	–	7.0	(7.0)	–	–	–
Total comprehensive income for the year	–	–	5.3	77.8	83.1	(0.3)	82.8
Share options and LTIPs							
– proceeds from shares issued	0.4	5.7	–	–	6.1	–	6.1
– value of employees' services	–	–	–	6.2	6.2	–	6.2
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Deferred tax on share based payments	–	–	–	0.1	0.1	–	0.1
Disposal of non-controlling interest	–	–	–	–	–	(0.8)	(0.8)
Dividends paid	–	–	–	(190.4)	(190.4)	–	(190.4)
As at 31 March 2017	**234.7**	**112.5**	**121.8**	**454.3**	**923.3**	**–**	**923.3**

Consolidated balance sheet

At 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Goodwill	17	**81.0**	14.8
Other intangible assets	18	**80.9**	72.2
Property, plant and equipment	19	**8,116.4**	7,718.6
Investments in joint ventures and associates	20	**37.4**	5.1
Derivative financial instruments	21	**67.0**	40.2
Trade and other receivables	22	**58.1**	49.6
Retirement benefit surplus	29	**9.8**	–
Available for sale financial assets		**–**	0.1
		8,450.6	7,900.6
Current assets			
Inventory		**16.2**	21.0
Trade and other receivables	22	**517.8**	467.0
Current tax receivable		**7.3**	–
Derivative financial instruments	21	**–**	0.7
Cash and cash equivalents	23	**44.6**	55.2
		585.9	543.9
Total assets		**9,036.5**	8,444.5
Current liabilities			
Borrowings	24	**(559.4)**	(280.6)
Derivative financial instruments	26	**(0.6)**	(1.1)
Trade and other payables	27	**(451.9)**	(454.1)
Current tax payable		**–**	(11.1)
Provisions for liabilities and charges	30	**(17.5)**	(12.3)
		(1,029.4)	(759.2)
Non-current liabilities			
Borrowings	24	**(4,719.6)**	(4,626.1)
Derivative financial instruments	26	**(184.1)**	(178.0)
Trade and other payables	27	**(955.7)**	(870.8)
Deferred tax	28	**(623.7)**	(664.7)
Retirement benefit obligations	29	**(584.4)**	(309.5)
Provisions for liabilities and charges	30	**(16.3)**	(17.7)
		(7,083.8)	(6,666.8)
Total liabilities		**(8,113.2)**	(7,426.0)
Net assets		**923.3**	1,018.5
Equity			
Called up share capital	31	**234.7**	234.3
Share premium account	32	**112.5**	106.8
Other reserves	33	**121.8**	116.5
Retained earnings		**454.3**	559.8
Equity attributable to owners of the company		**923.3**	1,017.4
Non-controlling interests		**–**	1.1
Total equity		**923.3**	1,018.5

Signed on behalf of the Board who approved the accounts on 22 May 2017.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number: 02366619

Consolidated cash flow statement

For the year ended 31 March 2017

		2017 £m	2016 £m
Cash generated from operations	42	**851.0**	797.5
Tax received	42	**20.6**	11.5
Tax paid	42	**(42.4)**	(44.9)
Net cash generated from operating activities		**829.2**	764.1
Purchases of property, plant and equipment		**(519.2)**	(431.4)
Purchases of intangible assets and goodwill		**(29.1)**	(24.3)
Contributions and grants received		**39.5**	34.9
Proceeds on disposal of property, plant and equipment		**7.5**	10.8
Purchases of subsidiary, net of cash acquired		**(77.7)**	–
Proceeds on disposal of subsidiaries and other businesses net of cash disposed		**5.1**	45.7
Investment in joint ventures and associates		**(13.5)**	–
Cash flows from transfer of business to joint venture		**(10.8)**	–
Net loans advanced to joint ventures and associates		**(109.0)**	–
Proceeds on maturity of forward contract		**4.3**	–
Interest received		**1.4**	5.3
Net cash flow from investing activities		**(701.5)**	(359.0)
Interest paid		**(172.6)**	(188.1)
Interest element of finance lease payments		**(5.8)**	(6.8)
Dividends paid to shareholders of the parent		**(190.4)**	(197.0)
Repayments of borrowings		**(276.2)**	(924.6)
Repayments of obligations under finance leases		**(1.5)**	(62.8)
New loans raised		**498.0**	926.7
Issues of shares		**6.1**	7.3
Share buy back		**–**	(92.5)
Purchase of own shares		**–**	(4.6)
Net cash flow from financing activities		**(142.4)**	(542.4)
Net movement in cash and cash equivalents		**(14.7)**	(137.3)
Net cash and cash equivalents at the beginning of the year		**55.2**	196.0
Effect of foreign exchange rates		**4.1**	(3.5)
Net cash and cash equivalents at end of the year		**44.6**	55.2
Cash and cash equivalents		**25.8**	23.4
Short term deposits		**18.8**	31.8
Net cash and cash equivalents at end of the year		**44.6**	55.2

Notes to the group financial statements

For the year ended 31 March 2017

1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 6.

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 49) 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 2017.

(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 'Application of Financial Reporting Requirements', 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 the 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 statement of cash flows, 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 is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income, the statement of changes in equity and the balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are 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

Prior year figures in the consolidated income statement and related notes have been restated to present separately amounts relating to operations classified as discontinued in the current year. For details, see note 40.

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 mains 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. The stage of completion is determined by reference to the physical proportion of contract work completed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

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 2 l) 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 2 l) 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.

2 Accounting policies continued

i) Property, plant and equipment continued

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 in the course of 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 sewerage 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 income statement.

n) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

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 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 and accrued income.

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.

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

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 year, 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 for Severn Trent schemes 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 for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Dee Valley Group plc.

(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

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

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 2 u).

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 35 a). 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.

2 Accounting policies continued

u) Derivative financial instruments continued

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 using the effective interest rate method.

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. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

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 including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not) net cash and cash equivalents, and loans to joint ventures.

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 'First-time Adoption of International Financial Reporting Standards'.

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.

Notes to the group financial statements continued

For the year ended 31 March 2017

2 Accounting policies continued

y) Foreign currency continued

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All gains 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 that 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 Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures. The group uses such measures for performance analysis because they provide additional useful information on the performance and position of the group. Since the group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

See note 2 d).

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items.

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items, net gains/(losses) on financial instruments, current tax on exceptional items and on net gains/(losses) on financial instruments, exceptional current tax and deferred tax.

d) Net debt

See note 2 x).

e) Effective interest rate

The effective interest rate is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest rate except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally RPI adjustments on index-linked debt).

g) PBITDA interest cover

The ratio of profit from continuing operations before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

h) PBIT interest cover

The ratio of profit from continuing operations before interest, tax and exceptional items to net finance costs excluding net finance costs from pensions.

i) Underlying effective tax rate

Current tax charge for the year on continuing operations, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, net gains/losses on financial instruments and exceptional items.

4 New accounting policies and future requirements

The group has adopted all amendments to standards with an effective date relevant to this year end with no material impact on its results, assets or liabilities. All other accounting policies have been applied consistently.

At the date of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

4 New accounting policies and future requirements continued

The group's evaluation of the effect of adoption of these standards is ongoing but it is not currently anticipated that IFRS 9, IFRS 15 nor IFRS 16 will have a material effect on the financial statements. The EU has adopted both IFRS 9 and IFRS 15 but has not yet adopted IFRS 16.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the group.

5 Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the group's accounting policies, the group is required to make certain judgements, 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.

a) Judgements

(i) Tax provisions

Assessing the outcome of uncertain tax positions requires judgements 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.

(ii) Provisions for other liabilities and charges

Assessing the financial outcome of uncertain commercial and legal positions requires judgements 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 advice.

(iii) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgements to be made. The judgements are made based on objective criteria that the group has developed to facilitate the consistent application of its accounting policies.

b) Estimates

(i) 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 2 i). A one year change in the average remaining useful lives of property, plant and equipment would result in a £7 million change in the depreciation charge.

(ii) 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, salary and pension increases, investment returns 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 and associated sensitivities are set out in note 29 to the financial statements.

(iii) 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 value of the volume 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 consumption since the last bill, takes into account the most recent actual consumption data and the difference between actual and estimated consumption for the previous year. The difference between estimated and actual consumption is monitored regularly and is not material.

(iv) 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. A 10% reduction in the cash collection estimate would increase the bad debt charge by £2.0 million.

(v) Goodwill arising on acquisition of Dee Valley Water

As set out in note 39, the fair values attributed to the assets and liabilities acquired are provisional and will be finalised in the year ending 31 March 2018. Any change to these estimates will result in an equal and opposite adjustment in the carrying value of the goodwill.

Notes to the group financial statements continued

For the year ended 31 March 2017

6 Segmental analysis

The group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, and Dee Valley Water.

Business Services includes the group's Operating Services businesses in the US, UK & Ireland and the group's Renewable Energy business.

On 15 February 2017, the group completed the acquisition of Dee Valley Group plc. This business has been included in the Regulated Water and Waste Water segment with effect from that date. Further details of the acquisition are set out in note 39.

The group sold its Operating Services businesses in Italy on 23 February 2017.

The disposal of the group's non-household retail business to the Water Plus joint venture with United Utilities received approval from the Competition and Markets Authority on 3 May 2016 and the business was classified as a discontinued operation on that date. The transaction was completed on 1 June 2016. The prior year segmental results have been restated to present the non-household retail business as a discontinued operation as set out in the stock market announcement dated 8 September 2016. See note 40.

The Water Purification business was also classified as a discontinued operation in the prior year. The sale of this business was completed on 2 July 2015. See note 40.

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 basis described above. Details of Regulated Water and Waste Water's operations are described on pages 24 to 33 of the Strategic Review and those of Business Services on pages 36 to 40.

Results from interests in joint ventures and associates 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. 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.

a) Segmental results

	2017		2016 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,527.6**	**291.0**	1,504.4	257.2
Inter-segment turnover	**1.2**	**18.6**	1.7	19.5
Total turnover	**1,528.8**	**309.6**	1,506.1	276.7
Underlying PBIT	**494.7**	**37.2**	482.5	28.4
Exceptional items (see note 9)	**26.4**	**2.6**	1.0	–
Profit before interest and tax	**521.1**	**39.8**	483.5	28.4
Profit before interest, tax and exceptional items is stated after:				
Depreciation of property, plant and equipment	**299.4**	**9.6**	287.1	8.7
Amortisation of intangible assets	**17.4**	**1.8**	20.0	2.0
Loss/(profit) on disposal of fixed assets	**0.8**	**(0.1)**	(3.0)	(0.1)

The reportable segments' turnover is reconciled to group turnover as follows:

	2017 £m	2016 (restated) £m
Regulated Water and Waste Water	**1,528.8**	1,506.1
Business Services	**309.6**	276.7
Corporate and other	**6.2**	3.2
Consolidation adjustments	**(25.4)**	(32.3)
	1,819.2	1,753.7

6 Segmental analysis continued

a) Segmental results continued

Segmental underlying PBIT is reconciled to the group's profit before tax as follows:

	2017 £m	2016 (restated) £m
Regulated Water and Waste Water	**494.7**	482.5
Business Services	**37.2**	28.4
Corporate and other	**(6.0)**	(7.9)
Consolidation adjustments	**(0.8)**	0.4
Underlying PBIT	**525.1**	503.4
Exceptional items:		
Regulated Water and Waste Water	**26.4**	1.0
Business Services	**2.6**	–
Corporate and other	**(10.4)**	–
Net finance costs	**(204.0)**	(209.3)
Net (losses)/gains on financial instruments	**(1.8)**	7.7
Share of results of joint ventures and associates	**(1.8)**	0.1
Profit before tax	**336.1**	302.9

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 table shows the segmental capital employed:

	2017		2016	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**8,477.1**	**213.1**	8,110.8	256.1
Goodwill	**67.3**	**14.9**	1.3	14.8
Interests in joint ventures and associates	**–**	**37.4**	0.1	5.1
Segment assets	**8,544.4**	**265.4**	8,112.2	276.0
Segment operating liabilities	**(1,970.9)**	**(55.9)**	(1,546.3)	(125.8)
Capital employed	**6,573.5**	**209.5**	6,565.9	150.2

Operating assets comprise other intangible assets, property, plant and equipment, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

The reportable segments' assets are reconciled to the group's total assets as follows:

	2017 £m	2016 £m
Segment assets		
Regulated Water and Waste Water	**8,544.4**	8,112.2
Business Services	**265.4**	276.0
Corporate and other	**40.6**	29.1
Other financial assets	**111.6**	96.2
Loan receivable from joint venture	**108.6**	–
Current tax receivable	**7.3**	–
Assets held for sale	**–**	–
Consolidation adjustments	**(41.4)**	(69.0)
Total assets	**9,036.5**	8,444.5

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on disposal of fixed assets.

