Delivering **better value, better services** and a **healthier environment**

Severn Trent Plc Annual Report and Accounts 2014

What we do

Severn Trent provides clean water and waste water services in the UK and internationally through our regulated and non-regulated businesses – Severn Trent Water and Severn Trent Services.

Regulated

Read more on **pages 13-24**

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

Where we operate

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

Key facts

Turnover

£1,544.8m (2013: £1,511.0m)

Profit*

£518.6m (2013: £498.5m (restated))**

* Before interest, tax and exceptional items.
** Adjusted for adoption of IAS 19R.

Households and businesses serviced

4.3m

Litres of drinking water supplied each day

1.8bn

Litres of waste water collected per day

1.4bn

Employees

5,902 (as at 31 March 2014)

Non-regulated

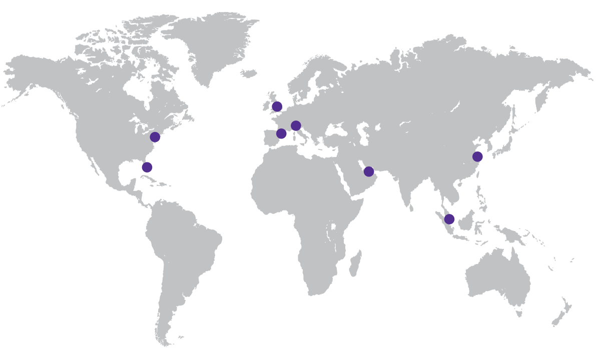
Read more on pages 25-32

Severn Trent Services (STS)

Commercial suppliers of water and waste water treatment services and products, with customers around the world.

Where we operate

Severn Trent Services is our core non-regulated business. It has two business areas – Water Purification and Operating Services. Water Purification (Products) is organised around three regions – the Americas; Asia Pacific and China; Europe, the Middle East and Africa. Operating Services works for customers in the US, UK and Italy.



About us

STS Operating Services

Operating Services provides contract operations and maintenance for municipal and industrial clients and the UK Ministry of Defence (MOD) for water and waste water treatment facilities.

STS Water Purification (Products)

Products provides filtration, disinfection and process solution technologies for various municipal and industrial water and waste water treatment applications and for the marine and offshore industries.

Key facts

Turnover

£311.4m (2013: £328.5m)

Employees

2,387 (as at 31 March 2014)

Profit*

£7.1m (2013: £12.6m (restated))**

* Before interest, tax and exceptional items.
** Adjusted for adoption of IAS 19R.

Renewables

Severn Trent's non-regulated business already generates renewable energy from wind turbines and anaerobic digestion (AD) of crops. We are now expanding into the food waste AD market and plan to develop other technologies.

2014 Highlights

- In line or below inflation bill increases for last four years – Severn Trent remains lowest average combined bill in England and Wales
- Increased investment – £602 million capital expenditure (+8% year on year) – continues to improve services for the benefit of customers
- Customer service, sewer flooding and supply interruptions all improving
  - Improved or stable performance on 10 out of 14 Ofwat KPIs year on year
  - Customer satisfaction (SIM score) improved for 3rd consecutive year
- Continued growth in RCV[1, 2] from £7,364 million to £7,618 million (+3.4%)
- Group underlying PBIT rose 4.3% year on year
  - Severn Trent Water underlying PBIT rose 4.0%
- Delivering on dividend policy – 6.0% growth year on year to 80.40 pence
- Constructive engagement with Ofwat on 2015-2020 business plan. Revised plan submission 27 June, draft determination expected 29 August, final determination expected 12 December

1 Regulatory Capital Value.

2 March 2014 vs. March 2013.

Group turnover

£1,856.7m

2013: £1,831.6m

Group profit*

£269.1m

2013: £251.3m (restated)***

Group profit before tax

£282.7m

2013: £200.2m (restated)***

Dividend per share

80.40p

2013: 75.85p

Earnings per share**

88.4p

2013: 92.6p (restated)***

* Before tax, exceptional items and gains/losses on financial instruments.

** Before deferred tax, exceptional items and gains/losses on financial instruments.

*** Adjusted for adoption of IAS 19R.

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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).

Who we are

Water is essential to life and to the communities in which we live and work.

At Severn Trent we are focused on continuing to deliver better value, better services and a healthier environment today, tomorrow and for the longer term.

Our millions of customers in the UK and around the world rely on us, so our aim is to do the right thing, acting with honesty and integrity and playing an active role in creating a sustainable future for our water and the environment.

Our principles, which govern the way we work, are set out in our Code of Conduct: Doing the right thing – The Severn Trent way.

Further details are provided on page 49

Driven by – and for – our **customers**

Listening to customers in shaping our plans
See page 13

Giving our customers peace of mind
See page 18

Helping our customer and the environment
See page 25

We're generating 23% of our energy from renewable sources
See page 31

Chairman's statement

> "We have continued to make significant long term investment in our regional water and sewerage infrastructure, whilst keeping bill rises on average below the rate of inflation."

Andrew Duff, Chairman

I am pleased to report another year in which our focus on water and waste water services has delivered benefits for our customers and our shareholders.

Sustainable returns

We have made progress this year in a number of areas and again delivered a good financial performance.

Total group revenue rose by 1.4% to £1,856.7 million, while underlying group profit before tax was 7.1% higher at £269.1 million. This resulted in adjusted basic earnings per share of 88.4 pence, down 4.5% from 92.6 pence.

For 2013/14, the board is proposing a final dividend of 48.24 pence, to be paid on 25 July 2014. This will result in a total dividend for the financial year of 80.40 pence, representing growth of 6.0%. This is in line with our policy for the current regulatory period to March 2015 of growing the dividend each year by 3% more than the retail price index.

As ever we aim to strike a balance between improving our services and keeping bills low for our customers, whilst providing a fair return for our shareholders. Our shareholders and our customers have benefited from our consistent delivery over recent years.

Since 2005, we've delivered a total shareholder return of 205.7%, well ahead of the 86.8% return from the FTSE100.

In May 2012, we announced that we would invest a further £150 million in improving our water and waste water networks for our customers whilst at the same time returning £150 million to shareholders by way of a special dividend. To date we have invested a further £120 million in our networks and services with more to come in 2014/15.

Our contribution

At Severn Trent, we make an important economic, social and environmental contribution to the regions we serve.

Whilst the general economy shows signs of recovery, we recognise that customers' incomes have been squeezed and our focus remains on managing our business as efficiently as possible, so we can keep our costs and bills down.

Our price increase for 2013/14 was again below the rate of inflation, making this the fourth consecutive year in which we've maintained or reduced average bills in real terms. As a result, our combined average household bills for water and sewerage remain the lowest in England and Wales.

Over the last year, we have also continued to make significant long term investments in our regional water and sewerage infrastructure, supporting many thousands of local jobs and small businesses. We also remain committed to investing in skills development and apprenticeships, supporting young people to join our industry. As the economy struggles to emerge from recession, our commitment to investment in infrastructure as well as providing opportunities for young professionals makes a real difference.

From 2015–2020, we expect to invest around £3 billion to help us deliver the service improvements that our customers want and which the environment needs, whilst still keeping prices as low as possible. The impact of this investment will go beyond our core services and will again be felt by a wide range of people and businesses across our region.

Severn Trent makes a major contribution to a healthy environment and we are committed to operating our business in a responsible and sustainable way.

Over the last year, we have reduced serious pollution incidents by over a third. We have also achieved 99.29% compliance at our waste water treatment works. Reducing greenhouse gas emissions from our operations is also important to us. Over a number of years we've built an industry leading position in renewable energy, which now provides 23% of the energy we use.

Our people

Our performance during the year reflects the expertise, professionalism and dedication of our great people.

Severn Trent is fortunate to have an engaged and loyal workforce who are passionate about providing the best possible service for our customers.

At Severn Trent Water, over 98% of our people are customers too, which helps us to understand our customers better.

It's also important to align our employees' interests with those of our shareholders and to share the benefits of our success with them. More than 5,000 Severn Trent Water employees are members of our Share Incentive Plan through which eligible employees had the potential to be awarded shares, up to a total maximum value of £583 in 2013. We also offer to all eligible UK employees the opportunity to take part in a Sharesave scheme, which is a savings plan that provides an option to buy discounted shares in Severn Trent.

Protecting our employees' health, safety and wellbeing is fundamental to the way we do things. If we take good care of our people, we believe they will take care of our customers. I am particularly proud that the last two years have been our safest ever, and our injury rates are among the lowest in the industry. Our aim is that no one should be hurt or made unwell by what we do.

Our future

During May and June 2013 the board received a series of conditional proposals from the LongRiver consortium, which included Borealis Infrastructure Management Inc, the Kuwait Investment Office and Universities Superannuation Scheme Limited. The board unanimously concluded that the proposals failed to reflect the significant long term value of Severn Trent or to recognise its future potential. The LongRiver consortium decided not to make an offer for Severn Trent.

