

Corporate responsibility is integral to our long term goal to become the best water and waste water company in the UK, delivering the highest environmental and customer standards through continuous improvement and innovation.

Our strategic direction is based upon eight Key Strategic Intentions which reflect the issues which matter to our customers and wider stakeholder groups. We measure our performance within each Key Strategic Intention through our Key Performance Indicators and have five key enablers to help us meet our goal (see diagram below). Our strategy is based on making the improvements our customers tell us they want, while ensuring that the economic and environmental impacts of our actions are sustainable. It also addresses the complex and demanding long term challenges facing our industry.

Changing Course reflects our strategy and takes our forward-thinking a step further, beyond just that of our own business and into our industry. Many of the issues contained in our CR framework such as climate change and affordability are integrated within these documents which illustrates our holistic approach. Our CR framework ensures we approach these issues in a responsible way and that we address all the areas relevant to our Strategic Direction Statement and to the management of risk and our reputation.

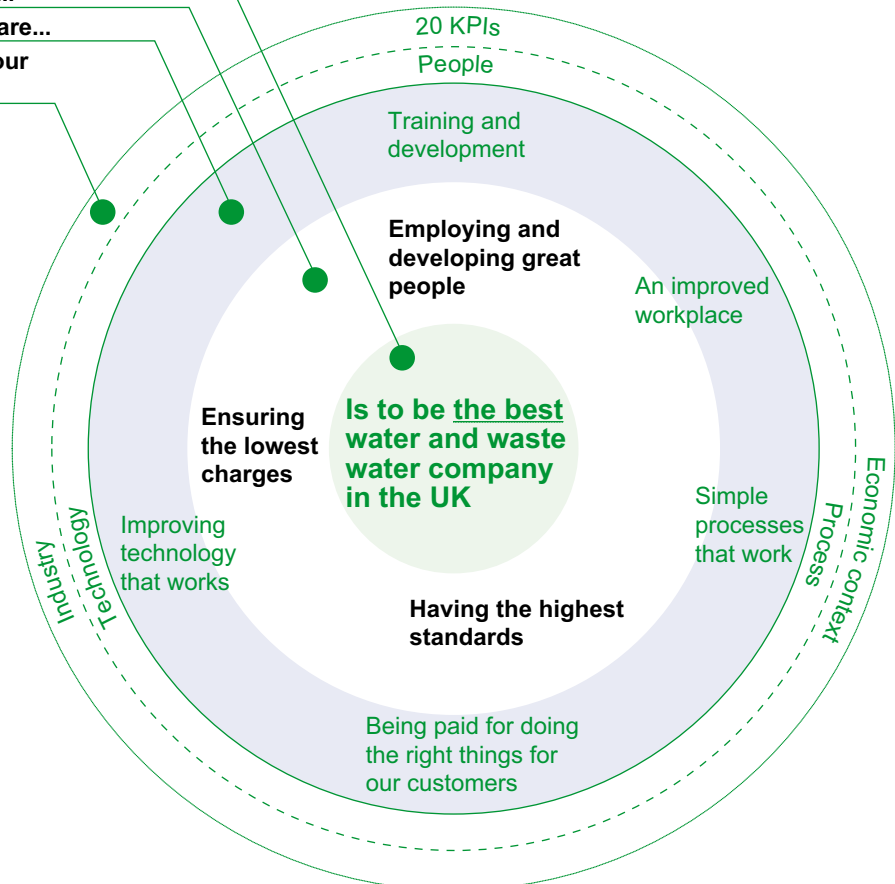
Our strategy

Our goal...

We do this by...

Our enablers are...

We measure our success by...