Notes to the group financial statements continued

For the year ended 31 March 2017

6 Segmental analysis continued

b) Segmental capital employed continued

The reportable segments' liabilities are reconciled to the group's total liabilities as follows:

	2017 £m	2016 £m
Segment liabilities		
Regulated Water and Waste Water	**(1,970.9)**	(1,546.3)
Business Services	**(55.9)**	(125.8)
Corporate and other	**(67.5)**	(40.1)
Other financial liabilities	**(5,463.7)**	(5,085.8)
Current tax	**–**	(11.1)
Deferred tax	**(623.7)**	(664.7)
Consolidation adjustments	**68.5**	47.8
Total liabilities	**(8,113.2)**	(7,426.0)

The consolidation adjustments comprise elimination of intra-group creditors.

The following table shows the additions to other intangible assets and property, plant and equipment:

	2017		2016	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**26.1**	**4.2**	21.9	1.8
Property, plant and equipment	**541.5**	**41.8**	452.4	38.9

c) Geographical areas

The group's sales were derived from the following countries:

	2017 £m	2016 (restated) £m
UK	**1,632.1**	1,593.5
US	**160.5**	135.5
Other	**26.6**	24.7
	1,819.2	1,753.7

The group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the following countries:

	2017 £m	2016 £m
UK	**8,345.6**	7,833.7
US	**28.2**	24.7
Other	**–**	2.0
	8,373.8	7,860.4

7 Revenue

	2017 £m	2016 (restated) £m
Water and waste water services	**1,527.6**	1,504.4
Other services	**211.7**	169.0
Service concession arrangements	**44.5**	44.4
Energy sales and related incentive payments	**35.4**	35.9
Turnover	**1,819.2**	1,753.7
Interest receivable	**1.5**	5.4
	1,820.7	1,759.1

8 Net operating costs

	2017			2016 (restated)		
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
Wages and salaries	**305.3**	**–**	**305.3**	281.8	(0.3)	281.5
Social security costs	**22.7**	**–**	**22.7**	21.9	–	21.9
Pension costs	**21.2**	**(16.6)**	**4.6**	19.2	(0.7)	18.5
Share based payments	**6.2**	**–**	**6.2**	5.2	–	5.2
Total employee costs	**355.4**	**(16.6)**	**338.8**	328.1	(1.0)	327.1
Power	**73.3**	**–**	**73.3**	66.5	–	66.5
Carbon Reduction Commitment	**6.3**	**–**	**6.3**	7.1	–	7.1
Raw materials and consumables	**77.1**	**–**	**77.1**	75.4	–	75.4
Rates	**78.8**	**–**	**78.8**	77.7	–	77.7
Charge for bad and doubtful debts	**21.9**	**–**	**21.9**	20.6	–	20.6
Services charges	**33.1**	**–**	**33.1**	32.4	–	32.4
Depreciation of tangible fixed assets	**308.8**	**–**	**308.8**	293.9	–	293.9
Amortisation of intangible fixed assets	**19.3**	**–**	**19.3**	21.7	–	21.7
Hired and contracted services	**262.0**	**–**	**262.0**	239.8	–	239.8
Operating lease rentals						
– land and buildings	**2.7**	**–**	**2.7**	2.0	–	2.0
– other	**0.5**	**–**	**0.5**	1.7	–	1.7
Hire of plant and machinery	**4.6**	**–**	**4.6**	0.2	–	0.2
Research and development expenditure	**2.2**	**–**	**2.2**	3.5	–	3.5
Profit on disposal of tangible fixed assets	**(5.1)**	**–**	**(5.1)**	(0.9)	–	(0.9)
Profit on disposal of subsidiary undertaking	**(0.6)**	**(2.0)**	**(2.6)**	–	–	–
Exchange (gains)/losses	**(3.0)**	**–**	**(3.0)**	0.5	–	0.5
Infrastructure renewals expenditure	**136.2**	**–**	**136.2**	126.0	–	126.0
Ofwat licence fees	**3.6**	**–**	**3.6**	2.8	–	2.8
Net other operating costs	**49.9**	**–**	**49.9**	55.6	–	55.6
	1,427.0	**(18.6)**	**1,408.4**	1,354.6	(1.0)	1,353.6
Release from deferred credits	**(13.9)**	**–**	**(13.9)**	(10.5)	–	(10.5)
Own work capitalised	**(119.0)**	**–**	**(119.0)**	(93.8)	–	(93.8)
	1,294.1	**(18.6)**	**1,275.5**	1,250.3	(1.0)	1,249.3

Further details of exceptional costs are given in note 9.

During the year the following fees were charged by the auditors:

	2017 £m	2016 £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	**0.5**	0.4
Total audit fees	**0.7**	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	**0.3**	0.6
Total non-audit fees	**0.5**	0.8

Details of directors' remuneration are set out in the Directors' remuneration report on pages 96 to 119.

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

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 85 and 90. No services were provided pursuant to contingent fee arrangements.

Notes to the group financial statements continued

For the year ended 31 March 2017

9 Exceptional items before tax

	2017 £m	2016 £m
Regulated Water and Waste Water		
Restructuring costs	**–**	(1.0)
Profit on disposal of fixed assets	**(11.0)**	–
Gain arising on pension exchange arrangement	**(15.4)**	–
	(26.4)	(1.0)
Business Services		
Gain arising on pension exchange arrangement	**(0.6)**	–
Gain on disposal of businesses	**(2.0)**	–
	(2.6)	–
Corporate and other		
Elimination of intra-group profit on disposal of fixed assets	**11.0**	–
Gain arising on pension exchange arrangement	**(0.6)**	–
	10.4	–
	(18.6)	(1.0)

Regulated Water and Waste Water has realised a gain of £11.0 million from sales of property on an arm's length basis to other group companies. The gain has been treated as exceptional in the segment results and has been eliminated on consolidation in the group results. The consolidation adjustment is shown in Corporate and other in the table above.

Exceptional tax is disclosed in note 14.

10 Employee numbers

Average number of employees (including executive directors) during the year:

	2017			2016		
	Continuing operations number	Discontinued operations number	Total number	Continuing operations number	Discontinued operations number	Total number
By type of business						
Regulated Water and Waste Water	**5,813**	**14**	**5,827**	5,236	–	5,236
Business Services	**1,777**	**18**	**1,795**	2,105	101	2,206
Corporate and other	**12**	**–**	**12**	17	–	17
	7,602	**32**	**7,634**	7,358	101	7,459

11 Finance income

	2017 £m	2016 £m
Interest income earned on:		
Bank deposits	**0.2**	0.4
Other financial income	**1.3**	5.0
Total interest receivable	**1.5**	5.4
Interest income on defined benefit scheme assets	**71.8**	67.7
	73.3	73.1

12 Finance costs

	2017 £m	2016 £m
Interest expense charged on:		
Bank loans and overdrafts	**22.7**	21.9
Other loans	**167.4**	170.6
Finance leases	**4.2**	6.8
Total borrowing costs	**194.3**	199.3
Other financial expenses	**0.3**	0.3
Interest cost on defined benefit scheme liabilities	**82.7**	82.8
	277.3	282.4

Borrowing costs of £18.6 million (2016: £16.5 million) incurred funding eligible capital projects have been capitalised at an interest rate of 3.94% (2016: 4.41%). Tax relief of £3.7 million (2016: £3.3 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £3.2 million (2016: £3.0 million).

13 Net (losses)/gains on financial instruments

	2017 £m	2016 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**17.6**	(0.7)
Loss arising on debt in fair value hedges	**(16.9)**	(1.1)
Exchange loss on other loans	**(11.1)**	(32.6)
Loss on cash flow hedges transferred from equity	**(2.9)**	(12.2)
Hedge ineffectiveness on cash flow hedges	**(0.1)**	0.5
Gain arising on swaps where hedge accounting is not applied	**11.1**	53.8
Amortisation of fair value adjustment on debt	**0.5**	–
	(1.8)	7.7

The group's hedge accounting arrangements are described in note 37.

14 Taxation

a) Analysis of tax charge/(credit) in the year

	2017			2016 (restated)		
	Before exceptional tax £m	Exceptional tax £m	Total £m	Before exceptional tax £m	Exceptional tax £m	Total £m
Current tax at 20%						
Current year	**47.9**	**–**	**47.9**	53.7	–	53.7
Prior years	**(11.0)**	**(16.4)**	**(27.4)**	(2.4)	–	(2.4)
Total current tax	**36.9**	**(16.4)**	**20.5**	51.3	–	51.3
Deferred tax						
Origination and reversal of temporary differences:						
Current year	**16.4**	**–**	**16.4**	10.9	–	10.9
Prior years	**6.0**	**4.0**	**10.0**	2.8	–	2.8
Exceptional credit from rate change	**–**	**(39.8)**	**(39.8)**	–	(78.6)	(78.6)
Total deferred tax	**22.4**	**(35.8)**	**(13.4)**	13.7	(78.6)	(64.9)
	59.3	**(52.2)**	**7.1**	65.0	(78.6)	(13.6)

The total tax charge for the year was £7.1 million (2016: credit of £13.6 million).

The current tax charge before exceptional tax was £36.9 million (2016: £51.3 million). The exceptional current tax credit of £16.4 million (2016: nil) arises primarily from adjustments following agreement with HMRC of tax matters from several prior years. The deferred tax charge before exceptional tax was £22.4 million (2016: charge of £13.7 million).

In September 2016 the Government enacted legislation to reduce the rate of corporation tax to 17% from 2020. As a result we recorded an exceptional deferred tax credit of £39.8 million as the provision was recalculated at the new lower tax rate. In 2016, there was an exceptional deferred tax credit of £78.6 million arising from a reduction in the corporation tax rate, enacted in that year, from 20% to 18% with effect from 1 April 2020.