Looking ahead, Severn Trent is confident in continuing to deliver value for all and we are well positioned to take advantage of changes in our industry.

Over recent years, Severn Trent has actively informed the debate about water industry reform through our 'Changing Course' series of publications. We have advocated changes which will help the UK make the most efficient use of water resources, improve outcomes and service for customers and deliver sustainable returns for investors.

We're supportive of the Water Act 2014 and are well positioned to take advantage of the changes it will bring, including the move towards greater competition. We'll continue to make the case for further change where we see opportunities for efficiency, greater resilience and lower costs.

We also continue to work with Ofwat to finalise our business plan for the next regulatory period and are committed to an open, fair and transparent dialogue with our regulator. Our plan is driven by – and for – our customers and is shaped by the philosophy that underpins Changing Course, providing a solid and sustainable foundation for the longer term.

Board changes

During the year the board announced the retirement of Dr Bernard Bulkin and the appointments of Dr Angela Strank and Philip Remnant as non-executive directors.

Following the year end, the board announced the appointment of John Coghlan as a non-executive director with effect from 23 May 2014 and the retirement of Baroness Noakes as a non-executive director with effect from the conclusion of the Annual General Meeting on 16 July 2014.

Finally, I'm delighted to welcome our new Chief Executive, Liv Garfield. Tony Wray (former Chief Executive) did an outstanding job of putting Severn Trent in a strong position to deliver its objectives, grounding the business in quality management process and ethical standards. I know that Liv has the qualities to build on these achievements, to inspire our employees to continue to deliver better value to our customers, investors and other stakeholders, and to keep Severn Trent at the front of the debate about the future of our industry.

Andrew Duff, Chairman

Chief Executive's review

> "I'm excited by the prospect of leading the next phase of Severn Trent's development. The business is performing well, is soundly financed and is poised to take advantage of the continuing development of our industry."

Liv Garfield, Chief Executive

Introduction

I'm delighted to have joined Severn Trent, a forward looking and industry leading business.

I appreciate all the hard work from Tony Wray and his colleagues over recent years and I'm looking forward to continuing to deliver for our customers, our shareholders, our regulators and our great people at Severn Trent.

Another year of delivery

This was a good year for Severn Trent's regulated business, as we delivered on our commitments to our customers, the environment, our investors and employees.

Our customers once again benefited from the lowest combined water and waste charges in England and Wales. The cumulative price increase over the past five years is below inflation. We intend to maintain below inflation increases, on average, through to 2020.

We improved our operational performance despite difficult weather, with a hot summer followed by a winter of prolonged rain and high winds. Although the rain affected the quality of our raw water, we continued to deliver high levels of water quality compliance. Our overall water quality continues to be amongst the best in the UK; however we know we have more to do in delivering the improvements identified in the Drinking Water Inspectorate (DWI) Chief Inspector's report. We remain committed to ensuring our customers continue to receive water of the highest quality.

We further reduced the average duration of interruptions to supply. We remain on track to hit our leakage reduction target over the current regulatory cycle and we again reduced the number of properties suffering internal sewer flooding.

While our operating performance is good across most parts of our business, as the regulated business performance review details, some other performance areas did not meet the required standard. Three of the twenty indicators used to assess the long term health of our assets are not performing within the required levels. This in turn has resulted in three of the four serviceability areas (each with one failing indicator) being assessed as marginal. We recognise this performance is not what our customers expect, and we have put actions in place to address this.

We have included shortfalls in our 2015–2020 business plan in recognition that we have not delivered the level of performance we had set ourselves.

Also our customer service hasn't always been as good as we would like. We are committed to delivering the best possible experience for our customers and are focusing on training, better systems and processes and new ways for customers to interact with us. One area where we have targeted improvements is on our New Connections process. We recognise the need to provide customers with a fast and efficient service and are committed to doing better to meet developers' expectations.

This year, we've again seen our efforts reflected in our improved Service Incentive Mechanism (SIM) score, as measured by Ofwat, but there is still much more to be done. Further details are provided on page 20.

Our SIM score really matters to us – it tells us if we are delivering 5 out of 5 performance every time, every day for our customers. We know we have lots still to do and that we need to deliver improvement quickly to keep pace with changes in customer behaviours and expectations. We've made good progress in our Quantitative SIM scores with a 14% improvement this year, meaning that customers are receiving a more responsive service from us. Our Qualitative SIM score, which captures how our customers feel about their interaction with us, is where we need to place more focus in the year ahead. For the year as a whole for this measure, our score is 4.48 compared to 4.36 in 2012/13. Although this leaves us in seventh place out of the 10 water and waste water companies, we are improving at a faster than average pace.

Severn Trent has one of the lowest levels of bad debt in the sector, at around 2.2% of revenues. This is important for our customers because those who pay bear the cost of those who don't. We therefore put considerable effort into ensuring that customers who can pay actually do pay and we have invested in new technologies that make it easier than ever to do so – see further details on pages 21 and 22.

However, we recognise that economic conditions remain tough. As a responsible business, it's important that we help people who are genuinely unable to pay, so we have a comprehensive range of social tariffs. Our relationship with the Citizens Advice Bureau also helps customers to address their broader financial problems.

We continued to look after the environment during the year, with our investment programme producing further environmental improvements that also benefit our customers. We cut the number of sewer blockages and we reduced the number of serious pollution incidents by over a third. We're also improving the quality of our rivers, achieving our best ever waste water treatment works compliance of 99.29%. Knowing that we will supply them with water is critical for our customers and the security of supply index measures our ability to supply water in a drought. Our score this year was 100 (based on our Ofwat measure – see page 9), reflecting the work we've done to improve resilience and extract water sustainably.

Our non-regulated business delivered a mixed performance, with growth in revenue and profits at Operating Services on the back of new contract wins and acquisitions, contrasting with a disappointing performance in Products, which recorded a loss for the year. A new management team has been installed with plans launched to reduce the cost base and return the business to profitable growth over the next 12 months. We have taken a cautious view of the risks relating to these actions, and the costs are reflected in these results, whilst the benefits will be seen progressively throughout the coming year.

We've also delivered for our investors. Our focus on efficiency, continuous improvement and sustainable financing helps us to maintain our dividend commitment to our shareholders.

Our tax position this year reflects an outline agreement we have reached with HMRC on a long standing discussion regarding overpayments of tax in prior periods and have now factored this into our business plan for 2015–2020 to support lower customer prices in the next regulatory period (AMP6 – see further details on pages 11 and 12).

This performance and continuous improvement is made possible by our committed and experienced team. Good performance is underpinned by doing things the right way, safer, better and faster. Our teams have sustained last year's industry leading safety performance – for further details see page 23.

On behalf of all of my executive colleagues, I would like to thank our employees and supply chain partners for their continued commitment.

Looking forward, conclusion and outlook

Severn Trent has submitted a balanced plan for AMP6, which offers better services and continued better value for customers, along with a healthier environment. At the same time, our plan will deliver investment and growth in our business, to produce fair and sustainable returns for our investors. We continue to work with Ofwat to conclude the price review process. We expect a draft determination from Ofwat on 29 August and a final determination on 12 December 2014.

Wales remains an important area of operation for us. We welcome the publication of Welsh Government's Water Strategy and we will be playing our full part to make a success of its implementation. We also welcome the publication of the Silk Commission's report into further devolution and look forward to ongoing discussions about ensuring our customers in Wales continue to receive excellent value for money.

My focus for the next 12 months will be on making sure our customers are right at the heart of Severn Trent and delivering further operational and process improvements, so that we are ready to deliver on our plan for the next five years. Under our current dividend policy, the dividend for 2014/15 is set to be 84.90p, a growth of 5.6%. We will be in a position to communicate our dividend policy for the period 2015–2020 only after we have received the final determination from Ofwat on 12 December 2014.

I look forward to working with everyone in Severn Trent, as we build the next phase of our journey to deliver for our customers, shareholders, employees and the environment.

Liv Garfield, Chief Executive

Our strategy

Our aim is to drive value for our customers and shareholders with a focus on water and waste water services in key regulated and non-regulated sectors. Our strategy delivers better value, better services and a healthier environment for our customers, society and investors.

How we are organised to deliver

Regulated

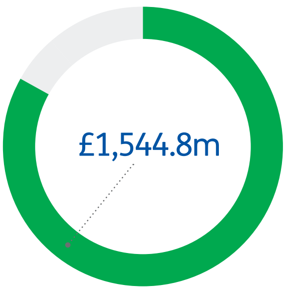
In the UK, our regulated business Severn Trent Water provides water and waste water services to over 4.3 million homes and businesses.

Our business plan for the next regulatory period (AMP6 – see pages 11 and 12), is driven by – and for – our customers. Our aim is to provide what our customers want and what the environment needs, whilst still keeping our charges as low as possible.