Stakeholder engagement

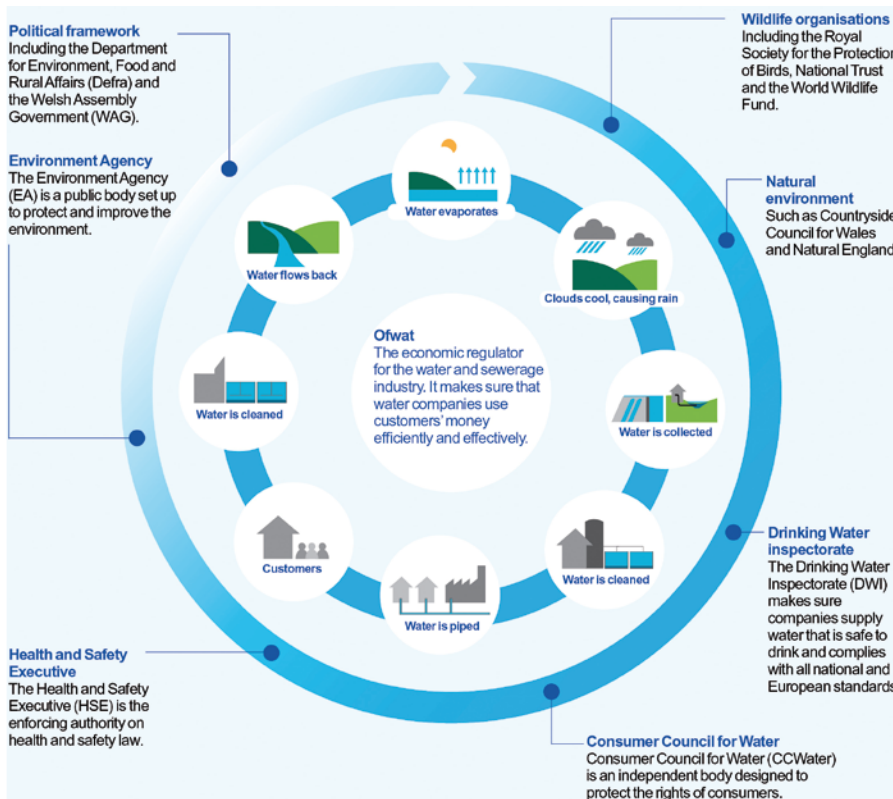
The policy and regulatory context for the water industry is complex. Our stakeholders have diverse remits and differing requirements which we seek to understand and balance in our strategy and plans.

The diagram below shows the different roles of our stakeholders in regulating the water industry and developing the policy framework.

Every five years Ofwat sets annual price limits for the industry. The price limits for AMP5 were set in November 2009. During this process we submitted our Final Business Plan to Ofwat detailing the investment we wanted to make and the amount of income we needed from customers to achieve this. To support our submission we engaged with stakeholders through the “Quadripartite process”. This process involved the Environment Agency, Natural England, the Consumer Council for Water,

Drinking Water Inspectorate and Ofwat. It allowed us to understand and discuss the sometimes competing requirements of our key stakeholders on issues including environmental and customer service standards. As a result, our Business Plan balances these requirements alongside investment needs and our aim to keep the cost of customer bills as low as possible.

In *Changing Course* we have set out how we believe the regulatory approach to price setting should be changed to allow the future challenges that face the industry to be addressed in a more sustainable way.



Natural England is pleased to have been involved with Severn Trent throughout the business planning process and we very much value our relationship with the company. We have been encouraged by the commitment to maintaining and enhancing the environment, particularly for biodiversity and the development of more sustainable catchment management solutions.
Roger Owen, Natural England

Workplace

We need a diverse pool of talented people to ensure we meet our business objectives. We aim to create a safe, healthy and productive work environment which encourages people to do their best for our company and customers, as well as furthering their own personal development.

Focus on health, safety and well-being



| Measures | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|--|---------------------|---------------------|---------------------|
| Lost time incidents per 100,000 hours worked ¹ | 0.61 | 0.43 | 0.36 |
| Lost time incidents per 100,000 hours worked – contractors | 0.44 | 0.59 | 0.58 |

The health, safety and well-being of our employees and contractors remain a core focus for all our activities. In 2009/10 we improved our lost time incidents per 100,000 hours to 0.36, a reduction of 16% on the previous year.

Compared to our employees, our contractor safety data does not show the same positive trend. We have improved our reporting processes over the last two years which means we are now capturing and recording more incidents than previously, which impacts on the figures reported. Improved data will allow us to focus on and understand where and why incidents are occurring, ensuring we achieve improvements in line with the changes we have seen among our employees.

The most significant shift in engaging people to make Severn Trent Water a safer place to work came through fresh approaches to safety. More employees, for example, are taking on the roles of Safety Representatives and Safety Coaches, working with managers to improve our culture and environment.

In 2009/10 we won the Royal Society for the Prevention of Accidents Sector Award for the Water Industry. In addition two sites achieved five star awards from the British Safety Council – our Farm Operations and Grit Separation Plant at Coleshill.

An important development during the year to improve our approach to employee health and well-being was the appointment of a new Occupational Health Manager and the selection of BUPA as our new service provider. We are also reviewing all our policies and procedures around healthcare.