Notes to the group financial statements continued

For the year ended 31 March 2017

14 Taxation continued

b) Factors affecting the tax charge/(credit) in the year

The tax expense for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 (restated) £m
Profit on ordinary activities before tax from continuing operations	**336.1**	302.9
Tax at the standard rate of corporation tax in the UK 20% (2016:20%)	**67.2**	60.6
Tax effect of depreciation on non-qualifying assets	**3.8**	3.8
Utilisation of previously unrecognised tax losses	**(2.7)**	–
Impact of overseas tax rates	**(0.7)**	–
Tax effect of expenditure not deductible in determining taxable profits	**0.4**	1.4
Current year impact of rate change	**(3.7)**	(1.2)
Adjustments in respect of prior years	**(17.4)**	0.4
Exceptional deferred tax credit arising from rate change	**(39.8)**	(78.6)
Total tax charge/(credit)	**7.1**	(13.6)

c) Tax (credited)/charged directly to other comprehensive income or equity

In addition to the amount charged/(credited) to the income statement, the following amounts of tax have been (credited)/charged directly to other comprehensive income or equity:

	2017 £m	2016 £m
Current tax		
Tax on share based payments	**(0.8)**	(1.2)
Tax on pension contributions in excess of income statement charge	**(14.1)**	–
Total current tax credited to other comprehensive income or equity	**(14.9)**	(1.2)
Deferred tax		
Tax on actuarial gain/loss	**(42.2)**	26.7
Tax on cash flow hedges	**(1.3)**	(0.4)
Tax on share based payments	**(0.1)**	0.5
Tax on transfers to the income statement	**0.4**	2.2
Effect of change in tax rate	**3.1**	9.6
Total deferred tax (credited)/charged to other comprehensive income or equity	**(40.1)**	38.6

15 Dividends

Amounts recognised as distributions to owners of the company in the period:

	2017		2016	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2016 (2015)	**48.40**	**114.0**	50.94	121.2
Interim dividend for the year ended 31 March 2017 (2016)	**32.60**	**76.4**	32.26	75.8
Total dividends	**81.00**	**190.4**	83.20	197.0
Proposed final dividend for the year ended 31 March 2017	**48.90**	**115.2**		

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

16 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 and treasury shares 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 dilutive potential 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 equity holders of the company.

The calculation of basic and diluted earnings per share is based on the following:

(i) Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2017 £m	2016 (restated) £m
Profit for the period attributable to owners of the company	**342.8**	330.0
Adjusted for profit from discontinued operations (see note 40)	**(13.6)**	(14.9)
Profit for the period from continuing operations attributable to owners of the company	**329.2**	315.1

(ii) Number of shares

	2017 m	2016 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**235.0**	236.1
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**1.0**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.0**	237.2

b) Underlying earnings per share

	2017 pence	2016 (restated) pence
Underlying basic earnings per share	**122.4**	102.1
Underlying diluted earnings per share	**121.9**	101.6

The directors consider that underlying earnings per share provides 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.

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2017 £m	2016 £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**329.2**	315.1
Adjustments for:		
– exceptional items before tax	**(18.6)**	(1.0)
– current tax related to exceptional items	**0.1**	(0.2)
– net losses/(gains) on financial instruments	**1.8**	(7.7)
– current tax on net losses/gains on financial instruments	**4.9**	(0.2)
– exceptional current tax	**(16.4)**	–
– deferred tax	**(13.4)**	(64.9)
Earnings for the purpose of underlying basic and diluted earnings per share	**287.6**	241.1

Notes to the group financial statements continued

For the year ended 31 March 2017

17 Goodwill

	2017 £m	2016 £m
Cost		
At 1 April	**18.2**	17.7
Acquisition of Dee Valley Water	**66.0**	–
Disposal of Operating Services Italy	**(5.4)**	–
Exchange adjustments	**2.2**	0.5
At 31 March	**81.0**	18.2
Impairment		
At 1 April	**(3.4)**	(3.4)
Disposal of Operating Services Italy	**3.4**	–
At 31 March	**–**	(3.4)
Net book value at 31 March	**81.0**	14.8

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment.

A summary of the goodwill allocation by CGU is presented below.

	2017 £m	2016 £m
Dee Valley Water	**66.0**	–
Operating Services US	**15.0**	13.0
Operating Services Italy	**–**	1.8
	81.0	14.8

The group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2 l).

The value in use calculation for the Dee Valley Water CGU is based on the financial model used in the acquisition but restricted to the remaining three years of the current AMP. The key assumptions underlying this model are: RPI inflation in the final three years of the AMP, the operating cost efficiencies achieved and the growth rate beyond the three year period. The discount rate of 4.7% was based on an estimate for the weighted average cost of capital at the year end date based on the market rate for the cost of debt and the cost of equity included in the Dee Valley Water Final Determination for AMP6. The equivalent pre-tax rate discount rate is 5.9%.

Cash flows beyond the end of the three year period are extrapolated using an estimate of 2% for long term CPI and zero real growth.

The value in use calculations for Operating Services US use cash flow projections based on financial budgets approved by management covering a three year period. The key assumptions underlying these budgets are revenue growth and margin. Management determines assumptions based on past experience, current market trends and expectations of future developments. Cash flows beyond the three year period are extrapolated using an estimated nominal growth rate of 3.0% (2016: 3.0%). 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.

Specific discount rates for Operating Services US are not available and hence a post tax discount rate of 3.5% (2016: 4.7%) 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 4.4% (2016: 5.9%).

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.

18 Other intangible assets

	Computer software		Capitalised development costs and patents	Total
	Internally generated £m	Purchased £m	£m	£m
Cost				
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 1 April 2016	188.9	104.5	13.5	306.9
Additions	14.7	14.5	1.1	30.3
Disposals	(1.1)	(1.2)	(0.7)	(3.0)
Disposal of subsidiaries	–	(5.0)	–	(5.0)
Exchange adjustments	0.2	1.0	–	1.2
At 31 March 2017	**202.7**	**113.8**	**13.9**	**330.4**
Amortisation				
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)
At 1 April 2016	(159.1)	(63.0)	(12.6)	(234.7)
Amortisation for the year	(7.7)	(10.8)	(0.8)	(19.3)
Disposals	0.7	0.3	0.7	1.7
Disposal of subsidiaries	–	3.6	–	3.6
Exchange adjustments	(0.1)	(0.7)	–	(0.8)
At 31 March 2017	**(166.2)**	**(70.6)**	**(12.7)**	**(249.5)**
Net book value				
At 31 March 2017	**36.5**	**43.2**	**1.2**	**80.9**
At 31 March 2016	29.8	41.5	0.9	72.2

Notes to the group financial statements continued

For the year ended 31 March 2017

19 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
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
Transfers 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 1 April 2016	3,168.0	4,939.9	3,788.1	67.0	545.2	12,508.2
Additions	15.5	73.7	12.4	1.7	480.6	583.9
Transfers on commissioning	134.4	39.9	214.7	6.3	(395.3)	–
Disposals	(5.7)	(0.7)	(24.7)	(3.8)	–	(34.9)
Acquisition of subsidiary undertaking	0.8	61.4	64.3	–	–	126.5
Disposal of subsidiary undertaking	–	–	(4.7)	–	–	(4.7)
Exchange adjustments	–	–	2.2	2.7	–	4.9
At 31 March 2017	**3,313.0**	**5,114.2**	**4,052.3**	**73.9**	**630.5**	**13,183.9**
Depreciation						
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 1 April 2016	(1,119.5)	(1,256.5)	(2,368.0)	(45.6)	–	(4,789.6)
Charge for the year	(81.2)	(42.6)	(178.1)	(6.9)	–	(308.8)
Disposals	3.7	0.2	23.4	3.5	–	30.8
Disposal of subsidiary undertaking	–	–	3.5	–	–	3.5
Exchange adjustments	–	–	(1.4)	(2.0)	–	(3.4)
At 31 March 2017	**(1,197.0)**	**(1,298.9)**	**(2,520.6)**	**(51.0)**	**–**	**(5,067.5)**
Net book value						
At 31 March 2017	**2,116.0**	**3,815.3**	**1,531.7**	**22.9**	**630.5**	**8,116.4**
At 31 March 2016	2,048.5	3,683.4	1,420.1	21.4	545.2	7,718.6

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 2017	**118.8**	**10.2**	**129.0**
At 31 March 2016	119.8	16.4	136.2

The depreciation charge for 2017 includes £5.0 million (2016: nil) in respect of the write off of redundant plant and equipment.

20 Interests in joint ventures and associates

Particulars of the group's principal joint venture undertakings at 31 March 2017 were:

Name	Type	Country of incorporation	Proportion of ownership interest
Jackson Water Partnership	Joint venture	United States	70%
Water Plus Limited	Joint venture	Great Britain	50%

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:

	Interests in joint venture		Interests in associates		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Group's share of carrying value	**37.4**	0.2	**–**	4.9	**37.4**	5.1
Group's share of (loss)/profit and comprehensive (loss)/income	**(1.8)**	–	**–**	0.1	**(1.8)**	0.1

All results are from continuing operations in both the current and preceding year.

As at 31 March 2017 and 2016 the joint ventures and associates did not have any significant contingent liabilities to which the group was exposed and the group did not have any significant contingent liabilities in relation to its interests in joint ventures or associates. The group had no capital commitments in relation to its interests in the joint ventures or associates at 31 March 2017 or 2016.

21 Categories of financial assets

	Notes	**2017 £m**	2016 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**23.6**	10.4
Interest rate swaps – not hedge accounted		**23.6**	–
Foreign exchange forward contracts – not hedge accounted		**–**	0.7
		47.2	11.1
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**19.8**	17.7
Interest rate swaps – fair value hedges		**–**	12.1
		19.8	29.8
Total derivative financial assets		**67.0**	40.9
Available for sale investments carried at fair value			
Unquoted shares		**–**	0.1
Loans and receivables (including cash and cash equivalents)			
Net trade receivables	22	**214.2**	177.8
Loan receivable from joint venture	22	**108.6**	–
Short term deposits	23	**18.8**	31.8
Cash at bank and in hand	23	**25.8**	23.4
Total loans and receivables		**367.4**	233.0
Total financial assets		**434.4**	274.0
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**67.0**	40.2
Loan receivable from joint venture		**9.0**	–
Available for sale financial assets		**–**	0.1
		76.0	40.3
Current assets			
Derivative financial assets		**–**	0.7
Net trade receivables		**214.2**	177.8
Loan receivable from joint venture		**99.6**	–
Cash and cash equivalents		**44.6**	55.2
		358.4	233.7
		434.4	274.0

Notes to the group financial statements continued

For the year ended 31 March 2017

22 Trade and other receivables

	2017 £m	2016 £m
Current assets		
Trade receivables	**344.7**	304.7
Bad debt provision	**(130.5)**	(126.9)
Net trade receivables	**214.2**	177.8
Other amounts receivable	**38.5**	54.6
Prepayments	**5.7**	8.6
Unbilled revenue	**159.8**	226.0
Loan receivable from joint venture	**99.6**	–
	517.8	467.0
Non-current assets		
Prepayments	**21.4**	23.9
Amounts receivable from contract work	**27.7**	25.7
Loan receivable from joint venture	**9.0**	–
	58.1	49.6
	575.9	516.6

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Doubtful debts provision

Movements on the doubtful debts provision were as follows:

	2017 £m	2016 £m
At 1 April	**126.9**	125.0
Charge for bad and doubtful debts (continuing and discontinued operations)	**21.9**	24.0
Acquisition of Dee Valley Water	**2.8**	–
Amounts written off during the year	**(21.1)**	(22.1)
At 31 March	**130.5**	126.9

The aged analysis of receivables that are specifically provided for is as follows:

	2017 £m	2016 £m
Up to 90 days	**1.0**	–
91 – 365 days	**6.3**	3.3
1 – 2 years	**2.8**	5.7
2 – 3 years	**3.9**	3.3
More than 3 years	**6.9**	5.0
	20.9	17.3

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:

	2017 £m	2016 £m
Up to 90 days	**56.6**	38.6
91 – 365 days	**85.8**	83.1
1 – 2 years	**57.2**	51.0
2 – 3 years	**35.1**	32.4
More than 3 years	**68.0**	65.2
	302.7	270.3

22 Trade and other receivables continued

Doubtful debts provision continued

The amounts above are reconciled to gross and net debtors in the table below:

	2017			2016		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not due	**21.1**	**–**	**21.1**	17.1	–	17.1
Overdue not specifically provided	**302.7**	**(109.6)**	**193.1**	270.3	(109.6)	160.7
Overdue and specifically provided	**20.9**	**(20.9)**	**–**	17.3	(17.3)	–
	344.7	**(130.5)**	**214.2**	304.7	(126.9)	177.8

Credit risk

Trade receivables

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 85% of group turnover and 88% 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 from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

Water Plus

In the year ended 31 March 2017, the group's joint venture, Water Plus, was the retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within the related parties note 47.