See our business model on pages 14 and 15

● Water and waste water

Regulated turnover



Non-regulated

In the UK and key international markets, Severn Trent Services (STS) provides water and waste water services and water technology products to a wide range of business, municipal and industrial customers. We also have a growing non-regulated renewable energy portfolio.

Our strategy is to leverage our knowledge of water and waste water treatment in UK non-regulated and global municipal, industrial and commercial markets, which offer long term growth opportunities.

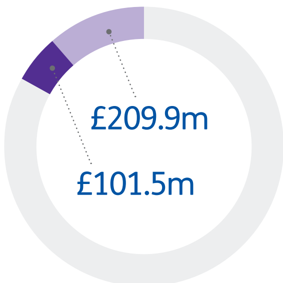
See our business model on pages 26 and 27

● STS Water Purification (Products) – global water technology/products

● STS Operating Services – contract operations and maintenance for municipal and industrial clients including UK (retail) business and the UK Ministry of Defence (MoD)

Other non-regulated business
Renewable Energy – Severn Trent also has a non-regulated renewable energy portfolio that primarily supplies our own regulated business.

Non-regulated turnover



What we stand for

Value

We aim to deliver value for our customers and our shareholders. Our customers get good value for money – quality products, the lowest possible charges and a good overall service. Our shareholders benefit from long term sustainable growth.

Responsible leadership

We have long advocated a more socially, environmentally and financially sustainable future for our industry through our 'Changing Course' series of publications. We aim to have an open and honest conversation with our customers, our colleagues and our regulators about the changes we can all make towards a more sustainable future.

Sustainability

At Severn Trent we balance the interests of all our stakeholders and the environment. We believe in doing the right thing for the longer term and in operating our business in a sustainable way.

Our strategy delivers

Better value and better services for customers

At Severn Trent Water, we already have the lowest combined water and waste water bills in England and Wales. Through a focus on continuous improvement and efficiency, we aim to deliver the service improvements our customers want and which the environment needs, whilst still keeping prices as low as possible.

At Severn Trent Services, we also work in partnership with our customers to deliver innovative and cost effective water and waste water solutions.

A healthier environment

At Severn Trent Water, our aim is to protect and enhance the environment, improving the quality of our rivers and safeguarding the infrastructure that our customers and the environment depend upon.

We strive to operate our business in a sustainable way, reducing the amount of water we take out of the environment, reducing our carbon emissions and generating our own renewable energy.

At Severn Trent Services, we offer customers throughout the world a range of products and services (see inside the front cover for details). From filtration and disinfection equipment to water and waste water contract operations, our water treatment technologies and services are designed to help protect and preserve our environment.

Sustainable returns for investors

Our strategy delivers long term sustainable growth for investors.

Severn Trent Water invests on average over £500 million annually in our water and waste water networks. We fund this programme from the profits we generate, but also by borrowing money from capital markets. Capital investment is added to our regulated asset base, which also rises in line with inflation each year. The returns we generate for shareholders who invest in our asset base are set by our economic regulator, Ofwat, over five year planning cycles.

We can generate additional returns by being more efficient in the delivery of the capital programme, managing our operational costs more effectively and by financing our business at a lower cost.

At Severn Trent Services we target long term contractual relationships that provide financial and operational stability and a good platform for growth.

Our objectives

		Our objectives
	Quality water	1 We will provide you with water that is good to drink
	Service you can rely on	2 We will ensure water is there when you need it
		3 We will safely take your waste water away
		4 We will provide you with excellent customer service
	Affordable bills	5 We will have the lowest possible charges
		6 We will help you if you struggle
	Responsible service	7 We will protect our local environment
		8 We will protect the wider environment
		9 We will make a positive difference in the community
	Sustainable finance	10 We will finance our business sustainably

To achieve our objectives we need to support our great people

Basis	How we measure them			Direction	2013/14	2012/13
	Water quality compliance % [1, 2]	OW		▲	99.96	99.98
MAT	Water serviceability: non infrastructure [3]	OW		▲	MAR	STA
MAT	DWI reportable events (category 3, 4, 5)	KPI: 3		▼	24	23
MLE	Leakage levels ML/d	KPI: 16/OW	i	▼	441	441
ACT	Security of Supply Index (SOSI) [4]	KPI: 14/OW		▲	99/100	99/100
MAT	Water supply interruptions index per property mins [5]	KPI: 6/OW		▼	16	29
MAT	Water serviceability: infrastructure [3]	OW		▲	MAR	STA
	Water serviceability (internal)	KPI: 8	i	▼	202	80
	Internal sewer flooding repeat incidents number	OW		▼	204	255
MAT	Sewerage serviceability: infrastructure [3]	OW		▲	MAR	STA
	Sewerage serviceability (internal)	KPI: 7	i	▼	57	78
ACT	Sewerage treatment works – failing consent limits % [2]	KPI: 13		▼	0.71	0.85
MAT	Service Incentive Mechanism Qualitative (SIM) score	KPI: 4	i	▲	4.48	4.36
ACT	Service Incentive Mechanism Quantitative (SIM) score [6]	KPI: 5	i	▼	143	167
	Service Incentive Mechanism (Ofwat)	OW		▲	81.55	78.11
	Voice of the Customer feedback – STS Global [7]	STS KPI: 11		▲	4.24	–
	Average combined water bill £ (outturn prices)			▼	£335	£326
ACT	Debtor days [8]	KPI: 10		▼	34.5	36.7
	Customers benefiting from Watersure tariff number			▲	9,611	7,972
	Serious pollution incidents (Infrastructure category 1, 2) per 10,000 km network [3, 9]	OW		▼	1.27	2.17
	Pollution incidents (Infrastructure category 1, 2 ,3) per 10,000 km network [3, 9, 11]	OW		▼	77.97	66.10
MAT	Pollution incidents (sewerage cat 1, 2 ,3) [3, 10, 11]	KPI: 12	i	▼	449	376
MAT	Sewerage serviceability: non infrastructure [3]	OW		▲	STA	STA
	Discharge permit compliance % [2]	OW		▲	99.29	99.15
	Greenhouse gas emissions KCo2e	OW		▼	510.9	520.4
MAT	Net energy use Gwh % [6]	KPI: 15		▼	691	690
	Satisfactory sludge disposal %	OW		▲	100	99.93
MAT	Waste water treatment performance % [12]	STS KPI: 10		▼	5.6	10.8
	Investment £million			▲	602.1	555.4
	Voice of the Customer feedback – behaving responsibly and with integrity [7]	STS		▲	4.42	–
	Interest cover %	OW		▲	3.6	3.6
	Net debt/RCV gearing %	OW			58.6	57.1
	Credit rating Standard & Poor's	OW		▲	BBB+	BBB+
ACT	CAPEX £m (UK GAAP, net of grants and contributions) [13]	KPI: 9	i	▼	583.2	541.8
ACT	OPEX £m	KPI: 11	i	▼	585.3	566.5
	Post tax return on capital %	OW		▲	6.4	6.7
QR	Employee engagement % [14]	KPI: 2	i	▲	81	79
MAT	Lost time incidents per 100,000 hrs worked [15]	KPI: 1	i	▼	0.21	0.21
MAT	Lost time incidents per 100,000 hrs worked	STS KPI: 1		▼	0.27	0.30
QR	Employee engagement %	STS		▲	75	77

Key

Green: Regulated measures including Business KPIs and Ofwat performance indicators
Purple: Non-Regulated measures including Business KPIs
Black: Severn Trent group measure
i Executive Director performance measure see Remuneration Committee report on pages 60 to 76
OW Ofwat performance indicator
MAT Moving Annual Total
QR Quarterly Review
MLE Maximum Likelihood Estimate
ACT Year End Actual
MAR Marginal
STA Stable
▲/▼ Desired direction of KPI.

Notes

1. No longer an Ofwat KPI but still reported.
2. Measured on a calendar year basis.
3. Ofwat serviceability score assesses how effectively we are maintaining our network and assets against a range of measures. Assessed as either improving, stable, marginal or deteriorating.
4. Score of 99 represents internal KPI and 100 is our Ofwat measure. Measure is out of 100.
5. Number of minutes lost due to supply interruptions for 3 hours or longer per property served.
6. Actual performance based wholly or partially on internal data.
7. Customer satisfaction and branding survey.
8. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2014.
9. Number of incidents adjusted to reflect company size.
10. Total number of pollution incidents (category 1, 2, 3).
11. 2012/13 figures not comparable. In 2013 the Environment Agency changed its reporting methodology for small incidents. As a result of this reclassification we now report more smaller incidents.
12. Non compliance with consents, permits or formal client requirements during the previous 12 months.
13. Investment excluding PDAS and IFRS adjustments.
14. Performance based on annual survey of all employees.
15. Actual performance across all employees and agency staff.

KPI 3 Drinking Water Inspectorate – Reportable events. This KPI measures the number of significant events reported to the DWI.