We are working closely with BUPA to help us identify and minimise risk and manage the health and well-being of our employees including:

- Provision of a free Employee Assistance Programme via a confidential 24 hour helpline, offering advice on a range of work-related and personal issues
- An absence management process that helps people get back on their feet and return to work through early intervention
- Improved risk prevention training and education.

¹ Actual performance across all employees and agency staff

Focus on employee skills, conduct and motivation



| Measure | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|------------------------------------|---------------------|---------------------|---------------------|
| Employee motivation % ² | 77 | 83 | 74 |

We believe that part of having a motivated workforce lies in helping people develop their skills, understand their roles and work more effectively. We are doing this through a number of programmes including:

- The Safer Better Faster (SBF) process improvement programme launched in Severn Trent Water three years ago. This is based on lean management techniques used widely in manufacturing but relatively uncommon in our own industry. The programme upskills managers and front line employees and enables them to continuously improve processes and performance
- The Emerging Talent programme identifies and develops future managers. We are also succession planning for our Executive Team and management population
- The first release of our £70 million, Enterprise Resource Planning System, SAP, went ahead without any significant disruption to our operations improving our back office operations and reducing costs. Alongside this we have embarked on a £20 million transformation of the technology our people use to deliver their day-to-day work.

The final year of AMP4 has been one of considerable change for our employees involving upskilling, an impending major office move, the introduction of new technology and a new pay system as we prepare for AMP5. Despite these significant changes, our employee survey indicates our workforce remains motivated at 74%. However, our surveys show there are areas for development and we will continue to look at how we can improve the way we manage and communicate change.

One of the consequences of introducing new systems and improving our performance is that we are able to operate more efficiently at a higher standard with fewer people. Unfortunately, that has led to the loss of around 275 posts in our central functions. All of these will be through voluntary redundancy. For those employees leaving the company, outplacement and job seeking support is offered through an external career management service provider.



Artists impression of the new Severn Trent Centre in Coventry. The building has been certified BREEAM (Building Research Establishment Environmental Assessment Method) excellent