23 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**25.8**	23.4
Short term deposits	**18.8**	31.8
	44.6	55.2

Short term bank deposits are held as security deposits for insurance obligations, which are not available for use by the group. In addition, £10.0 million (2016: £8.8 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.

24 Borrowings

	2017 £m	2016 £m
Current liabilities		
Bank loans	**151.2**	276.4
Other loans	**406.1**	2.6
Finance leases	**2.1**	1.6
	559.4	280.6
Non-current liabilities		
Bank loans	**922.1**	973.4
Other loans	**3,683.9**	3,537.1
Finance leases	**113.6**	115.6
	4,719.6	4,626.1
	5,279.0	4,906.7

Notes to the group financial statements continued

For the year ended 31 March 2017

25 Finance leases

Obligations under finance leases are as follows:

	2017 £m	2016 £m
Within 1 year	**6.1**	5.7
1 – 2 years	**6.5**	6.1
2 – 5 years	**22.6**	21.1
After more than 5 years	**121.9**	129.8
Gross obligations under finance leases	**157.1**	162.7
Less future finance charges	**(41.4)**	(45.5)
Present value of leases obligations	**115.7**	117.2

Net obligations under finance leases fall due as follows:

	2017 £m	2016 £m
Within 1 year	**2.1**	1.6
1 – 2 years	**2.6**	2.1
2 – 5 years	**11.5**	9.6
After more than 5 years	**99.5**	103.9
Included in non-current liabilities	**113.6**	115.6
	115.7	117.2

The remaining terms of finance leases ranged from 1 to 15 years at 31 March 2017. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.34% (2016: 5.35%). 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.

26 Categories of financial liabilities

	Note	2017 £m	2016 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**163.2**	164.9
Energy hedges – not hedge accounted		**0.8**	–
Foreign exchange forward contracts – not hedge accounted		**–**	0.7
		164.0	165.6
Derivatives designated as hedging instruments			
Interest rate swaps – fair value hedges		**20.7**	–
Interest rate swaps – cash flow hedges		**–**	10.3
Energy hedges – fair value hedges		**–**	3.2
		20.7	13.5
Total derivative financial liabilities		**184.7**	179.1
Other financial liabilities			
Borrowings	24	**5,279.0**	4,906.7
Trade payables	27	**24.0**	18.1
Total other financial liabilities		**5,303.0**	4,924.8
Total financial liabilities		**5,487.7**	5,103.9
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**184.1**	178.0
Borrowings		**4,719.6**	4,626.1
		4,903.7	4,804.1
Current liabilities			
Derivative financial liabilities		**0.6**	1.1
Borrowings		**559.4**	280.6
Trade payables		**24.0**	18.1
		584.0	299.8
		5,487.7	5,103.9

27 Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	**24.0**	18.1
Social security and other taxes	**5.8**	6.2
Other payables	**13.5**	16.9
Deferred income	**12.2**	10.9
Accruals	**396.4**	402.0
	451.9	454.1
Non-current liabilities		
Accruals	**2.1**	3.4
Deferred income	**953.6**	867.4
	955.7	870.8
	1,407.6	1,324.9

28 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 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 1 April 2016	766.2	(55.8)	(51.6)	5.9	664.7
Reclassification	–	15.5	–	(15.5)	–
Acquired through business combinations	11.9	1.7	–	(1.1)	12.5
Charge/(credit) to income	23.3	–	3.2	(0.1)	26.4
(Credit)/charge to income arising from rate change	(42.5)	–	2.2	0.5	(39.8)
Credit to equity	–	(42.2)	(0.9)	(0.1)	(43.2)
Charge to equity arising from rate change	–	2.1	1.0	–	3.1
At 31 March 2017	**758.9**	**(78.7)**	**(46.1)**	**(10.4)**	**623.7**

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:

	2017 £m	2016 £m
Deferred tax asset	**(135.2)**	(107.5)
Deferred tax liability	**758.9**	772.2
	623.7	664.7

Notes to the group financial statements continued

For the year ended 31 March 2017

29 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.

Dee Valley Water ('DVW') participates in the Water Companies Pension Scheme, which is a defined benefit sectionalised scheme. DVW participates in the Dee Valley Water plc Section of the scheme ('the Section'). The Section funds are administered by trustees and are held separately from the assets of the group. Contributions are paid to the Section in accordance with the recommendations of an independent professionally qualified actuary, who carries out a formal actuarial valuation at triennial intervals. Members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history.

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 2016
Severn Trent Mirror Image Pension Scheme ('STMIPS')	31 March 2016
Water Companies Pension Scheme – Dee Valley Water plc Section ('DVWS')	31 March 2014

* 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 the defined benefit pension schemes

			2017	2016
	STPS and STMIPS £m	DVWS £m	Total £m	Total £m
Fair value of assets	**2,281.9**	**70.9**	**2,352.8**	2,039.8
Present value of the defined benefit obligations – funded schemes	**(2,855.8)**	**(61.1)**	**(2,916.9)**	(2,339.9)
	(573.9)	**9.8**	**(564.1)**	(300.1)
Present value of the defined benefit obligations – unfunded schemes	**(10.5)**	**–**	**(10.5)**	(9.4)
Retirement benefit obligation recognised in the balance sheet	**(584.4)**	**9.8**	**(574.6)**	(309.5)

STPS and STMIPS	2017 £m	2016 £m
Fair value of scheme assets		
Equities	**897.9**	922.4
Gilts	**412.6**	283.0
Corporate bonds	**670.8**	570.7
Property	**174.9**	171.4
Hedge funds	**1.2**	11.8
Cash	**124.5**	80.5
Total fair value of assets	**2,281.9**	2,039.8

DVWS	2017 £m
Fair value of scheme assets	
Equities	**16.4**
Diversified growth funds	**5.3**
Liquidity driven investment funds	**42.6**
Emerging markets multi-asset funds	**3.3**
High-yield bonds	**3.3**
Total fair value of assets	**70.9**

The equities, gilts, corporate bonds and hedge funds have quoted prices in active markets.

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(ii) Amount included in the balance sheet arising from the group's obligations under the defined benefit pension schemes continued

Movements in the fair value of the schemes' assets were as follows:

	2017 £m	2016 £m
Fair value at 1 April	**2,039.8**	2,086.8
Interest income on scheme assets	**71.8**	67.7
Contributions from the sponsoring companies	**33.2**	27.8
Contributions from scheme members	**–**	0.3
Return on plan assets (excluding amounts included in finance income)	**227.6**	(45.9)
Scheme administration costs	**(3.3)**	(2.3)
Benefits paid	**(87.2)**	(94.6)
Acquisition of Dee Valley Water	**70.9**	–
Fair value at 31 March	**2,352.8**	2,039.8

Movements in the present value of the schemes' defined benefit obligations were as follows:

	2017 £m	2016 £m
Present value at 1 April	**(2,349.3)**	(2,555.7)
Exceptional past service credit	**17.3**	0.7
Interest cost	**(82.7)**	(82.8)
Contributions from scheme members	**–**	(0.3)
Actuarial gains arising from changes in demographic assumptions	**16.6**	–
Actuarial (losses)/gains arising from changes in financial assumptions	**(470.6)**	147.9
Actuarial (losses)/gains arising from experience adjustments	**(84.8)**	46.3
Benefits paid	**87.2**	94.6
Acquisition of Dee Valley Water	**(61.1)**	–
Present value at 31 March	**(2,927.4)**	(2,349.3)

Of which:

	2017 £m	2016 £m
Amounts relating to funded schemes	**2,916.9**	2,339.9
Amounts relating to unfunded schemes	**10.5**	9.4
Present value at 31 March	**2,927.4**	2,349.3

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 £10.5 million (2016: £9.4 million) is included as an unfunded scheme within the retirement benefit obligation.

The group has assessed that is has an unconditional right to a refund of any surplus assets in each of the schemes following settlement of all obligations to scheme members and therefore the surpluses in the STMIPS and the DVWS have been recognised in full.

Notes to the group financial statements continued

For the year ended 31 March 2017

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2017 £m	2016 £m
Amounts credited/(charged) to operating costs		
Exceptional past service credit	**17.3**	0.7
Scheme administration costs	**(3.3)**	(2.3)
	14.0	(1.6)
Amounts charged to finance costs		
Interest cost	**(82.7)**	(82.8)
Amounts credited to finance income		
Interest income on scheme assets	**71.8**	67.7
Total amount credited/(charged) to the income statement	**3.1**	(16.7)

The actual return on scheme assets was a gain of £301.4 million (2016: £21.8 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 £622.0 million (2016: £310.8 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 the 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 and STMIPS schemes were as follows:

	2017 %	2016 %
Price inflation – RPI	**3.1**	3.0
Price inflation – CPI	**2.1**	2.0
Discount rate	**2.7**	3.6
Pension increases in payment	**3.1**	3.0
Pension increases in deferment	**3.1**	3.0

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts.

We have revised our methodology for setting the discount rate to better reflect the credit risk for long dated bond yields where there is insufficient market data available. We now adjust the yield on long dated gilts for the market-implied spread that would be expected for an AA bond of similar term. Short dated yields are taken from market rates for AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate based on this constructed yield curve. We estimate that the change in methodology increased the discount rate by 0.15% – 0.2%.

29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(v) Actuarial assumptions continued

The mortality assumptions are based on those used in the triennial valuation of the STPS as at 31 March 2016. The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows for STPS and STMIPS:

	2017		2016	
	Men	Women	Men	Women
Mortality table used	S2NMA	S2NFA	SAPS S1NMA_L	S1NFA_L
Mortality table compared with standard table	95%	99%	116%	92%
Future improvement per annum	1.0%	1.0%	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	22.5	24.1	21.4	24.6
Remaining life expectancy at age 65 for members currently aged 45 (years)	23.6	25.3	22.8	26.1

The assumptions used in the valuation of the DVWS scheme were as follows:

	2017
Price inflation – RPI	3.4%
Price inflation – CPI	2.4%
Discount rate	2.5%
Pension increases in payment – uncapped CPI	2.5%
Pension increases in payment – CPI capped at 5% per annum	2.4%
Pension increases in deferment	2.5%
Pension salary increases (capped at 2% per annum)	1.9%
Life expectancy of a male aged 60 at the balance sheet date (years)	27.9 years
Life expectancy of a female aged 60 at the balance sheet date (years)	29.8 years
Life expectancy of a male aged 60, twenty five years after the balance sheet date (years)	30.9 years
Life expectancy of a female aged 60, twenty five years after the balance sheet date (years)	32.3 years

The mortality table used to calculate the DVWS assumptions were SAPS S2NA (1.5% for men, 1.25% for women).

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 STPS and STMIPS 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 £53 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £46 million
Mortality	Increase in life expectancy by 1 year	Increase by £106 million

The following table summarises the estimated impact on DVWS 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 £1 million
Price inflation*	Increase/decrease by 0.1%	Increase/decrease by £0.8 million
Mortality	Increase in life expectancy by 1 year	Increase by £2 million

*The impact of pension increases is not material.

In reality, inter-relationships 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.

As the STPS and STMIPS were closed to future accrual on 31 March 2015, pension increases are now linked to RPI inflation and there are no active members. Therefore the assumption for pension increases is the same as the RPI assumption and the sensitivities are identical.

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.