KPI 7 Serviceability Waste Water. This KPI is an index based on pollutions and blockages (both measures of how our below ground assets are performing) and sewage treatment works non compliance (above ground). The index reflects a 50:50 weighting for above and below ground assets.

KPI 8 Serviceability Water. This index is based on mains bursts and supply interruptions greater than 12 hours (both measures of how our below ground assets are performing) and Water Treatment Works (WTW) non compliance (above ground). The index reflects a 50:50 weighting for above and below ground assets.

KPI 14 Security of Supply Index (SOSI) is a measure of how resilient we are against periods of drought. The index calculation is based upon the difference between the water available to use and the volume of water we expect to put into our supply network in order to meet demand.

Market and industry overview

Severn Trent has contributed heavily to the debate about our industry's future and how we tackle the challenges through our series of 'Changing Course' publications.

The water and sewerage industry in England and Wales has more than 50 million household and non-household customers. More than 30 privately-owned companies serve these customers, of which 10 – including Severn Trent Water – provide both water and sewerage services. The industry invests around £5 billion each year and employs over 35,000 people.

The water industry has achieved much in the 25 years since it was privatised. It has attracted over £100 billion of private investment to fund improvements in, among other things, customer service, drinking water and environmental standards.

However, our sector still faces significant short and long term challenges:

- customers' incomes have been squeezed, limiting their ability to pay for service improvements. We need to ensure that our services are affordable;
- the UK's population is growing, placing more pressure on our water resources and on our networks. We need to ensure we have sufficient capacity;
- we're experiencing more flooding and droughts. We need to ensure that we have resilient services able to cope with this increased volatility;
- financial markets have changed significantly since the 2008 financial crisis, raising questions about how the industry can best finance its long term investment. We need to ensure that the industry is financed sustainably;
- we still face considerable challenges to meet the requirements of the Water Framework Directive and other environmental imperatives. We need to play our part in improving the environment, at a price that is affordable to our customers; and
- some of our infrastructure is old. Whilst it has served us well it is no longer able to deliver the quality standards and reliability customers want. We need to ensure that our investments are timely, provide good value for money and will deliver many years of future service.

We have actively sought to be at the forefront of the debate about our industry's future and how we tackle these challenges, through our series of 'Changing Course' publications. We have championed a more socially, environmentally and financially sustainable water industry.

We've been pleased that many of the ideas we have championed have been reflected in the emerging UK policy and regulatory framework that is being put in place. Challenges remain, but we are encouraged by the direction of reform. We look forward to helping to make it a success.

How the industry is regulated

Severn Trent Water is a regulated business. We work within five year regulatory planning cycles, with the prices we charge our customers set at the beginning of each cycle by our economic regulator Ofwat. These five year cycles are known as Asset Management Plan (AMP) periods. We have just reached the end of the fourth year of AMP5. However, we don't just think in the short term.

Having a sustainable business requires us to also balance longer term requirements that stretch beyond our five year plans. For example, our water resource plans look 25 years into the future and we study the need for investment in some of our assets over a 40 year period. We use this information to adjust our investment plans for the next AMP cycle to ensure we do the right thing for the long term whilst helping to keep customers' bills affordable.

As well as being regulated by Ofwat, our performance is monitored by:

- the Drinking Water Inspectorate, which makes sure we comply with drinking water quality regulations;
- the Environment Agency ('EA'), which controls water abstraction, river pollution and flooding; and
- Natural Resources Wales, which brings together the work of the Countryside Council for Wales, the Environment Agency Wales and the Forestry Commission Wales to manage the natural resources of Wales; and
- Natural England who protect and improve England's natural environment.

We also work with other agencies including:

- the Department for Environment, Food and Rural Affairs which sets the policy context for the water industry in England;
- the Welsh Government which sets the policy context for the water industry in Wales; and
- the Consumer Council for Water which represents customers in the industry.

> "Our plan is driven by – and for – our customers."

Our business plan for AMP6

Ofwat requires us to produce business plans for each five year regulatory period. In December 2013, we submitted our business plan for the next regulatory period (AMP6), which runs from April 2015 to March 2020. This plan is currently being reviewed by Ofwat who will give us its final determination in December 2014.

Our plan is driven by – and for – our customers. The 'golden thread' running through our plan comprises four essential elements.

1. Our plan delivers better value for money.

We're proud to have the lowest average combined bills in England and Wales. Our AMP6 plan delivers even better value, by limiting price rises to below the rate of inflation. This means our average price rises from 2010–20 will have been below the rate of inflation over that 10 year period.

> "We're proud to have the lowest average combined bills in England and Wales."

At the same time, we'll increase overall capital investment to around £3 billion. We'll prioritise improvements in those areas most important to our customers, including better services and healthier rivers. In particular, our plan proposes to reduce:

- leakage by a further 6%;
- the length of time our customers' water supply is interrupted by 47%;
- the number of homes affected by sewer flooding by 14%; and
- our carbon footprint by 3%.

We've also set challenging efficiency targets, reducing total costs in AMP6 by over £370 million, helping to keep average bills lower in 2020 than they otherwise would have been.

2. Our plan is fair and balanced

We've taken into account the interests of all our stakeholders. We're sharing the benefits of outperformance with our customers by investing an extra £150 million, to improve the service our customers receive – see further details about how we have spent this extra investment so far on page 20. We'll continue this approach in the next regulatory period, to ensure customers share in the rewards of our success and also ensure that there is no need for regulatory intervention in AMP6. We'll have the opportunity to earn more, through incentives that encourage us to deliver even better services. If we don't deliver on our commitments, penalties will result in lower prices to customers.

Our plan will also deliver fair returns for shareholders.

Market and industry overview continued

> "...there is a clear line of sight between what customers wanted to see and what is being proposed in the plan."
>
> **Dame Yve Buckland,** Water Forum Chair

3. Our plan is robust and reliable

Our approach builds on our track record of producing robust business plans and is based on the largest customer research and engagement exercise we've ever undertaken through our Let's Talk Water consultation. We also put in place a rigorous assurance process, to test the plan's robustness.

In total, we talked to more than 16,000 customers and other stakeholders. We gave customers real choices about where their money should be spent and we were challenged hard by the Water Forum, our customer challenge group, and changed our plan as a result. The Water Forum includes representatives from customers, our environmental regulators and local authorities, and has an independent Chair, Dame Yve Buckland, who is also the Chair of the Consumer Council for Water.

4. Our plan does the right thing for the long term

We've long advocated a more socially, environmentally and financially sustainable water industry and published our first 'Changing Course' report in April 2010. Our plan is shaped by the philosophy that underpins 'Changing Course' and provides a solid foundation for the long term.

Our future plans include major investments over the next two AMP periods to increase the resilience of Birmingham's water supply.

We're also planning to make significant investment in 2015–2020 to improve the quality of rivers and on strategic resilience, which we're phasing over 10 years to ensure the right balance for customers' bills in AMP6. We plan to double our programme of sustainable urban drainage systems, to help prevent sewer flooding. We also plan to reduce the amount of water we take out of the environment per customer by 6%, further strengthening our leading position in this area.

A changing regulatory environment

The water industry continues to be affected by a number of changes to legislation and regulations.

New legislation introduced this year through the Water Act 2014 brings a number of significant changes to the way the industry operates. In particular, it will allow more competition for non-household customers and greater 'upstream' competition which should eventually lead to a more efficient industry.

The European Water Framework Directive (WFD) will be a significant driver of our future capital expenditure. It will help to protect and enhance our rivers, lakes, streams and groundwater. During 2013/14, we published a Changing Course report on implementing the WFD and shared it with the EA. This is our contribution to the debate about achieving environmental improvements at an affordable cost to customers. We've also begun to look at which technologies offer the best solution to implementing the WFD, in preparation for AMP6.

The non-regulated market

The worldwide market for water and waste water products and services is substantial with long term prospects for growth in most areas we serve. The drivers of the water and waste water business remain strong, and include water scarcity, population growth, climate change and more stringent regulatory requirements.

The customers for our Operating Services are often municipal or regional authorities, who are looking to outsource management of their treatment facilities. The market for these services is therefore largest in countries which have established traditions of involving the private sector in providing public services, such as the US. In the UK, we will increasingly be able to provide water services to business customers, as the Water Act 2014 opens up the market to competition from 2017.

On the Products side, our customers range from public sector treatment works and industrial operations to marine and offshore oil and gas operations. They need high quality products to meet their water and waste water purification needs. The market for these products is global. We are also developing a dedicated aftermarket sales team to create a new revenue stream. The level of demand for our products often depends on environmental regulations, the strength of municipal finances and the level of investment in new treatment applications. In the shipping industry, ratification by the International Maritime Organisation of new standards for purifying ballast water to prevent the spread of invasive species would expand the market for our BALPURE® product line.

Regulated

Severn Trent Water

Better for Jessica

We made sure that we listened to our customers' problems, like Jessica's, in our AMP6 business plans.