² Performance based on quarterly survey of 10% of permanent employees

Focus on diversity

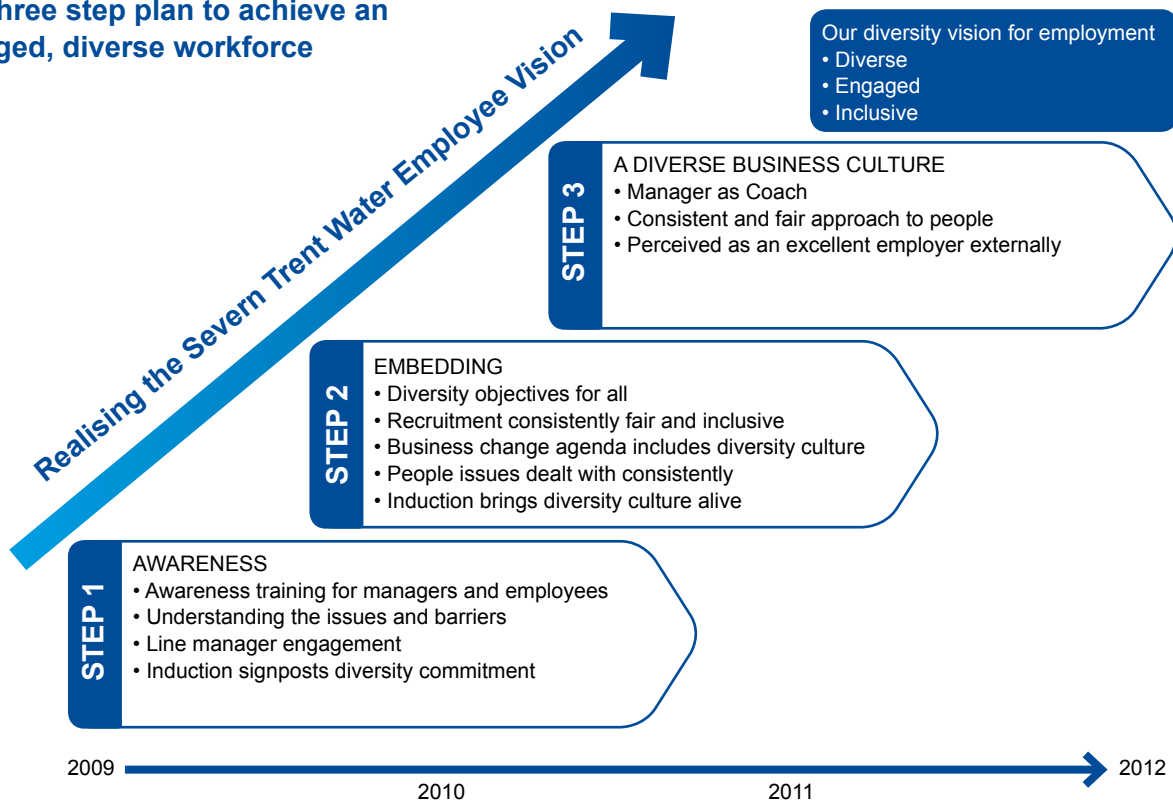


| Measures | 2007/08 | 2008/09 | 2009/10 |
|---|---------|-----------|-----------|
| Total employees – female % ³ | 29.0 | 29.7 | 29.7 |
| Middle managers – female % ³ | 31.3 | 29.6 | 29.2 |
| Senior managers – female % ³ | 20.0 | 20.7 | 22.6 |
| Total employees – ethnic minority % (not stated) ³ | 7.1 | 7.4 (3.6) | 7.3 (4.3) |
| Middle managers – ethnic minority % (not stated) ³ | 6.2 | 6.9 (2.8) | 5.7 (4.3) |
| Senior managers – ethnic minority % (not stated) ³ | 0.0 | 0.0 (2.3) | 1.2 (0.0) |

We believe that a diverse and inclusive culture is a key factor in being a successful business. Our approach to diversity aims to go beyond compliance towards a more pro-active approach. We want to ensure that it is an integral part of how we work. We do this by incorporating the concepts of treating everyone fairly and ensuring everyone is valued through the way we think, behave and operate.

We monitor the profile of our workforce in order to help us understand and benchmark our performance and identify opportunities for improvement. It takes time to change the diversity of our workforce. We are committed, however, to doing this to reflect the diversity of the regional community in which we operate. We are therefore developing our internal processes, including our recruitment and selection processes, employee development and succession planning to address this.

Our three step plan to achieve an engaged, diverse workforce



³ Includes direct employees on payroll

Marketplace

Our CR focus in the marketplace is about working with our stakeholders to ensure we achieve the highest customer service and environmental standards, while offering our customers the lowest possible prices. In doing this we recognise that there will still be those customers who struggle to make payments and we must ensure we support these customers with an appropriate range of solutions.

Focus on customer needs – including vulnerable customers



| Measures | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|---|---------------------|---------------------|---------------------|
| Customer written complaints per 1,000 properties ^{4,5} | 10.90 | 6.44 | 4.95 |
| Debtor days ⁶ | 37.4 | 33.1 | 32.6 |
| Customers on WaterSure tariff | 2,385 | 3,399 | 3,996 |
| Number of Water Direct Customers ⁷ | 26,154 | 31,965 | 39,681 |

2009/10 was a year of continuous improvement, where we have built on initiatives already in place to improve customer service through staff training and capabilities. For the third year running we reduced customer written complaints per 1,000 properties, this year by 23%. Our first time call resolution for customer billing improved slightly to 89%. We also

now have over 100,000 customers registered for our online account management system, taking control of their accounts, payment methods and updating personal information. The system offers the ability to opt for paperless billing, reducing the need for us to print bills for customers who prefer us not to.



Advertising used to promote the launch of our online account management system

⁴ As reported in June Return to Ofwat

⁵ Performance excludes properties billed by other water companies

⁶ Actual performance based on audited UKGAAP financial statements for the year ended 31 March 2010

⁷ Based on last payment made in financial year by DWP to Severn Trent Water

While our customers' water bills are among the lowest in the country, the continuing economic recession meant a growing number of people needed help to pay their bills in 2009/10. We need to differentiate between people who won't pay and those who can't pay. We actively pursue the former and have a range of flexible support options in place to help those who find themselves in real difficulties.