Notes to the group financial statements continued

For the year ended 31 March 2017

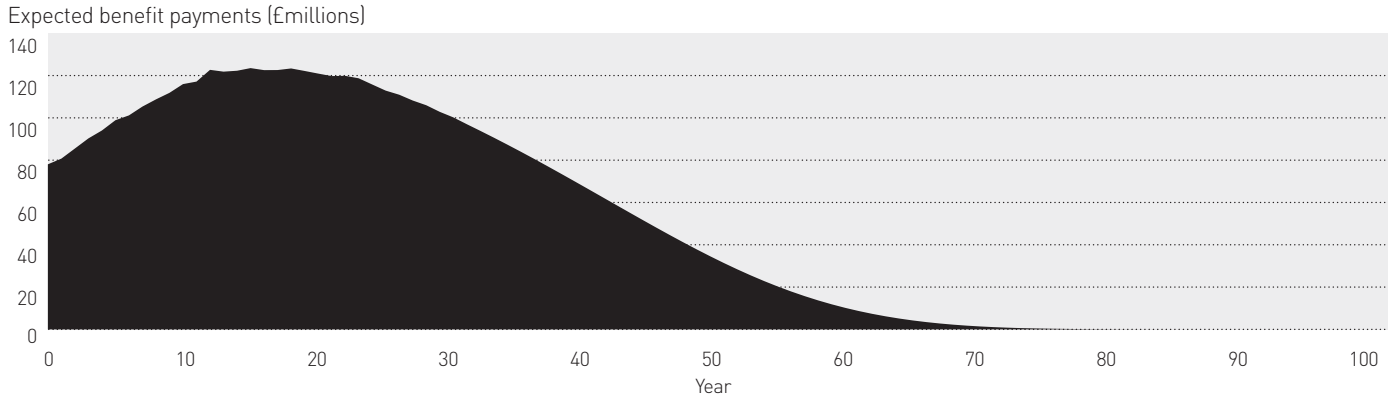
29 Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(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 20 years for STPS and STMIPS (2016: 18 years) and 17 years for DVWS. 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 2016 for the STPS and STMIPS schemes and 31 March 2014 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £10 million for the two financial years ending 31 March 2019 were agreed. Payments of £8 million per annum through an asset backed funding arrangement will continue to 31 March 2032. Further inflation linked payments of £15 million per annum will be made through a new asset backed funding arrangement, starting in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

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 £21.2 million (2016: £19.2 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2017, contributions amounting to £2.2 million (2015: £1.5 million) in respect of the current reporting period were owed to the schemes.

Dee Valley Water operates two defined contribution pension schemes, neither of which were material in the current year.

30 Provisions

	Restructuring £m	Insurance £m	Other £m	Total £m
At 1 April 2016	0.2	21.2	8.6	30.0
Charged to income statement	–	9.2	7.3	16.5
Utilisation of provision	–	(8.8)	(1.7)	(10.5)
Disposal of subsidiary	(0.2)	–	(2.1)	(2.3)
Exchange differences	–	–	0.1	0.1
At 31 March 2017	**–**	**21.6**	**12.2**	**33.8**

	2017 £m	2016 £m
Included in:		
Current liabilities	**17.5**	12.3
Non-current liabilities	**16.3**	17.7
	33.8	30.0

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes.

Insurance includes provisions in respect of Derwent Insurance Limited and Lyra Insurance Guernsey Limited, captive insurance companies, which are wholly owned subsidiaries 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.

Other provisions include provisions for dilapidations, commercial disputes and disposals. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

31 Share capital

	2017 £m	2016 £m
Total issued and fully paid share capital		
239,793,915 ordinary shares of 97 $^{17}/_{19}$p (2016: 239,344,614)	**234.7**	234.3

On 13 February 2015 the group entered into an irrevocable, non-discretionary arrangement to enable market purchases of ordinary shares of $97^{17}/_{19}$ 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 did not repurchase any shares (2016: 4,274,576). Of these repurchased shares, in 2016 51,514 were cancelled and the remaining 4,223,062 were held as treasury shares.

At 31 March 2017 4,223,062 treasury shares were held (2016: 4,223,062).

Changes in share capital were as follows:

	number	£m
Ordinary shares of 97 $^{17}/_{19}$p		
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 1 April 2016	239,344,614	234.3
Shares issued under the Employee Sharesave Scheme	449,301	0.4
At 31 March 2017	**239,793,915**	**234.7**

32 Share premium

	2017 £m	2016 £m
At 1 April	**106.8**	100.2
Share premium arising on issue of shares for Employee Sharesave Scheme	**5.7**	6.6
At 31 March	**112.5**	106.8

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For the year ended 31 March 2017

33 Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
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 1 April 2016	157.1	37.9	(78.5)	116.5
Total comprehensive income for the year	–	2.5	2.8	5.3
At 31 March 2017	**157.1**	**40.4**	**(75.7)**	**121.8**

The capital redemption reserve as at 1 April 2015 arose on the redemption of B shares. The movement in the prior year arose from the repurchase and cancellation of own shares, as outlined in note 31.

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.

34 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.

The group has continued to increase exposure to currently low floating interest rates, primarily through raising £400 million of finance through a bond with a maturity of 15 years. The group has entered into a series of interest rate swaps in relation to this bond, to take advantage of low floating interest rates.

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 group seeks to keep the net debt/RCV gearing ratio broadly in line with Ofwat's notional assumption of 62.5% for AMP6.

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 2016/17 dividend at 81.50 pence, an increase of 1% compared to the total dividend for 2015/16 of 80.66 pence. In the light of our strong operational and financial performance we have enhanced our policy and it is now to grow the dividend annually by at least RPI plus 4% until March 2020.

The group's capital at 31 March 2017 was:

	2017 £m	2016 £m
Cash and cash equivalents	**44.6**	55.2
Bank loans	**(1,073.3)**	(1,249.8)
Other loans	**(4,090.0)**	(3,539.7)
Finance leases	**(115.7)**	(117.2)
Cross currency swaps	**43.4**	28.1
Loans due from joint ventures and associated undertakings	**108.6**	–
Net debt	**(5,082.4)**	(4,823.4)
Equity attributable to owners of the company	**(923.3)**	(1,017.4)
Total capital	**(6,005.7)**	(5,840.8)

35 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.

	2017 £m	2016 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**43.4**	28.1	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	**–**	–	
Interest rate swaps			Discounted cash flow
Assets	**23.6**	12.1	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	**(183.9)**	(175.2)	
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	**(0.8)**	(3.2)	
Foreign currency forward contracts			Discounted cash flow
Assets	**–**	0.7	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)	

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, loans receivable from joint ventures, trade receivables and trade payables approximate their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Floating rate debt				
Bank loans	**776.3**	**782.0**	954.4	954.3
Currency bonds	**40.1**	**40.1**	36.6	36.6
Floating rate notes	**147.7**	**156.4**	147.6	150.3
	964.1	**978.5**	1,138.6	1,141.2
Fixed rate debt				
Bank loans	**186.4**	**186.6**	187.6	186.8
Sterling bonds	**2,257.2**	**2,746.2**	1,857.3	2,221.8
Fixed rate notes	**355.2**	**397.4**	326.9	399.0
Other loans	**6.7**	**6.7**	2.8	2.6
Finance leases	**115.7**	**130.5**	117.2	125.4
	2,921.2	**3,467.4**	2,491.8	2,935.6
Index-linked debt				
Bank loans	**110.6**	**126.7**	107.8	116.1
Sterling bonds	**1,195.8**	**2,063.1**	1,168.5	1,576.8
Other loans	**87.3**	**87.3**	–	–
	1,393.7	**2,277.1**	1,276.3	1,692.9
	5,279.0	**6,723.0**	4,906.7	5,769.7

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate sterling and currency bonds are valued using market prices, which is a Level 1 valuation technique.

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, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models, which is a Level 2 valuation technique.

Notes to the group financial statements continued

For the year ended 31 March 2017

36 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 section a) (i) and note 37 b) (i).

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 37 a).

Energy swaps are held to mitigate the group's exposure to changes in electricity prices. Further details are provided in note 37 b) (ii).

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:

	2017 £m	2016 £m
Net debt (note 42)	**5,082.4**	4,823.4
Cash and cash equivalents	**44.6**	55.2
Loan receivable from joint venture	**108.6**	–
Cross currency swaps included in net debt at fair value	**43.4**	28.1
Fair value hedge accounting adjustments	**(31.5)**	(15.2)
Exchange adjustments on currency debt not hedge accounted	**(21.2)**	(5.9)
Interest bearing financial liabilities	**5,226.3**	4,885.6

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 variable 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 variable rates to fixed rates. The group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

36 Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

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 or cross currency 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 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.

2017	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Total £m**
Bank loans	(776.3)	(186.4)	(110.6)	(1,073.3)
Other loans	(167.6)	(2,586.4)	(1,283.3)	(4,037.3)
Finance leases	–	(115.7)	–	(115.7)
	(943.9)	**(2,888.5)**	**(1,393.9)**	**(5,226.3)**
Impact of swaps not matched against specific debt instruments	(205.3)	205.3	–	–
Interest bearing financial liabilities	**(1,149.2)**	**(2,683.2)**	**(1,393.9)**	**(5,226.3)**
Proportion of interest bearing financial liabilities that are fixed		**51%**		
Weighted average interest rate of fixed debt		**5.16%**		
Weighted average period for which interest is fixed (years)		**9.2**		

2016	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
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 debt		5.16%		
Weighted average period for which interest is fixed (years)		10.2		

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 and fixed rate debt, but they do not achieve hedge accounting under the strict criteria of IAS 39. This has led to a charge of £3.3 million (2016: credit of £14.4 million) in the income statement.

	Average contract fixed interest rate		**Notional principal amount**		**Fair value**	
	2017 %	2016 %	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Pay fixed rate interest						
5 – 10 years	**5.06**	5.06	**(450.0)**	(450.0)	**(125.3)**	(129.2)
10 – 20 years	**5.45**	5.45	**(68.1)**	(68.1)	**(37.8)**	(35.7)
	5.11	5.11	**(518.1)**	(518.1)	**(163.1)**	(164.9)
Receive fixed rate interest						
5 – 10 years	**3.34**	–	**75.0**	–	**5.8**	–
10 – 20 years	**2.92**	–	**550.0**	–	**17.8**	–
	2.97	–	**625.0**	–	**23.6**	–
			106.9	(518.1)	**(139.5)**	(164.9)

Notes to the group financial statements continued

For the year ended 31 March 2017

36 Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

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 changes in interest rates at 31 March is as follows:

	2017		2016	
	1.0% £m	**-1.0% £m**	1.0% £m	-1.0% £m
Profit or loss	**(36.1)**	**54.3**	45.9	(51.3)
Cash flow	**8.8**	**(8.8)**	6.2	(6.2)
Equity	**(36.1)**	**54.3**	45.9	(51.3)

(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 charge of £0.1 million (2016: credit of £0.2 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, it has entered into cross currency swaps 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 37 a).

The group also has cross currency swaps with a sterling value of £98.3 million (2016: £98.3 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 £13.1 million (2016: credit of £39.2 million) in the income statement which is partly offset by the exchange loss of £15.4 million (2016: £32.6 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.

2017	**Euro €m**	**US Dollar $m**	**Yen ¥bn**
Borrowings by currency	(20.1)	(150.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	–	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	**(0.2)**	**–**	**–**

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)	–	–

36 Risks arising from financial instruments continued

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 22.

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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
AAA	**5.0**	5.0	**1.2**	1.2
Double A range	**100.0**	100.0	**1.8**	14.4
Single A range	**625.0**	615.0	**13.9**	14.1
Triple B range	**10.0**	20.0	**2.0**	2.1
	740.0	740.0	**18.9**	31.8

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2017 £m	2016 £m
Double A range	**0.8**	–
Single A range	**66.2**	33.0
Triple B range	**–**	7.9
	67.0	40.9

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:

	2017 £m	2016 £m
2 – 5 years	**1,000.0**	875.0

Notes to the group financial statements continued

For the year ended 31 March 2017

36 Risks arising from financial instruments continued

c) Liquidity risk continued

(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.