3,000

customers attended our Let's Talk Water roadshows.

Listening to customers in shaping our plans

Tackling the nasty problem of sewer flooding for customers like Jessica Hinnett from Alfreton in Derbyshire is a top priority for customers which came out of our Let's Talk Water consultation.

Over 16,000 customers gave us their views in our biggest ever customer consultation. We made sure their voices were heard loud and clear when we submitted our AMP6 business plan to Ofwat.

Thankfully for Jessica, her problem was sorted out quickly. "I can't speak highly enough of everyone at Severn Trent who helped me at a time when I was very emotional."

Regulated business model

Water is essential to life and to the communities in which we live and work. Severn Trent Water is intrinsically linked to the life cycle of water. The customer is at the heart of our continuous drive to improve our operations and services across collection, delivery and cleaning of water.

Severn Trent Water is a regulated business. We work within five year planning cycles, with customer prices set by our economic regulator, Ofwat, to allow us to fund our investment programme and cover an efficient level of operating costs. We are also subject to regulation by two quality regulators – the Drinking Water Inspectorate and the Environment Agency (details of these regulators are provided below).

Our prices and asset base are adjusted by RPI inflation each year. In certain circumstances we can ask for prices to be reviewed within the five year period due to costs associated with 'notified items' or 'relevant changes of circumstance'. Customer bad debt and the adoption of private drains and sewers are included in these categories for the current five year period. Severn Trent has not sought to review prices for either of these reasons during 2010–15.

The company earns a return on its asset base. We can generate additional returns if we outperform Ofwat's assumptions by becoming more efficient in the delivery of our capital programme, managing our operational costs more effectively, and by financing our business at a lower cost.

Our operating performance is assessed and benchmarked against the sector by Ofwat. Within the current price review there is scope to earn additional income, or incur penalties, based on our performance.

Regulatory framework

Consumer Council for Water
Consumer Council for Water is an independent body designed to protect the rights of consumers. www.ccwater.org.uk

Drinking Water Inspectorate (DWI)
The Drinking Water Inspectorate makes sure companies supply water that is safe to drink and complies with all national and European standards. www.dwi.defra.gov.uk

Environment Agency (EA)
The Environment Agency is a public body set up to protect and improve the environment. www.environment-agency.gov.uk

Health and Safety Executive
The Health and Safety Executive is the enforcing authority on health and safety law. www.hse.gov.uk

Natural England
Natural England protects and improves England's natural environment. www.naturalengland.org.uk

Natural Resources Wales
Natural Resources Wales brings together the work of the Environment Agency Wales, The Forestry Commission Wales and the Countryside Council for Wales. www.naturalresourceswales.gov.uk

Ofwat
The economic regulator for the water and sewerage industry. It makes sure that water companies use customers' money efficiently and effectively and sets our price limits. www.ofwat.gov.uk

The role of Severn Trent Water

1

Water is collected (abstraction)

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

Regulatory framework

- Ofwat
- Natural England
- Natural Resources Wales
- Environment Agency
- Health and Safety Executive

Risks

- Failure of key assets may result in damage to property, injury to people and/or disruption to our ability to supply our customers. (Principal Risk Ref 6 and 8)

(Where risks are currently considered Principal Risks, further details are provided on pages 39–41)

2

Water is cleaned

Our 156 water treatment works clean raw water to the highest standards making it safe to drink.

Regulatory framework

- Ofwat
- Drinking Water Inspectorate
- Health and Safety Executive

Risks

- Failure of key assets or processes may result in a decline in water quality, disruption in our supply to customers or failure to meet regulatory targets. (Principal Risk Ref 7 and 8)
- Hazardous processes or chemicals may result in people being injured. (Principal Risk Ref 6)

7

Networks invested and maintained

3 Clean water is distributed

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

- Ofwat
- Drinking Water Inspectorate
- Health and Safety Executive

- The performance of our distribution network may fall below the standards expected by DWI or Ofwat, resulting in poor service to our customers and increased leakage from our network. (Principal Risk Ref 7)
- Failure of one of our key assets could result in disruption to supply to customers. (Principal Risk Ref 8)

4 Customers enjoy our services

We bill 4.3 million businesses and households a year. In return, we provide a safe, reliable supply of water and the collection of waste water 24 hours a day, 365 days a year.

- Ofwat
- Consumer Council for Water
- Drinking Water Inspectorate

- We may be unable to sufficiently improve our performance in relation to customer service in order to deliver what our customers tell us they want. (Principal Risk Ref 1)
- We may be unable to respond effectively to the opening up of the business retail market to competition. (Principal Risk Ref 2)

5 Waste water is collected

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

- Ofwat
- Environment Agency
- Health and Safety Executive

- Failure to deal with customer waste effectively may lead to sewer flooding. (Principal Risk Ref 7)

6 Waste water is treated and returned to the environment

Waste water is carefully screened, filtered and treated in our 1,019 sewage treatment works to meet stringent environmental standards. We pay the Environment Agency an annual consent fee to return the now treated water to the water system.

- Ofwat
- Natural England
- Natural Resources Wales
- Environment Agency
- Health and Safety Executive

- We may suffer operational failure in our waste water operations which results in damage to the local environment. (Principal Risk Ref 7)

We are an investment led industry, and our capital programme this year was £602 million, or around £140 per connected property, reflecting increased investment year on year (2012/13: £555 million) in our water and sewerage networks, including finding and fixing more leaks and reducing the number of supply interruptions, improvements to our water and sewage treatment plants and upgrades to our sewer network to reduce incidents of sewer flooding. We fund this investment programme from the profits we generate, but also by borrowing money from the capital markets. Capital investment is added on to our asset base, called the RCV. Our asset base also rises in line with inflation each year. The returns that we generate for shareholders on that asset base are set by our economic regulator, Ofwat, over five year planning cycles. We can increase these returns by outperformance.

Risks

We operate within a complex legal and regulatory environment as a water and sewerage service provider in England and Wales. As a result we face a number of risks including those associated with possible non-compliance with our legal and regulatory framework, failure to obtain support from Ofwat for our business plan for 2015–2020 and failure to meet the terms of our regulatory contract as set out in our agreed business plan for 2010–2015. We also face risks associated with possible future changes in legislation which may result in our business plans becoming unsustainable. (Principal Risk Ref 3, 4 and 5 on pages 39 and 40)

Regulatory Framework

- Ofwat
- Health and Safety Executive
- Environment Agency
- Drinking Water Inspectorate

Regulated performance review

Delivering better value, better services and a healthier environment

Our goal is to be the UK's best water and waste water company. This means we must deliver better value and better services to customers and investors, while protecting the environment on which we depend.

To reach our goal and meet our customers' needs, we set 10 long term objectives in 2013. Each year, we report against our objectives and explain how we've improved our performance.

Quality water

Objective 1. We'll provide you with water that is good to drink

Our drinking water is amongst the best in the UK and we achieved 99.96% overall compliance with the Drinking Water Inspectorate's (DWI) quality standards (2012/13: 99.98%).

However, some aspects of our performance have fallen below the standard we and our customers expect. We reported one more significant event to the DWI this year than last. The two most recent DWI Chief Inspectors' reports have highlighted a number of improvement areas, and there has been one prosecution during the last year in relation to water quality. Specifically, our performance in relation to the number of outbreaks of detected coliforms (non-harmful bacteria) has exceeded the maximum level expected by Ofwat twice in three years (including 2013/14). As a result our serviceability on above ground assets is rated as marginal.

We are taking these failures extremely seriously and accept that we have more to do in order to address the issues and risks we face. We have identified several areas where improvements to our assets are required and investment programmes are already in progress. We have a programme of work dedicated to identifying and delivering improvements. We have stepped up our operational monitoring and remain committed to doing what is needed to address issues in this area at pace. We remain committed to ensuring that our customers receive water of the highest quality.

We continue to invest in our people and in our treatment works to enable us to improve our performance. For example, this year we have run a programme to improve knowledge and awareness of water quality for our network operators and operational call-centre colleagues. We are in the process of investing to renew assets and improve processes at our largest works at Frankley. At Bamford, Derbyshire, we've improved our processes to increase their resilience and ability to treat water from the local peat moors.

We continue to look to the future with our water quality strategy and our AMP6 plan will also look to addressing deteriorating raw water quality in more innovative and sustainable ways, for example, extending our catchment approach. It involves working in partnership with landowners and users to minimise the risk of pollution entering the raw water system, so we can avoid additional investment in our treatment works.

Partnership working to reduce flood risks

Together with the Environment Agency, we've created four hectares of woodland along the River Ashop, Derbyshire. By stopping livestock grazing and working with natural processes, land management like this reduces and delays the flow of water downstream, cutting the risk of flooding and pollution, while improving wildlife habitats and biodiversity.

Services you can rely on

Objective 2. We will ensure water is there when you need it

Our customers expect water to be there when they turn on the tap and for leakage to be lower.