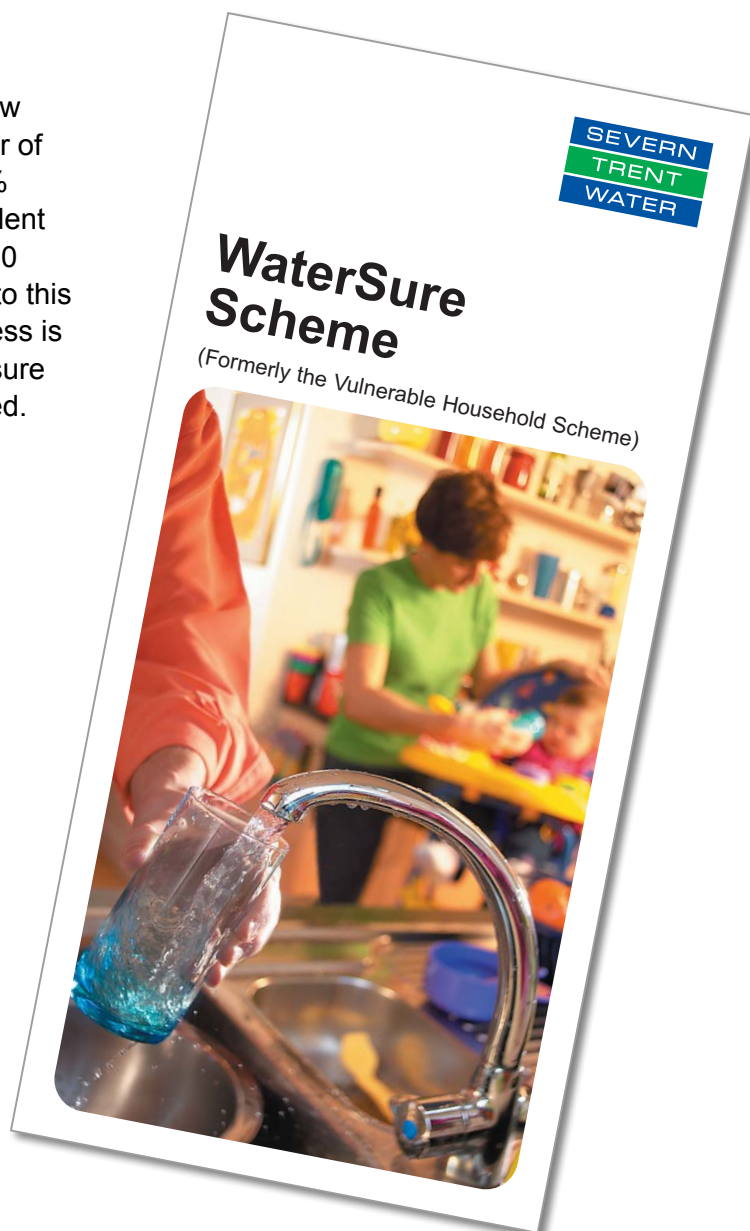
Anyone in need of help is encouraged to contact us⁵ and speak to a trained member of staff who can suggest the most suitable solution. Examples of our approach include:

- WaterSure – a scheme which caps charges in households claiming certain social benefits and who use a high amount of water. These households must also be fitted with a water meter. Our dedicated team actively seeks out customers who might need help. We work closely with organisations such as Citizens Advice, local housing associations and Age UK who advise vulnerable customers on how they can save money. This year, the number of customers on WaterSure has grown by 24%
- The Severn Trent Trust Fund – an independent grant making trust set up in 1997. In 2009/10 Severn Trent Water invested £5.5 million into this scheme. The policy and grant making process is overseen by independent Trustees who ensure that the money goes where it is most needed.

The Trust Fund gives grants to individuals towards their water charges, other household charges and costs such as the purchase of white goods. In addition, grants are given to organisations for the funding of debt counselling and money advice for individuals

- Water Direct – helps customers to manage their water bill with payments deducted directly from their allowances by the Department for Work and Pensions (DWP). More of our customers signed up to pay their bills through Water Direct this year following our efforts to raise awareness of the scheme. We currently have approximately 40,000 customers paying in this way. The scheme is a valuable way of helping customers who are in debt and on benefits.

5. www.stwater.co.uk/contactus



Environment

As a water company our operations are very much dependent on the environment within which we operate. Our activities can have a significant impact and we recognise our responsibilities to exert stewardship, minimise pollution and our carbon footprint, while adapting to the effects of climate change.