2017 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(160.7)	(538.7)	(25.4)	(24.0)	**(748.8)**
1 – 2 years	(11.6)	(108.7)	(26.6)	–	**(146.9)**
2 – 5 years	(42.1)	(469.8)	(84.6)	–	**(596.5)**
5 – 10 years	(750.2)	(1,383.4)	(440.2)	–	**(2,573.8)**
10 – 15 years	(112.3)	(1,110.0)	(347.1)	–	**(1,569.4)**
15 – 20 years	–	(60.9)	(221.3)	–	**(282.2)**
20 – 25 years	–	(310.9)	(160.3)	–	**(471.2)**
25 – 30 years	–	–	(190.1)	–	**(190.1)**
30 – 35 years	–	–	(643.2)	–	**(643.2)**
35 – 40 years	–	–	(1,226.5)	–	**(1,226.5)**
40 – 45 years	–	–	(2,089.7)	–	**(2,089.7)**
45 – 50 years	–	–	(365.0)	–	**(365.0)**
Total	**(1,076.9)**	**(3,982.4)**	**(5,820.0)**	**(24.0)**	**(10,903.3)**

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	99.6	214.2	44.6	**358.4**
5 – 10 years	12.5	–	–	**12.5**
Total	**112.1**	**214.2**	**44.6**	**370.9**

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)
Total	(1,325.5)	(3,478.6)	(5,835.3)	(18.1)	(10,657.5)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	177.8	55.2	233.0

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in RPI. 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.

36 Risks arising from financial instruments continued

c) Liquidity risk continued

(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		
2017	**Interest rate swaps £m**	**Energy swaps £m**	**Interest rate swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	(25.4)	(0.2)	6.9	1.1	(0.2)	**(17.8)**
1 – 2 years	(24.9)	(0.5)	6.2	1.1	(0.2)	**(18.3)**
2 – 5 years	(73.4)	(0.3)	13.1	3.4	(0.8)	**(58.0)**
5 – 10 Years	(61.6)	–	4.3	23.9	(13.1)	**(46.5)**
10 – 15 Years	(11.6)	–	(6.4)	18.1	(9.0)	**(8.9)**
	(196.9)	**(1.0)**	**24.1**	**47.6**	**(23.3)**	**(149.5)**

	Derivative liabilities		Derivative assets			
				Cross currency swaps		
2016	Interest rate swaps £m	Energy swaps £m	Interest rate swaps £m	Cash receipts £m	Cash payments £m	Total £m
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)

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 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 Regulatory Capital Value, or accounting for defined benefit pension schemes.

	2017		2016	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(11.2)**	**11.2**	(10.2)	10.2
Equity	**(11.2)**	**11.2**	(10.2)	10.2

Notes to the group financial statements continued

For the year ended 31 March 2017

37 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 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	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Euro	**11.4**	11.4	**10.4**	9.8
Yen	**8.5**	8.5	**9.4**	7.9
	19.9	19.9	**19.8**	17.7

(ii) Interest rate swaps

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2017 %**	2016 %	**2017 £m**	2016 £m	**2017 £m**	2016 £m
10 – 20 years	**–**	3.36%	**–**	225.0	**–**	12.1

Hedge accounting for swaps previously designated in fair value hedging relationships have been discontinued, as they no longer meet the criteria set out in IAS 39. These swaps continue to economically increase the portion of debt within the group at floating rates.

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	
Period to maturity	**2017 %**	2016 %	**2017 £m**	2016 £m	**2017 £m**	2016 £m
5 – 10 years	**1.70%**	–	**50.0**	–	**(1.1)**	–
10 – 20 years	**2.14%**	5.18%	**384.4**	38.1	**(19.6)**	(10.3)
	2.09%	5.18%	**434.4**	38.1	**(20.7)**	(10.3)

(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	
Period to maturity	**2017 £/MWh**	2016 £/MWh	**2017 MWh**	2016 MWh	**2017 £m**	2016 £m
Less than 1 year	**43.6**	49.8	**66,272**	21,960	**(0.2)**	(0.4)
1 – 2 years	**48.5**	43.6	**205,296**	66,272	**(0.5)**	(0.8)
2 – 5 years	**48.6**	48.5	**21,955**	227,221	**(0.1)**	(2.0)
	47.4	47.6	**293,523**	315,453	**(0.8)**	(3.2)

38 Share based payments

The group operates a number of share based remuneration schemes for employees. During the year, the group recognised total expenses of £6.2 million (2016: £5.2 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £22.98 (2016: £21.44).

At 31 March 2017, there were no options exercisable (2016: 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').

Awards made under the LTIP
The 2013 and 2014 LTIP awards were subject to Severn Trent Water's achievement of Return on Regulatory 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 onwards are subject to Severn Trent Water's achievement of Return on Regulated 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% (2016: 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% (2016: 0%).

Awards outstanding

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards	
	LTIP	Services LTIP
Opening 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 1 April 2016	475,878	33,864
Granted during the year	195,415	–
Vested during the year	(132,697)	–
Lapsed during the year	(21,122)	(33,864)
Outstanding at 31 March 2017	**517,474**	**–**

Details of LTIP and Services LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal Date of Vesting	2017	2016
July 2012			
July 2013	2016	**–**	170,648
July 2014	2017	**153,724**	170,759
July 2015	2018	**168,335**	168,335
July 2016	2019	**195,415**	–
		517,474	509,742

Details of the basis of the LTIP schemes are set out in the Directors' remuneration report on pages 96 to 119.

Notes to the group financial statements continued

For the year ended 31 March 2017

38 Share based payments continued

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 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 1 April 2016	2,858,611	1,492p
Granted during the year	868,766	1,663p
Forfeited during the year	(71,133)	1,579p
Cancelled during the year	(92,095)	1,636p
Exercised during the year	(449,301)	1,226p
Lapsed during the year	(8,241)	1,396p
Outstanding at 31 March 2017	**3,106,607**	**1,572p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	Normal date of exercise	Option price	2017	2016
January 2011	2016	1,137p	**–**	97,855
January 2012	2017	1,177p	**88,346**	91,194
January 2013	2016 or 2018	1,241p	**112,860**	451,766
January 2014	2017 or 2019	1,331p	**489,937**	521,944
January 2015	2018 or 2020	1,584p	**883,839**	950,908
January 2016	2019 or 2021	1,724p	**668,413**	744,944
January 2017	2020 or 2022	1,663p	**863,212**	–
			3,106,607	2,858,611

c) Share Matching Plan ('SMP')

Under the SMP members of STEC receive matching share awards over those shares which have 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 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.

38 Share based payments continued

c) Share Matching Plan ('SMP') continued

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Outstanding at 1 April 2015	50,670
Cancelled during the year	(23,057)
Outstanding at 1 April 2016	27,613
Cancelled during the year	(24,682)
Vested during the year	(2,931)
Outstanding at 31 March 2017	**–**

Details of share matching awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	**Normal Date of Vesting**	**2017**	2016
May 2013	May 2016	**–**	27,613

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:

	2017			2016		
	LTIP	**SAYE**		LTIP	SAYE	
		3 year scheme	**5 year scheme**		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,236**	**2,222**	**2,222**	2,167	2,151	2,151
Option life (years)	**3**	**3½**	**5½**	3	3½	5½
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**	3.7	3.7	3.7
Risk free rate (%)	**n/a**	**0.1**	**0.5**	n/a	0.8	1.3
Fair value per share (pence)	**2,224**	**407**	**429**	1,938	363	362

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.

39 Acquisitions

On 15 February 2017, Severn Trent Water Limited acquired 100% of the issued ordinary share capital of Dee Valley Group plc and all of its subsidiaries including the regulated water company Dee Valley Water plc. This acquisition was made through a scheme of arrangement under which Severn Trent Water Limited paid for total consideration of £84.2 million, comprising £79.0 million in cash and £5.2 million in loan notes redeemable on demand.

The acquisition represents an opportunity for the group to deliver attractive returns to its shareholders through applying its successful operating model across an enlarged asset base, in a contiguous geographic area.

The acquisition has been accounted for using the acquisition method. Goodwill of £66.0 million has been capitalised attributable to the anticipated future synergies and outperformance arising as a result of the acquisition.

No goodwill related to these acquisitions is expected to be deductible for tax purposes.

Notes to the group financial statements continued

For the year ended 31 March 2017

39 Acquisitions continued

The residual excess over the net assets acquired has been recognised as goodwill.

	£m
Fair values on acquisition	
Property, plant and equipment	126.5
Inventories	0.4
Trade and other receivables	16.2
Cash and cash deposits	1.3
Retirement benefit surplus	9.8
Borrowings	(87.9)
Trade and other payables	(16.1)
Deferred income	(19.8)
Current tax	0.3
Deferred tax	(12.5)
Net assets acquired	18.2
Goodwill	66.0
Total consideration	84.2
Satisfied by:	
Cash	79.0
Loan notes issued	5.2
	84.2
Net cash flows arising on acquisition:	
Cash consideration	(79.0)
Cash and cash deposits acquired	1.3
	(77.7)
Dee Valley Group plc for the period since acquisition to 31 March 2017:	
Revenue	2.2
Loss before tax	(0.4)
Severn Trent Water group combined for the year ended 31 March 2017 if acquisition happened on 1 April 2016:	
Revenue	1,841.4
Profit before tax	336.9

The fair values included above are based on management's best estimates of the values as at 15 February 2017 based on all available data that has been received since that date. Given the proximity to the year end, full detailed fair value exercises have not been completed on all assets and liabilities acquired. Therefore, the amounts recognised for these assets and liabilities are provisional.

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria.

See note 17 for the reconciliation of goodwill recognised for the group.

Acquisition related costs amounting to £3.1 million were recognised as an expense in the income statement. No other acquisition costs were recognised.

40 Discontinued operations

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 markets in England and Scotland. 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. On 31 May 2016 the group transferred Severn Trent Water's non-household retail business to Severn Trent Select Limited and on 1 June it exchanged the entire share capital of Severn Trent Select Limited for 50% of the share capital of Water Plus.

Water Purification disposal

On 23 January 2015 the board approved a process to dispose of the group's Water Purification business which formed part of the Business Services segment.

On 12 May 2015 the group entered into a binding agreement to sell the business to Industrie De Nora S.p.A. The sale was completed on 2 July 2015. These operations were classified as discontinued. The results of discontinued operations are disclosed separately in the income statement.