As part of our commitment to improvement, we have reviewed the basis on which we calculate our leakage figure. The net impact of the improvements is neutral with respect to actual and target performance.

We maintained leakage at 441 Ml/d beating our Ofwat leakage target of 456 Ml/d. Severn Trent is one of the few companies to target lower leakage during AMP5 and we're on track to deliver a 11% leakage reduction over AMP5.

We've further reduced the average number of minutes that customers are without supply from 29 minutes per property to 16 minutes. We're investing in new pipes, valves and other assets, and improving our ability to restore customers' supplies quickly. For example, new technology allows us to keep water flowing while we repair a pipe.

We were pleased to win an award for innovation of the year at the Water Industry Achievement Awards 2014 for new equipment we have developed that improves leak detection efficiency and is particularly effective with plastic pipes which is a problem throughout the industry. This equipment has been developed by us working in partnership with Loughborough University from a research and development project through to commercial launch with Echologics.

The number of properties that experienced a supply interruption longer than 12 hours was 2,699; an increase of 142 on last year. Over 900 of these interruptions occurred following the extreme storms of February when power supplies were interrupted for extended periods. This is a key input measure to serviceability assessment. Despite an underlying improvement on this measure, and the fact that other indicators performing within or ahead of the operating ranges agreed with Ofwat, the application of the serviceability framework means our serviceability is rated as marginal.

We are committed to reducing the number of interruptions longer than 12 hours. In order to achieve this we have increased our focus on improving our risk and contingency planning and emergency response.

Towards the end of the year, we consulted on our water resources management plan. This explains how we'll provide sustainable and affordable water to our customers, over the next 25 years and beyond. We also issued our drought plan, which sets out how we'll maintain supplies during shortages.

Our future plans include major investments over the next two AMP periods to increase the resilience of Birmingham's water supply. This will extend the life of the Elan Valley Aqueduct, saving customers hundreds of millions of pounds over the coming decades and reducing risk to the UK's second largest city. We'll also continue to improve our trunk main network and strategic grid of pipes to provide customers with increased resilience.

Objective 3. We will safely take your waste water away

We continue to invest to reduce the risk of internal sewer flooding and have protected a further 121 properties this year, putting us on track for 741 properties over AMP5. Our efforts have reduced the number of customers who suffered repeated internal sewer flooding, from 255 in 2012/13 to 204 this year. We also mitigated the risk of flooding for around 160 properties this year. We're increasingly using sustainable drainage systems to reduce flooding, as well as increasing our partnership working with local authorities, the Environment Agency, local drainage boards and highways authorities.

Giving our customers **peace of mind**

In 2007, Gloucestershire suffered severe floods. Hundreds of properties suffered sewer flooding and rising river levels forced us to shut our Mythe water treatment works, leaving 140,000 properties without a piped water supply.

We were determined that our customers shouldn't have to face this again. Since 2007, we've invested nearly £47 million in making our water and sewerage system robust and resilient. We've installed 16 km of strategic water mains and 3.4 km of sewers, along with new water and sewage pumping stations, and we have built flood defences around our Mythe works.

The result is peace of mind for customers like Sylvia Hyett. Despite appalling weather, no properties have suffered sewer flooding in this area in the last two winters and our customers' water supply has been unaffected.

Sylvia said:

"We are so relieved that this work has been completed. If it rains now, for the first time in many years we can go to bed without being terrified as to what we may find in the morning ... the work done by Severn Trent to prevent this will improve our lives immeasurably."

Mythe works flood defences in action

Better for Sylvia

Gloucester resident Sylvia Hyett now has greater peace of mind after a £47 million investment in making our water and sewerage system robust and resilient.

Regulated performance review continued

This year, we completed our flood protection scheme in Gloucester. It has kept the town free from flooding, despite extreme weather over the last two winters. Our Royal Leamington Spa sewer improvement project, which will protect 103 properties from flooding, is going to plan and will complete in 2014. This project won a national Green Apple award for recycling excavated material and we're exploring how to extend this to other schemes.

Our overall serviceability remains marginal. We have continued to deliver good performance on five of the six indicators included in the serviceability assessment. On the sixth indicator, sewer blockages, our performance has shown an improving trend over 18 months (falling 13% last year) but remains above the target agreed with Ofwat. The improvement is reflective of the action we have taken throughout the AMP5 period. Although our overall environmental performance remains positive, and the other customer and environmental indicators within this area are performing within or ahead of the operating ranges agreed with Ofwat, the application of the serviceability framework results in a continuing 'marginal' assessment. This is consistent with the assessment included in our PR14 Plan. Our pollutions performance is included within Objective 7 – We will protect our local environment – set out on page 21.

We've made a good start to adopting and upgrading private pumping stations, ahead of their transfer on 1 October 2016. We've already adopted and upgraded 24 stations and will adopt another 150 in the next year.

We will continue to improve our blockage and pollution performance by increasing our focus on customer education. 75% of blockages are due to unwanted items that customers put down the toilet so we are speaking to customers following any local incident and developing a broader campaign to provide more focus in this area.

Objective 4. We will provide you with excellent customer service

We want to make it easy to be a Severn Trent customer. In recent years we've worked hard to offer our customers a broader choice of contact channels, and to deliver an improved experience from each of those channels. For example, today we answer more than 80% of calls within 20 seconds, and very soon we will be answering customer emails within 4 hours. We're also working hard to simplify our processes and provide our customers with more straightforward journeys through the various touchpoints of our organisation. Our company-wide Customer Experience Programme will continue to focus on practical, measurable improvements to what really matters to our customers so that we can consistently deliver to them a 5 out of 5 experience, every time, every day.

There are a number of other ways that we capture and try to measure customer satisfaction. Ofwat measures our customer service using its Service Incentive Mechanism (SIM), which has qualitative and quantitative elements. The qualitative element reflects our customers' views of our service. This year, our qualitative score rose to 4.48 from 4.36, narrowing the gap between us and our peer group. Despite our efforts we are still in seventh place for the year for this measure and we recognise that our pace of change needs to improve.

The quantitative metric reflects the number of customers who have to contact us. Our performance improved by 14%. Overall, our SIM score was 81.55, up from 78.11 last year.

We also capture data through our 'Voice of the Customer' surveys, which gives us feedback from around 10,000 customers each month. This shows that we're now resolving 94% of customer issues first time, while 93% are satisfied with the way our advisors helped them.

This year, we worked hard to understand how we could more accurately predict customer demand. This helps to ensure that we have the right resource at the right time, so we can respond faster to our customers' needs.

During the year, we continued to roll out our Great People programme. This gives our frontline advisors better customer interaction skills and helps our managers to run more customer focused operations.

Affordable bills

Objective 5. We will have the lowest possible charges for our customers

With household budgets under pressure, we are pleased that our customers benefit from the lowest combined water and sewerage bills in England and Wales, at £335 in 2013/14. Cumulatively, our prices over the last five years have risen by less than inflation, a record we intend to maintain until 2020.

This year, we have absorbed the additional operating costs of the private drains and sewers we adopted in October 2011 rather than seeking to pass these on to customers. We estimate that we'll absorb additional operating costs of around £38 million in AMP5, with around £42 million more capital investment.

We continue to share efficiency benefits with our customers. The additional £150 million of investment we announced in May 2012 is helping to deliver our services, including cleaning our sewers, improving our sewage treatment works and reducing leakage. To date, we've invested £120 million, with the remainder to follow in 2014/15.

Customers who don't pay increase the costs for those who do, so we take a rigorous approach to ensuring that everyone who can pay actually does. We have one of the industry's lowest levels of bad debt, at 2.2% of turnover.

We continually improve the way we work, so we can keep our customers' bills down and enhance our service. We have introduced common systems and processes which exploit our investment in our SAP enterprise software solution, which underpins and connects our business operations. For example, we are simplifying our 'Plan to Adopt' process (the way we build new assets) helping us to deliver greater efficiency in our capital programme.

Customer interaction

Customers want to interact with us in ways that are convenient to them, so we've strengthened our web self-service offering, giving customers full access on a smartphone or tablet. We're also the UK's first utility to launch Pingit, Barclays' mobile payment app. We're already exploring the next innovations that will make it easier to pay.

During the year, we invested in our Customer Operations Service Centre to improve efficiency and save money. When a customer reports a problem, our agents have better information on the affected asset, work crew availability and other key factors, so we can fix problems faster and give our customers a better service. We've also invested in Netbase, a system that analyses our infrastructure's performance so we can identify where we need to focus the efforts of our work crews to rapidly stop leaks.

Collaborative working with our supply chain partners also delivers efficiencies and business improvements. In 2013/14, we renewed our 'One Supply Chain' approach for a further five years. Extending these relationships has enabled us to put together a robust capital programme for AMP6. More generally, our Procurement team has continued to help us cut the cost of the goods and services that we buy with a total of £58 million saved this year.