Focus on environmental stewardship



| Measure | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|--|---------------------|---------------------|---------------------|
| Pollution incidents (category 1,2 and 3) per 1,000 properties ^{8,9} | 0.11 | 0.08 | 0.08 |

Since privatisation in 1989 we have made significant investment to meet tighter environmental standards and water quality obligations. The Environment Agency has reported that ‘water quality is at its highest at any time since the Industrial Revolution’. However, we have begun the debate over whether ever increasing water quality standards are sustainable. As this debate carries on we recognise that we must continue to meet our obligations.

We have maintained our focus on pollution incidents through the installation of more remote monitoring on our sewerage network and rolling out our Safer Better Faster process improvement programme to around 1,020 staff. This has meant we have saved over £2 million in operating costs, while responding faster to customers’ needs.

While we are pleased by our improved performance we recognise that there is no acceptable level for such incidents and that

they can have significant impact on the local environment. Over AMP5 we aim to continue to reduce this further through our Pollution Reduction Action Plan, and have engaged with both the Environment Agency and Ofwat. The plan focuses on preventing repeat pollution incidents and in particular those caused by our network of sewers.

In addition to pollution prevention, our approach to environmental stewardship encompasses management of the biodiversity of our landholdings. These include reservoirs and Sites of Special Scientific Interest as well as our operational sites. We are also focused on improving our performance with respect to waste and recycling for both our operational and construction activities. Further information is available on our website⁶.

⁶ www.stwater.co.uk/environment

⁸ Measure for calendar year to 31 December 2009.

⁹ Actual performance for calendar year to December 2009 equates to 322 pollution incidents (313 December 2008)

Focus on climate change – mitigation



| Measures | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|---|---------------------|---------------------|---------------------|
| Gross operational greenhouse gas emissions (ktCO ₂ e) ^{10,11} | 640 | 616 | 590 |
| Net energy use (kWh/MI) ^{12,13} | 449 | 440 | 435 |

We remain focused on reducing our greenhouse gas (GHG) emissions. Our overall strategy is set out in our Strategic Direction Statement under our Key Strategic Intention, ‘*Minimising our Carbon Footprint*’. There are three key elements to our programme:

1. Reducing our GHG emissions, particularly gross electricity use which accounts for some 70% of our GHG emissions
2. Increasing our renewable energy generation to 30% of electricity consumption by 2014/15
3. Finding innovative ways to meet water quality and environmental objectives with lower carbon emissions.



In 2009 we achieved the Carbon Trust Standard in recognition of our reduction in carbon over the previous three years and our carbon management programme. Our reduction in GHG emissions

continued in 2009/10 by approximately 26 kilo tonnes CO₂e (4.3%). Nearly half of this comes from a 19 GWh reduction in gross electricity consumption, while other reductions came from emission sources such as sludge treatment and transport. The increased use in biogas for Combined Heat and Power reduced emissions from this source too. The drive for carbon and energy efficiency will continue in AMP5 with investment of around £14.5m in efficiency projects.

Our production of renewable energy has reached record levels with a 12% increase to 183 GWh, approximately 20% of our total demand. The renewable programme therefore already meets Defra’s goal for 20% of the energy consumed by water companies by 2020 to be generated from renewable sources. The contribution of our renewable energy



production to carbon reduction was recognised when we won the Best Carbon Reduction Initiative Award at the 2010 Water Industry Achievement Awards.

Our current renewable generation is from Combined Heat and Power using biogas and from hydroelectricity. In 2009/10 we started constructing our energy crop digestion plant on our Stoke Bardolph estate in Nottingham next to the sewage treatment works. This project is the largest such commercial scheme of its kind in the UK, and is on target for commissioning in the summer 2010.

We are also approaching completion of the detailed assessment of 12 of our sites which have good potential for the installation of large wind turbines. The output from the full programme will be equal to 7% of our electricity consumption⁷.

⁷ www.stwater.co.uk/environment

¹⁰ 2009/10 data calculated following Defra 2009 guidelines as stated in June Return to Ofwat

¹¹ 2007/08 and 2008/09 data re-based following Defra 2009 guidelines

¹² Actual performance based wholly or partially on internal data

¹³ Metrics of this KPI changed from waste water returned in 2008/09 to waste water treated in 2009/10. 2007/08 and 2008/09 performance has been restated accordingly

While we are working hard to reduce our carbon footprint, the challenges we face to treat water and waste water to higher standards for a growing population will drive emissions upwards. We need innovative ways to address this issue and are currently using a two pronged approach: flexible consents and catchment management.

We are working in partnership with the Environment Agency to explore options for the way sewage treatment discharge consents are set and enforced. This includes a more flexible approach to river quality consents which would enable treatment to be varied with river conditions such as flow.