40 Discontinued operations continued

Water Purification disposal continued

The results of the discontinued operations were as follows:

	2017		2016		
	Non-household retail (2 months) £m	**Total £m**	Non-household retail (1 year) £m	Water Purification (3 months) £m	Total £m
Turnover	**66.0**	**66.0**	397.9	29.7	427.6
Total operating costs	**(67.3)**	**(67.3)**	(378.5)	(27.6)	(406.1)
(Loss)/profit before tax	**(1.3)**	**(1.3)**	19.4	2.1	21.5
Attributable tax credit/(expense)	**0.3**	**0.3**	(3.9)	(0.1)	(4.0)
Gain/(loss) on disposal of discontinued operations	**14.6**	**14.6**	–	(2.7)	(2.7)
Profit/(loss) for the year	**13.6**	**13.6**	15.5	(0.7)	14.8
Attributable to:					
Owners of the company	**13.6**	**13.6**	15.5	(0.6)	14.9
Non-controlling interests	**–**	**–**	–	(0.1)	(0.1)
	13.6	**13.6**	15.5	(0.7)	14.8

Basic and diluted earnings per share from discontinued operations are as follows:

	2017			2016		
	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 earnings per share	**13.6**	**235.0**	**5.8**	14.9	236.1	6.3
Diluted earnings per share	**13.6**	**236.0**	**5.8**	14.9	237.2	6.3

The net assets of the business at the date of disposal were:

	Non-household retail £m	Water Purification £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	**0.6**	59.9
Cash and bank balances	**3.5**	11.0
Trade and other payables	**(0.6)**	(36.1)
Tax liabilities	**–**	(0.2)
Intercompany borrowings	**–**	(18.1)
Provisions for liabilities and charges	**–**	(1.5)
	3.5	41.6
Attributable to:		
Owners of the company	**3.5**	27.9
Non-controlling interest	**–**	13.7
	3.5	41.6

The net gain on disposals is calculated as follows:

	Non-household retail £m	Water Purification £m
Consideration	**25.5**	42.8
Net assets attributable to owners of the company	**(3.6)**	(27.9)
Disposal costs	**(7.3)**	(4.8)
Provisions arising on disposal	**–**	(1.1)
Net gain on disposal before foreign exchange losses	**14.6**	9.0
Foreign exchange losses recycled from reserves	**–**	(11.7)
Net gain/(loss) on disposal	**14.6**	(2.7)

Notes to the group financial statements continued

For the year ended 31 March 2017

40 Discontinued operations continued

Water Purification disposal continued

The net cash flows arising from the disposal groups were as follows:

	2017		2016		
	Non-household retail (2 months) £m	**Total £m**	Non-household retail (1 year) £m	Water Purification (3 months) £m	Total £m
Net cash flows attributable to:					
– operating activities	**2.9**	**2.9**	15.5	(0.5)	15.0
– investing activities	**–**	**–**	–	(11.6)	(11.6)
– financing activities	**(3.5)**	**(3.5)**	–	(6.4)	(6.4)
	(0.6)	**(0.6)**	15.5	(18.5)	(3.0)

The net cash flows arising from disposals were:

	Non-household retail £m	Water Purification £m
Consideration received in cash and cash equivalents	**–**	42.8
Settlement of intercompany loans	**–**	18.1
Disposal costs paid in cash and cash equivalents	**(7.3)**	(4.2)
Cash and bank balances disposed of	**(3.5)**	(11.0)
	(10.8)	45.7

41 Disposals

The group disposed of the Operating Services business in Italy on 23 February 2017 to Acea S.p.A. for proceeds of €9.4 million (£7.9 million), resulting in a gain on disposal of £2.0 million, after disposing of £7.9 million of net assets and incurring £1.6 million associated disposal costs.

The resulting gain on the disposal is presented in the income statement as an exceptional item. The disposal is not separately disclosed as a discontinued operation, as it did not represent a major line of business.

The net assets of the business at the date of disposal were:

	2017 £m
Net assets disposed of:	
Goodwill	**2.0**
Other intangible assets	**1.4**
Property, plant and equipment	**1.2**
Investments	**4.2**
Inventories	**7.5**
Trade and other receivables	**11.3**
Cash and bank balances	**1.5**
Trade and other payables	**(15.0)**
Borrowings	**(3.9)**
Provisions for liabilities and charges	**(2.3)**
	7.9
Attributable to:	
Owners of the company	**7.1**
Non-controlling interest	**0.8**
	7.9

41 Disposals continued

The net gain on disposal is calculated as follows:

	2017 £m
Consideration	**7.9**
Net assets attributable to owners of the company	**(7.1)**
Disposal costs	**(1.6)**
Net loss on disposal before foreign exchange gains	**(0.8)**
Foreign exchange gains recycled from reserves	**2.8**
Net gain on disposal	**2.0**

The net cash flows arising from disposal in the year were:

	2017 £m
Net cash flow arising from disposals:	
Consideration received in cash and cash equivalents	**0.3**
Settlement of intercompany loans	**7.6**
Disposal costs paid in cash and cash equivalents	**(1.6)**
Cash and bank balances disposed of	**(1.5)**
	4.8

42 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2017 £m	2016 (restated) £m
Profit before interest and tax from continuing operations	**543.7**	504.4
Profit before interest and tax from discontinued operations	**13.6**	18.8
Profit before interest and tax	**557.3**	523.2
Depreciation of property, plant and equipment	**308.8**	294.2
Amortisation of intangible assets	**19.3**	22.0
Pension service credit	**(17.3)**	(0.7)
Defined benefit pension scheme administration costs	**3.3**	2.3
Defined benefit pension scheme contributions	**(33.2)**	(27.8)
(Gain)/loss on sale of disposal group	**(14.6)**	2.7
Share based payments charge	**6.2**	5.2
Profit on sale of property, plant and equipment and intangible assets	**(5.1)**	(0.9)
Gain on disposal of businesses	**(2.6)**	–
Deferred income credit	**(13.9)**	(10.5)
Provisions charged to the income statement	**16.5**	5.9
Utilisation of provisions for liabilities and charges	**(10.5)**	(10.7)
Operating cash flows before movements in working capital	**814.2**	804.9
Increase in inventory	**(1.3)**	(2.8)
Decrease/(increase) in amounts receivable	**60.3**	(24.1)
(Decrease)/increase in amounts payable	**(22.2)**	19.5
Cash generated from operations	**851.0**	797.5
Tax received	**20.6**	11.5
Tax paid	**(42.4)**	(44.9)
Net cash generated from operating activities	**829.2**	764.1

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2016: nil). Assets transferred from developers and under the Private Drains and Sewers legislation at no cost were recognised at their fair value of £51.4 million (2016: £24.8 million).

Notes to the group financial statements continued

For the year ended 31 March 2017

42 Cash flow statement continued

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

	2017 £m	2016 £m
Restructuring costs	**–**	(4.0)
Costs of Pension Exchange Arrangement	**(0.7)**	–
Disposal of subsidiary	**4.8**	–
	4.1	(4.0)

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2016	55.2	(1,249.8)	(3,539.7)	(117.2)	28.1	–	(4,823.4)
Cash flow	(14.7)	176.2	(398.0)	1.5	–	109.0	(126.0)
Fair value adjustments	–	–	(16.3)	–	15.1	–	(1.2)
RPI uplift on index-linked debt	–	(2.8)	(27.5)	–	–	–	(30.3)
Acquisition of Dee Valley Water debt	–	–	(87.9)	–	–	–	(87.9)
Foreign exchange	4.1	–	(15.4)	–	–	–	(11.3)
Other non-cash movements	–	3.1	(5.2)	–	0.2	(0.4)	(2.3)
As at 31 March 2017	**44.6**	**(1,073.3)**	**(4,090.0)**	**(115.7)**	**43.4**	**108.6**	**(5,082.4)**

43 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.

44 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 Aquatrine Package C – a 25 year contract spanning 1,295 sites across 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 and accrued income. At 31 March 2017 the amounts receivable were £27.7 million (2016: £25.7 million).

There have been no significant changes to the arrangement during the year.

45 Financial and other commitments

a) Investment expenditure commitments

	2017 £m	2016 £m
Contracted for but not authorised in the financial statements	**221.0**	142.6

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 operating commitments for future minimum operating lease payments under non-cancellable operating lease, which fall due as follows:

	2017 £m	2016 £m
Within 1 year	**3.2**	2.3
1 – 5 years	**7.6**	6.4
After more than 5 years	**7.0**	7.2
	17.8	15.9

Operating lease payments represent rentals by the group for certain of its office property, plant and equipment.

46 Post balance sheet events

Dividends

Following the year end the board of directors has proposed a final dividend of 48.9 pence per share. Further details of this are shown in note 15.

47 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 joint ventures are disclosed below:

	Water Plus 2017 £m
Sale of services	**317.5**
Net interest income	**1.3**
Trade and other receivables due from related parties	**37.6**
Amounts due to related parties	**(8.8)**
Loans receivable from joint ventures	**109.0**

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 29.

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 96 to 119.

	2017 £m	2016 £m
Short term employee benefits	**7.2**	6.0
Post employment benefits	**–**	0.1
Share based payments	**3.1**	2.7
	10.3	8.8

Notes to the group financial statements continued

For the year ended 31 March 2017

48 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2017 are given below. Details of the joint venture are set out in note 20. All subsidiary undertakings have been included in the consolidation.

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

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent LCP Limited
Biogas Generation Limited	Severn Trent Leasing Limited
Charles Haswell and Partners Limited	Severn Trent MIS Trustees Limited
Chester Water Limited	Severn Trent Metering Services Limited
City Analytical Services Limited	Severn Trent Overseas Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Pension Scheme Trustees Limited
Dee Valley Group Limited	Severn Trent PIF Trustees Limited
Dee Valley plc	Severn Trent Power Generation Limited
Dee Valley Services Limited	Severn Trent Property Solutions Limited
Dee Valley Water (Holdings) Limited	Severn Trent QUEST Limited
Dee Valley Water plc	Severn Trent Reservoirs Limited
East Worcester Water Limited	Severn Trent Retail and Utility Services Limited
Energy Supplies UK Limited	Severn Trent Services (Water and Sewerage) Limited
Etwall Land Limited	Severn Trent Services Defence Holdings Limited
Gunthorpe Fields Limited	Severn Trent Services Defence Limited
Midlands Land Portfolio Limited	Severn Trent Services Finance Limited
North Wales Gas Limited	Severn Trent Services Holdings Limited
Northern Gas Supplies Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent (W&S) Limited	Severn Trent Services International Limited
Severn Trent Corporate Holdings Limited	Severn Trent Services Operations UK Limited
Severn Trent Data Portal Limited	Severn Trent Services Purification Limited
Severn Trent Draycote Limited	Severn Trent SSPS Trustees Limited
Severn Trent Enterprises Limited	Severn Trent Systems Limited
Severn Trent Finance Holdings Limited	Severn Trent Trimpley Limited
Severn Trent Finance Limited	Severn Trent US Funding Management Limited
Severn Trent Financing and Investments Limited	Severn Trent Utilities Finance Plc
Severn Trent Funding Limited	Severn Trent Utility Services Limited
Severn Trent General Partnership Limited	Severn Trent Water Limited
Severn Trent Green Power Limited	Severn Trent Wind Power Limited
Severn Trent Holdings Limited	UKTalks Limited
Severn Trent Home Services Limited	Wrexham Water plc

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Derwent Insurance Limited	Gibraltar	100%	Ordinary
Lyra Insurance Guernsey Limited	Guernsey	100%	Ordinary
Procis Software Limited	United Kingdom	100%	A and B Ordinary
Severn Trent (Del.) Inc	United States	100%	Common Stock
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Environmental Services, Inc	United States	100%	Ordinary
Severn Trent Holdings SA	Belgium	100%	Ordinary
Severn Trent Luxembourg Overseas Holdings S.à r.l.	Luxembourg	100%	Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary
Severn Trent Services, Inc	United States	100%	Common
ST Delta Limited	United Kingdom	100%	A and B Ordinary

48 Subsidiary undertakings continued

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Aqua Deva Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Chester Water Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Group Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Services Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Water (Holdings) Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Dee Valley Water plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
Energy Supplies UK Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
North Wales Gas Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Northern Gas Supplies Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Severn Trent (Del.) Inc	220 Gibraltar Road, Horsham PA 19044, United States
Severn Trent Africa (Pty) Ltd	2 Elgin Road, Sunninghill, Johannesburg, South Africa
Severn Trent Environmental Services, Inc	220 Gibraltar Road, Horsham PA 19044, United States
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Holdings SA	Rond Point Schuman 6 box 5, 1040 Brussels, Belgium
Severn Trent Luxembourg Overseas Holdings S.à r.l.	7A, rue Robert Stümper, L-2557, Luxembourg
Severn Trent Response Limited	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland
Severn Trent Services, Inc	220 Gibraltar Road, Horsham PA 19044, United States
Wrexham Water plc	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2017 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 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
Severn Trent Utility Services Limited	4125386