Objective 6. We will help you if you struggle

Poverty rates in our region are significantly higher than the national average and we recognise that some customers genuinely struggle to pay their bills. We offer a wide range of social tariffs and schemes to help, benefiting a total of over 20,000 customers in 2013/14.

This support includes the WaterSure tariff, which caps bills for customers who have particular difficulty in paying, and Water Direct, which allows customers to arrange small deductions from benefits, to go towards their bill arrears.

The Severn Trent Trust Fund is a registered charity, which has helped many customers to meet their water bills.

The Big Difference Fund is our partnership with the Citizens Advice Bureau (CAB). The CAB helps our customers to address their broader financial issues, so they can minimise or avoid household debts more effectively in the future. During 2013/14, we donated a further £3.5 million to these funds.

Responsible business

Objective 7. We will protect our local environment

Pollution incidents are caused by unplanned discharges of water or sewage into the environment. We've further reduced the number of pollution incidents, with serious pollution incidents down by over a third. We understand that we are one of only two companies to deliver a year on year reduction in serious pollutions, as recognised by the Environment Agency (EA). Our overall environmental performance, assessed in 2012/13 by the EA as 3★ (out of a possible score of 4★), has significantly improved in 2013/14. We await the EA's final assessment on performance, due to be published in summer 2014. However, there were two prosecution actions taken by the EA during the year; this highlights the need for continued improvement in our operational performance. We've increased our visibility of our final effluent quality by installing monitors at 350 sites, with 209 of these sites being commissioned and in service (compared to only 50 the previous year). We aim to have monitors at 520 sites by the end of AMP5.

We've continued to invest in our sewage treatment works and we're on track to complete our investment programme for AMP5. Our non-infrastructure improvement group has also analysed and systematically eliminated problems. As a result, only five of our 704 consented sites failed to reach their compliance limits, giving us our best ever performance of 99.29%, which has contributed to the serviceability of our above ground assets remaining stable.

We also continue to innovate, testing the Lontra Blade compressor at our Worcester sewage treatment works. The compressor is optimised for aerating waste water, to reduce the electricity we use for this process by 20%. The trial demonstrated the unit's efficiency and reliability. We've also begun work on the UK's first vertical flow reed bed. This technology offers the lowest maintenance and most environmentally friendly solution for sewage works in rural areas.

In line with the EA's National Environment Programme, we invested a further £48 million to enhance river quality, bringing our AMP5 investment to more than £150 million. This included improving processes at 15 sewage works and enabling public sewerage networks for four communities to remove polluting private discharges.

Regulated performance review continued

Educating our future customers

Through our Water Champions programme, Severn Trent volunteers create fun and educational water efficient gardens for schools. We also provide learning materials and home activities, so children really learn about water. Aldermoor Farm Primary School, Coventry, is one beneficiary. Our volunteers spent three days there, helping the school to transform its outdoor learning environment.

We have an important role in protecting biodiversity, including at the 38 sites of special scientific interest (SSSIs) we own or partly manage. We're working with partners such as Natural England, Natural Resources Wales, the EA, wildlife trusts and the RSPB, to bring all of our SSSIs into favourable condition by 2020. Our key visitor sites with SSSI status have been entered into Natural England's Higher Level Stewardship schemes, which aim to deliver significant environmental benefits in priority areas. In particular, we're looking to increase biodiversity and offer sustainable catchment management on our land.

However, there are water quality issues at the SSSI at the Charnwood Reservoirs, Leicestershire. To address these we're close to finalising a 10 year agreement and lease with Leicestershire & Rutland Wildlife Trust (L&RWT), which will enable L&RWT to manage the woodland and reservoir margin, in line with Natural England's SSSI conservation objectives.

We continue to have our woodlands certified by the Forest Stewardship Council and enter them in the Forestry Commission's woodland grant schemes. For example, a scheme at Carsington Water manages the landholding to benefit woodland birds while also holding water, so it's slowly released into catchments. We also liaise with community groups such as bird clubs, to monitor the numbers and species of birds on and around our reservoirs. Volunteer groups have helped create biodiversity habitats such as new ponds, manage reed beds and restore wildflower grasslands.

Objective 8. We will protect the wider environment

Water and sewage treatment is energy intensive and Severn Trent Water is responsible for 98% of the group's carbon emissions. We've been reporting our performance for more than a decade and have consistently reduced our emissions and costs, through energy efficiency, renewable energy production, improved metering and more effective use of transport. In 2013/14, our emissions totalled 511 kilo tonnes of CO_2e, a reduction of 9%. Our plan is to reduce our carbon emissions by 3% in AMP6.

We've had Carbon Trust Standard accreditation since 2009 and contribute to the Carbon Disclosure Project (CDP). More information about our greenhouse gas impact can be found in the Directors' report on page 79.

This year, we achieved 100% compliance on satisfactory sludge disposal and implemented a new IT system to modernise our compliance monitoring and control. We also invested in biosolids storage, to mitigate the effects of severe weather, and trialled innovative solutions to ensure we can recycle biosolids during challenging weather.

We've built a sector leading position in renewable energy, which now provides 23% of our energy requirements. A number of these processes use by-products or essential features of our water or sewage treatment, and are classed as part of our regulated business.

During the year, we installed more efficient combined heat and power units at our largest sewage treatment works, to increase output by 10%. We're also building our first, and the UK's largest, bio-methane injection plant at Minworth, Birmingham. Information about our non-regulated renewables can be found on pages 31 and 32.

Objective 9. We will make a positive difference in the community

Our activities bring broad economic and social benefits to our region. According to research we commissioned from Coventry University, for every £1 we invest £1.66 is generated and retained in the regional economy (figures from 'Making a Difference', a Severn Trent Water Report). With an investment programme of around £600 million in 2013/14, our contribution is considerable.

We're also a major employer, of more than 5,900 people. We help young people into work through our apprenticeships and currently have more than 80 apprentices in our operations and customer services. As well as benefiting the young people involved, this helps secure the skills we'll need in the coming years.

Educating our current and future customers is also key to helping people understand how to use water efficiently and what can be safely disposed of in our sewers. Our schools education programme reaches more than 45,000 children each year, so they understand the value of water. We've extended this with our company-wide Water Champions volunteering programme. This allows our people to create fun and educational water efficient gardens in local primary schools, which they can incorporate into everyday learning. This engages our local communities, while improving our people's skills and building working relationships.

Also, in 2013 we were a sponsor of the Big Bang event in our region. The national Big Bang programme is the largest promotional event for science, technology, engineering and maths for young people in the UK and the regional event at the Ricoh Arena in Coventry, UK, involved nearly 4,000 schoolchildren.

Our local communities are actively involved in helping the running of our visitor sites, volunteering nearly 20,000 hours each year on conservation, maintenance activity and providing excellent customer service. Last year we invested over £1.1 million in our visitor sites and over 3 million customers visited our sites during 2013, highlighting our continued commitment to offer high levels of conservation, access and recreation across our region. At Draycote Water, our reservoir site near Rugby, we have spent £330,000 over two years remodelling and refurbishing the visitor centre, building a children's play area and increasing parking facilities. Since its re-opening in April 2013 we have seen an increase in visitor numbers of almost 56%.

Sustainable finance

Objective 10. We will finance our business sustainably

We aim to finance our business sustainably, so we can invest now to protect our future services. We avoid excessive debt, which would transfer risk to our customers, and look for a sustainable mix of debt finance at the right cost, reflecting the long term nature of our investment.

Our financing needs are and will remain substantial. In AMP6 our plan suggests we will need to raise around £2.6 billion in new and refinanced debt, which means it will be necessary to maintain an investment grade credit rating. Our long term credit ratings are BBB+ (Standard and Poor's) and A3 (Moody's). These are in line with regulatory assumptions and were unchanged during the year.

Our gearing and interest cover remain prudent – further detail can be found in the Financial review on pages 33 to 37.

Great people

To achieve our objectives, we have a flexible workforce, with people who are willing to work in new ways, embrace new skills and focus on our customers' needs.

Our employee survey showed our highest level of engagement in eight years; our engagement index reaching 81%. This compares with 79% last year and 75% for other benchmarked companies.

Particular strengths included health and safety, where our people understand our commitment and their own responsibility for working safely. Severn Trent's Code of Conduct, 'Doing the right thing – The Severn Trent way', explains our approach to issues ranging from bribery and corruption to excellent customer service. Our people recognise their responsibility for complying with the Code of Conduct and our focus on doing the right thing, reflecting our continued training and engagement in this area. They also understand how the company's goals and their role contributes to customer experience and are happy to go the extra mile when required.

As always, there are areas where we can improve. In common with many organisations, our people think we could be better at handling and communicating change. They also want us to simplify our processes, reflecting the number of new systems and processes we've introduced in recent years. In response to feedback from last year's survey, members of the Executive Committee have held events around the business meeting teams and sharing our future plans. We continue to hold events around the business, allowing employees to ask about our business and contribute their ideas.