Focus on climate change – adaptation

Despite efforts to reduce emissions of greenhouse gases, experts are predicting a trend towards increasing climatic change with more frequent water shortages in some areas and flooding in others.

The floods in Gloucestershire in 2007 were recognised as an exceptional event. However, they highlighted the vulnerability of parts of our network and the need to invest more to improve its resilience and capacity. In 2009-10 we started working to improve supply resilience and reduce risks to communities⁹.

9. www.stwater.co.uk/waterresources

The Environment Agency has recently enabled more flexibility in consents, for example, for the removal of phosphorus.

Catchment management includes a greater focus on measures to prevent upstream river pollution⁸. By working with farmers in our water quality catchments we aim to influence land management. We want to reduce the discharge of pollution into water courses and consequently reduce the level of treatment required at our water treatment works.

8. www.stwater.co.uk/corporateresponsibility
(see case studies)

Over the next five years, we plan to spend £165 million providing schemes to improve our resilience to a range of risks, such as flooding and power failure.

In 2010 we will be publishing our Water Resources Management Plan which sets out our 25 year strategy for ensuring we can meet our customers' demand for water in the face of risks such as climate change.

In January 2011 we will be submitting our statutory report to Defra describing how we have assessed our climate change risks. This will also include the adaptation measures we have implemented and our future plans to mitigate identified risks.

Flooding in Gloucestershire, 2007



Community

Our strategy is focused on reducing any negative impacts from our day to day operations and interacting positively with our communities. We further enhance these benefits through the engagement of our employees.

Focus on community engagement



| Measures | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|---|---------------------|---------------------|---------------------|
| First time job resolution % ¹⁴ | 85 | 96.0 | 96.5 |
| Community investment £ ^{15, 16} | 1,638,000 | 1,623,000 | 1,575,000 |

Developing and investing in water and waste water services can affect the communities in which our networks and sites are located, for example, through noise, odours and disruption. How we deliver our services and work together with these communities is very important to us.

At the end of 2009/10 we produced a set of operational guidelines for our teams and contractors to improve the way we consult and deliver our day to day activities. The focus of these guidelines is on delivering customer and community excellence through improved consultation, communication and measures to minimise disruption by working collaboratively with all stakeholders.

Our community investment approach comprises donations and cash contributions as well as donations “in kind”. This includes employee volunteering during paid hours, product or service donations, project partnerships and management costs. The reduction in total investment over the last two years reflects the review and restructure of some of our water and waste water education activities. We now have a greater focus on outreach and on-line education activities. This includes going into schools and local communities to deliver messages around water efficiency rather than hosting as many visits to our operational sites. This means we can engage a greater

number of people across our region in activities to promote the responsible use of water and waste water but at a lower overall cost.

Customers can contact us with details of any operational issues or concerns via our website¹⁰ or by calling 0800 783 4444.

¹⁰ www.stwater.co.uk/contactus



¹⁴ Actual performance based wholly or partially on internal data

¹⁵ Community investment is reported in line with the LBG framework. www.lbg-online.net/lbg/top_menu/about_the_lbg/guidance

¹⁶ 2007/08 and 2008/09 data excluding flood relief donations – additional £3 million split over 2007/08 and 2008/09 donated due to 2007 flooding

Community Engagement – Case studies

1. Reducing community impact

The Gilgal in Stourport-on-Severn is a very narrow and busy road used by locals and commuters between Kidderminster and Worcester. A cast iron water mains pipe and a second smaller pipe believed to be over 100 years old needed replacing which forced the closure of the road. Given the importance of the route, the closure meant significant disruption to road users. We therefore worked in partnership with Worcestershire Highways and Central Networks to co-ordinate and communicate the replacement of our water mains at the same time as replacing power cables and street lighting. This approach resulted in reduced disruption and impact on the local community.

2. Employee engagement

We encourage our employees to make a positive contribution to communities through volunteering and fundraising. We believe employee volunteering benefits our own business as well as the community by providing opportunities for team-building, team-working and skills development at every level across the

organisation.

This year, for example two executive directors supported a project by the charity, Envision, called “Pitch 4 Change”. This was a “Dragon’s Den” style event where teams of 16-19 year olds bid for funding to develop their own projects linked to sustainability. The team supported by Severn Trent Water won funding to organise an event to promote water efficiency. In addition, the Severn Trent Executive undertook a team development exercise to clean and paint a room in a local community centre.