Company statement of comprehensive income

For the year ended 31 March 2017

	2017 £m	2016 £m
Profit for the year	**173.0**	292.1
Other comprehensive (loss)/income		
Items that will not be reclassified to the income statement:		
Deferred tax arising on change of rate	**(0.1)**	(0.2)
	(0.1)	(0.2)
Items that may be reclassified to the income statement:		
Amounts on cash flow hedges transferred to the income statement	**–**	1.2
Deferred tax on transfer to the income statement	**–**	(0.2)
	–	1.0
Other comprehensive (loss)/income for the year	**(0.1)**	0.8
Total comprehensive income for the year	**172.9**	292.9

Company statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 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 transfer 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
Profit for the year	–	–	–	173.0	173.0
Deferred tax arising from rate change	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year	–	–	–	172.9	172.9
Share options and LTIPs					
– proceeds from shares issued	0.4	5.7	–	–	6.1
– value of employees' services	–	–	–	6.2	6.2
Dividends paid	–	–	–	(190.4)	(190.4)
At 31 March 2017	**234.7**	**112.5**	**160.7**	**2,973.7**	**3,481.6**

Company balance sheet

For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible fixed assets	1	**0.3**	0.4
Tangible fixed assets	2	**0.3**	0.3
Investments in subsidiaries	3	**3,325.1**	3,318.8
Deferred tax asset	4	**0.1**	0.7
Trade and other receivables	5	**1.0**	492.7
		3,326.8	3,812.9
Current assets			
Trade and other receivables	5	**493.6**	19.7
Current tax receivable		**21.4**	43.5
Derivative financial instruments		**–**	0.7
		515.0	63.9
Total assets		**3,841.8**	3,876.8
Current liabilities			
Borrowings	6	**(5.6)**	(7.7)
Derivative financial liabilities		**–**	(0.7)
Trade and other payables	7	**(265.2)**	(199.4)
Provisions for liabilities and charges	8	**(2.4)**	–
		(273.2)	(207.8)
Non-current liabilities			
Borrowings	6	**(82.3)**	(80.7)
Trade and other payables	7	**(3.0)**	(101.5)
Provisions for liabilities and charges	8	**(1.7)**	–
		(87.0)	(182.2)
Total liabilities		**(360.2)**	(390.0)
Net assets		**3,481.6**	3,486.8
Equity			
Called up share capital	9	**234.7**	234.3
Share premium account	10	**112.5**	106.8
Other reserves	11	**160.7**	160.7
Retained earnings		**2,973.7**	2,985.0
Total equity		**3,481.6**	3,486.8

The profit for the year is £173.0 million (2016: £292.1 million).

Signed on behalf of the Board who approved the accounts on 22 May 2017.

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number: 02366619

Notes to the parent company financial statements

For the year ended 31 March 2017

1 Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2015	0.9
Additions	0.2
As at 31 March 2016 and 31 March 2017	**1.1**
Amortisation	
At 1 April 2015 and 1 April 2016	(0.7)
Amortisation for the year	(0.1)
At 31 March 2017	**(0.8)**
Net book value	
At 31 March 2017	**0.3**
At 31 March 2016	0.4

2 Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Total £m
Cost			
At 1 April 2015	0.1	0.6	0.7
At 31 March 2016 and 31 March 2017	**0.1**	**0.6**	**0.7**
Depreciation			
At 1 April 2015	–	(0.4)	(0.4)
At 31 March 2016 and 31 March 2017	**–**	**(0.4)**	**(0.4)**
Net book value			
At 31 March 2017	**0.1**	**0.2**	**0.3**
At 31 March 2016	0.1	0.2	0.3

3 Investments in subsidiaries

	£m
At 1 April 2016	3,318.8
Additions	6.3
At 31 March 2017	**3,325.1**

Details of principal subsidiaries of the company are given in note 48 to the group financial statements.

4 Deferred tax

	Accelerated tax depreciation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2015	0.1	1.2	0.6	1.9
Charge to income	–	(0.8)	–	(0.8)
Credit/(charge) to income arising from rate change	–	0.1	(0.1)	–
Charge to equity	–	(0.2)	–	(0.2)
Charge to equity arising from rate change	–	(0.2)	–	(0.2)
At 1 April 2016	0.1	0.1	0.5	0.7
Charge to income	–	–	(0.6)	(0.6)
Credit to income arising from rate change	–	0.1	–	0.1
Charge to equity arising from rate change	–	(0.1)	–	(0.1)
At 31 March 2017	**0.1**	**0.1**	**(0.1)**	**0.1**

Notes to the parent company financial statements continued

For the year ended 31 March 2017

5 Trade and other receivables

	2017 £m	2016 £m
Current assets		
Other amounts receivable	**3.0**	0.8
Prepayments	**0.5**	3.1
Amounts owed by group undertakings under loan agreements	**467.7**	–
Amounts owed by group undertakings	**22.4**	15.8
	493.6	19.7
Non-current assets		
Amounts owed by group undertakings under loan agreements	**1.0**	492.7
	494.6	512.4

6 Borrowings

	2017 £m	2016 £m
Current liabilities		
Bank overdrafts	**5.6**	7.7
Non-current liabilities		
Other loans	**82.3**	80.7
	87.9	88.4

Non-current borrowings 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 (2016: £100 million) undrawn borrowings facilities.

7 Trade and other payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	**0.2**	–
Social security and other taxes	**0.1**	0.1
Other payables	**2.8**	6.2
Accruals	**1.1**	2.0
Amounts due to group undertakings	**261.0**	191.1
	265.2	199.4
Non-current liabilities		
Amounts due to group undertakings	**3.0**	101.5
	268.2	300.9

8 Provisions

	Other £m
At 1 April 2016	–
Charged to income statement	5.2
Utilisation of provision	(1.1)
At 31 March 2017	**4.1**

	2017 £m	2016 £m
Included in:		
Current liabilities	**2.4**	–
Non-current liabilities	**1.7**	–
	4.1	–

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

9 Share capital

	2017 £m	2016 £m
Total issued and fully paid share capital		
239,793,915 ordinary shares of $97\frac{17}{19}$p (2016: 239,344,614)	**234.7**	234.3

Changes in share capital were as follows:

	Number	£m
Ordinary shares of $97\frac{17}{19}$p		
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 1 April 2016	239,344,614	234.3
Shares issued under the Employee Sharesave Scheme	449,301	0.4
At 31 March 2017	239,793,915	234.7

During the year ended 31 March 2016, the company repurchased 4,274,576 shares under its share buy back programme. Of these repurchased shares, 51,514 were cancelled and the remaining 4,223,062 are held as treasury shares at 31 March 2017.

10 Share premium

	2017 £m	2016 £m
At 1 April	**106.8**	100.2
Share premium arising on issue of shares for Employee Sharesave Scheme	**5.7**	6.6
At 31 March	**112.5**	106.8

11 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
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 1 April 2016	157.1	3.6	160.7
At 31 March 2017	**157.1**	**3.6**	**160.7**

The capital redemption reserve arose on the redemption of B shares. The movement in the prior year arose from the repurchase and cancellation of own shares.

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.

Notes to the parent company financial statements continued

For the year ended 31 March 2017

12 Share based payments

For details of employee share schemes and options granted over the shares of the company, see note 38 of 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.

13 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 scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The scheme closed to future accrual on 31 March 2015. The cost of contributions to the group schemes amount to nil (2016: nil). There were no amounts outstanding for contributions to the defined benefit schemes (2016: nil).

Information about the plans as a whole is disclosed in note 29 to the group financial statements.

14 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 13.

The company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited. The guarantee in respect of liabilities to wholesalers is capped at £18.5 million and the guarantee for the Severn Trent Water loan is for the amount due.

15 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 2017, the company had no contingent liabilities (2016: nil).

16 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 48.90 pence per share.

17 Dividends

For details of the dividends paid in the years ended 31 March 2017 and 31 March 2016 see note 15 in the group financial statements.

Five year summary

Continuing operations	2017 £m	2016 (restated)[1] £m	2015 £m	2014 £m	2013 £m
Turnover	**1,819.2**	1,753.7	1,801.3	1,756.7	1,831.6
Profit before interest, tax and exceptional items	**525.1**	503.4	540.3	523.8	495.4
Net exceptional items before tax	**18.6**	1.0	(18.7)	(15.2)	(5.8)
Net interest payable before (losses)/gains on financial instruments and exceptional finance costs	**(204.0)**	(209.3)	(240.0)	(247.9)	(244.3)
(Losses)/gains on financial instruments	**(1.8)**	7.7	(133.5)	58.0	(45.3)
Results of associates and joint ventures	**(1.8)**	0.1	0.1	0.2	0.2
Profit on ordinary activities before taxation	**336.1**	302.9	148.2	318.9	200.2
Current taxation on profit on ordinary activities	**(36.9)**	(51.3)	(37.8)	(55.8)	(27.9)
Deferred taxation	**(22.4)**	(13.7)	5.1	(21.5)	8.2
Exceptional tax	**52.2**	78.6	–	230.2	38.4
Profit on ordinary activities after taxation	**329.0**	316.5	115.5	471.8	218.9
Results from discontinued operations	**13.6**	14.8	4.7	–	–
Profit for the period	**342.6**	331.3	120.2	471.8	218.9
Net assets employed					
Fixed assets	**8,315.7**	7,810.8	7,620.0	7,418.3	6,906.1
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(916.8)**	(798.4)	(799.0)	(631.1)	(273.8)
Derivative financial instruments[2]	**(161.1)**	(166.3)	(177.7)	(197.1)	(279.8)
Net retirement benefit obligation	**(574.6)**	(309.5)	(468.9)	(348.3)	(383.7)
Provisions for liabilities and charges and deferred tax	**(657.5)**	(694.7)	(725.4)	(758.5)	(827.5)
Net assets held for sale	**–**	–	72.6	–	–
	6,005.7	5,841.9	5,521.6	5,483.3	5,141.3
Financed by					
Called up share capital	**234.7**	234.3	233.7	233.9	233.3
Reserves	**688.6**	783.1	521.9	789.4	599.9
Total shareholders' funds	**923.3**	1,017.4	755.6	1,023.3	833.2
Non-controlling interests	**–**	1.1	13.4	12.5	10.8
Net debt[3]	**5,082.4**	4,823.4	4,752.6	4,447.5	4,297.3
	6,005.7	5,841.9	5,521.6	5,483.3	5,141.3
Statistics					
Earnings per share (continuing) – pence	**140.1**	133.5	48.3	198.5	90.9
Underlying basic adjusted earnings per share – pence	**122.4**	102.1	107.2	92.5	92.6
Dividends per share (excluding special dividend) – pence	**81.5**	80.7	84.9	80.4	75.8
Dividend cover (before exceptional items and deferred tax)	**1.5**	1.3	1.3	1.2	1.3
Gearing[4]	**84.6%**	82.6%	86.1%	81.1%	83.6%
Ordinary share price at 31 March – pounds	**23.82**	21.73	20.59	18.23	17.12
Average number of employees					
– Severn Trent Water	**5,813**	5,236	5,532	5,634	5,458
– Other	**1,789**	2,122	1,910	1,914	2,763

1 Restated as set out in note 2 to the group financial statements.

2 Excludes instruments hedging foreign currency debt.

3 Includes instruments hedging foreign currency debt.

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.
- 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@cpushareownerservices.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	15 June 2017
Record date to be eligible for the final dividend	16 June 2017
AGM	19 July 2017
Interim management statement – Q1 year ending 31 March 2018	19 July 2017
Final dividend payment date	21 July 2017
Interim results announcement – year ending 31 March 2018	23 November 2017
Ex dividend date – interim dividend	30 November 2017
Record date to be eligible for the interim dividend	1 December 2017
Interim dividend payment date	5 January 2018

All dates are indicative and may be subject to change.

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