I experienced working with colleagues in a different context and environment. This helped me to have a better understanding of their issues and to improve communication and team working.

Severn Trent Water employee following Team Working Event

Focus on working with our customers



| Measures | 2007/08 performance | 2008/09 performance | 2009/10 performance |
|--|---------------------|---------------------|---------------------|
| Sewer flooding incidents – other causes per 1,000 properties ¹⁷ | 0.21 | 0.172 | 0.131 |
| Volume of water saved MI/d | 1.13 | 0.98 | 2.10 ¹⁸ |

Our aim is to help our customers prevent pollution by ensuring fats, oils and grease (FOG) and other forms of pollution do not enter our waste water system and reduce the amount of water they use.

This will benefit the environment by reducing sewer flooding and our carbon footprint. It will also help to reduce our costs to keep our charges as low as possible for our customers. These outcomes are fundamental to our business strategy and goals. In 2009/10 we met our Key Performance Indicator target for sewer flooding, recording a 23.5% improvement in performance over the previous year.

Around 55% of the sewer blockages we attend to each year are caused by domestic misuse. Our ‘Grease Lightning’ scheme is one focus of our campaign to reduce sewer flooding caused by FOG. We reported on the initial stages of this pilot project last year¹¹. The project is run in partnership with Community Service Volunteers (CSV). CSV collect FOG from households in one area of Birmingham and recycle it. We provided funding for the initiative as well as educational activities and marketing support. The results of the pilot showed a significant increase in the customer uptake of fat traps, and a corresponding reduction in sewer flooding incidents in the area from 52 in

¹⁷ As reported in June Return to Ofwat

¹⁸ The majority of the reported savings are assumed water savings calculated in line with Ofwat guidance and methodologies. Approximately 25% of the total water saved figure is based on actual measured data.

2008 to 17 within the same period in 2009 (April – November)¹². The project has been awarded a “Big Tick” from Business in the Community within the Sustainable Marketing and Innovation category of their National Awards for Excellence.



11. www.stwater.co.uk/corporateresponsibility
(See CR Summary Report 2009)

12. www.stwater.co.uk/corporateresponsibility
(See case studies)

With ever increasing demand on water resources, we recognise the need to promote water efficiency to ensure the long term sustainability of our water supplies. As well as promoting water efficiency we have taken on the challenge of persuading our customers to change the way they think and actually use water. In 2008/09 the average per capita water consumption in our region was 135 litres per person per day. In 2009/10 this figure has reduced to 130.1 litres per person per day, which is close to the government target for an average consumption of 130 litres per person per day. Over the next five years we will be spending approximately £7.5 million to further our work and reach our target to achieve a saving of 1 litre per property per day every year for five years – a 16.35 Ml/d reduction by the end of AMP5.

Some examples of our work in 2009/10 include:

- Working in partnership with E.ON to launch the E.ON ShowerSave device. Available to all of our domestic customers free of charge, this brand new product will help our customers reduce their water and energy usage and cut their utility bills. It will also play an important role in helping us to achieve our water efficiency target
- Developing a partnership with the Environment Agency where we introduced an innovative water efficiency programme. Water audits, free water efficiency equipment and educational resources were rolled out to 600 schools. We chose to work with schools for the project because we could significantly reduce their water use. Working with schools also provided us with the opportunity to inform students and staff about

the benefits of water efficiency and through our outreach programme invoke life long changes in their water use. To encourage and promote this change in behaviour, we provided water efficiency support materials with the view that they would be taken home and shared with the family

- We launched a new website, www.stwatereducation.co.uk. Visitors to the site can complete a water audit to find out how much water they use at home or school and how to reduce their consumption
- We have developed a programme where our team of education and outreach coordinators provide interactive educational sessions for school and community groups across the Severn Trent Water region. The programme is designed to help people understand the value of water and promote the efficient use of water to reduce waste. In 2009/10 we reached over 23,000 people through this programme.



We have been pleased to work in partnership with Severn Trent Water in helping to deliver campaigns focused on water efficiency. The recent schools partnership project has enabled us to deliver considerable water savings and to raise awareness through education, which will extend to the home and work place in the longer term. We hope to build on these successes and will continue to work with Severn Trent Water as we strive to make our communities more sustainable.

**Water Resource Environment Planning team,
Environment Agency Midlands Region**



**Environment
Agency**