Excellent health and safety

No one should get hurt or made unwell by what we do. We've sustained our lost time incident (LTI) rate at 0.21 per 100,000 hours worked (2012/13: 0.21), making us the leaders in our industry. Particular achievements included our Water Production team working for an entire year without an LTI.

We've done this through further investment and training. Our ongoing MindSafety® training programme helps our people to understand how they should work and take responsibility for their own safety.

We've also implemented site based safety improvement teams. This gives our people ownership of the issues and allows them to fix the day-to-day problems that can affect their health, safety and wellbeing. Our proactive approach to health, safety and wellbeing continues to improve, with around 15,000 hazards identified and resolved per month.

Occupational health has been a focus for us this year. We've introduced a physiotherapy and rehabilitation service for those suffering with musculoskeletal problems, which has reduced employee absence by more than 1,000 days.

We've also developed 'Fit for the Future', which is part of our bespoke injury prevention programme. This programme not only trains people in safe and efficient manual handling but provides health and nutrition advice to support our employees in maintaining a healthy and productive career. The programme won Rehabilitation Initiative of the Year at the Rehabilitation First awards.

Our next area of focus will be mental health. We've taken part in Time to Change, England's biggest programme to end stigma and discrimination for people with mental health problems. We want to identify the gaps between supporting people with mental health issues and taking practical action. We've surveyed our people and are educating managers and employees about building personal resilience to better manage challenges at home and in work.

Regulated performance review continued

Developing our people

We've continued to roll out our Leading for Performance programme. This develops leaders who can coach their teams and inspire greater levels of performance. We've also run development centres for 80 managers, benchmarking them externally and internally, and helping them to create high quality personal development plans.

We continue to develop our line managers through our Line Manager Journey. So far, we've trained nearly 700 people in a range of core management skills. We've invested in IT and business skills, as well as project and programme management, with 850 training days this year in those areas.

Our Future Skills strategy encompasses our apprentice and graduate programmes. We've taken on more graduates this year, employing 20 for general leadership training and we have introduced a technical engineering programme for graduates.

A diverse workforce

A diverse and inclusive culture is important for business success. Our approach is based on doing the right thing and we're working to ensure our policies, processes and practices are open, fair and transparent.

We monitor our performance against a range of diversity measures and benchmarks, so we can use the data to inform our actions. Our workforce is slightly more diverse than the sector average. 31% of our employees are women compared to the industry average of 28.9%. 7.5% of our employees are Black, Asian and Minority Ethnic (BAME) compared to the industry average of 2%. We're building a diversity and inclusion plan to address particular areas of improvement. Our current focus is on attracting more women into operational leadership roles and ensuring that our frontline operational roles are attractive to BAME candidates. To support our goals we have carried out a complete review of our job descriptions and advertising strategy and trained over 320 managers in effective interview techniques.

More information about our gender diversity, including statistics for the group, are provided in the Nominations Committee report on pages 52 and 53.

Information about human rights issues for the group is set out in the Corporate Responsibility Committee report on pages 57 to 59.

Rewarding our people

We look to offer innovative rewards for our people, with a strong link to improving business performance. Through our flexible benefits scheme ('Lifestyle') employees can choose certain benefits, such as buying or selling annual leave days. We also offer a range of products, where we can use our buying power to offer employees discounts. Lifestyle won the Best Flexible Benefits Scheme at the Employee Benefits Awards in June 2013.

It's also important to align our employees' interests with those of our shareholders and to share the benefits of our success with them. More than 5,000 employees are members of our Share Incentive Plan and we offer a Sharesave scheme, allowing employees to buy discounted shares.

Outlook

The next 12 months will see us complete the delivery of our AMP5 plan.

In the coming months we will also finalise our plan for AMP6, so we can continue to deliver for our customers, shareholders, employees and the environment. We'll ensure we're in a position to start delivering it from day one of AMP6.

Ofwat has committed to publishing its final determination of all companies' plans by 12 December 2014.

"A diverse and inclusive culture is important for business success. Our approach is based on doing the right thing and we're working to ensure our policies, processes and practices are open, fair and transparent."

Non-regulated

Severn Trent Services

Better for Patrick

A long term waste water operations partnership saved tens of thousands of dollars for Severn Trent Services' business customer Patrick Banger.

Better value and a healthier environment

Helping our **customer** and the **environment**

We've operated the Neely Wastewater Reclamation Facility in Gilbert, Arizona, since 1999. While the town's population has boomed, we've still delivered improvements that benefit our customer and the environment. All the facility's treated water goes to irrigate parks, golf courses and common areas, or to recharge facility basins. We've worked to save the town more than £60,000 in operating expenses, while a solar power system will save a further £1.2 million over 20 years.

£1.2m

saving over 20 years through a solar power system

Non-regulated business model

Our non-regulated business allows us to maximise our water and waste water treatment knowledge by creating and delivering services and products to the UK and global municipal, industrial and commercial sectors.

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

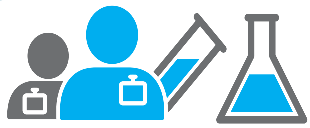
Where risks are currently considered Principal Risks, further details are provided on pages 39 to 41.

1

Identify and develop opportunities

Identify and develop opportunities in non-regulated markets

2



Create products and services

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

STS Operating Services

Identify and develop opportunities

Operating Services provides contract operations and maintenance for water and waste water treatment facilities for municipal and industrial clients and the UK Ministry of Defence (MOD).

In the UK we provide design, build and contract operations for water and waste water treatment facilities for a variety of industrial segments and supply retail water to businesses throughout the UK.

Create products and services

Our strategy is to continue growing our Operating Services business in the US and Europe.

Water supply services across the UK are changing, with legislation giving businesses a choice in who they buy their water and waste water services from. Operating Services is pursuing this open market movement, helping businesses achieve optimum water and waste water management through enhanced services.

STS Water Purification (Products)

Identify and develop opportunities

Products provides filtration, disinfection and process solution technologies for various municipal and industrial water and waste water treatment applications and the marine and offshore industries.

Create products and services

Our strategy is to introduce next generation products for traditional markets and develop technologies to address needs in new geographies. Addressing specific regional needs (such as gas feed in India, and disinfection and filtration in China) we will be able to provide products that deliver the best value for the customer.

Renewable energy

Identify and develop opportunities

Severn Trent's non-regulated business generates renewable energy from wind turbines and the anaerobic digestion (AD) of crops and we are now expanding into the food waste AD market. Our planned facility at Coleshill, Warwickshire, UK, will convert up to 44,000 tonnes of food waste into 17,026 MWh of electricity and approximately 30,000 tonnes of biofertiliser for agriculture per year by 2016. We plan to investigate the development of other technologies including photovoltaics (PV) and biomass combustion.

Create products and services

In 2014/15 we will supply over 40,000 MWh of electricity and heat to our regulated business.

Our new food waste AD business will provide a service for the recycling of industrial, commercial, retail and domestic food waste.

3 **Build strong and respected brands** Build strong and respected brands that are recognised across our sectors	4 **Maximise our return** Maximise our return on investment through long term contracts and service agreements and cross dissemination of our products	**Associated risks**
Operating Services is recognised as the largest private operator in terms of facilities operated in the US, where we serve more than 400 facilities in 22 states. These facilities regularly win awards in areas such as environmental compliance, health and safety and overall plant performance. Operating Services has taken a leading role in the UK water supply market. With water services licences for Scotland, England and Wales, we offer multi-sited businesses the benefits and synergies of a single supplier approach.	We continue to enter new states in the US, securing our largest monetary contract to date in Bridgeport, Connecticut, while expanding our presence in California with the acquisition of 14 contracts from SouthWest Water Company. Long term contracts with the MOD and First Milk provide continuing stability.	Hazardous processes may result in our people being injured (Principal Risk Ref 6). Failure of products or treatment processes may result in environmental damage and regulatory non-compliance (Principal Risk Ref 7). Regulatory or political change may lead to decreased demand for our services. We may be unable to take advantage of the opening up of the UK retail market to competition (Principal Risk Ref 2).
Our brands are used and recognised throughout the world. Some of our key brands are: ClorTec® on-site sodium hypochlorite generation systems. Capital Controls® a line of gas feed systems and accessories. TETRA® is one of the most trusted names in drinking water and waste water filters. BALPURE® ballast water treatment technology.	We are moving to a regional operating model, which will better address our markets, bring us closer to our customers and realign the cost base to improve margins. We believe the effectiveness of our core technologies can deliver long term potential. Aftermarket sales of our water treatment technologies represents a further opportunity. We look to enter new and targeted market geographies to expand our market presence.	Failure of products or treatment processes may result in injury to people, environmental damage and regulatory non-compliance (Principal Risk Ref 6 and 7). Disruption in the global supply chain may impact our ability to meet client needs. The intellectual property in our key products may be used by competitors. Regulatory change may lead to decreased demand for our products. New products may be introduced to the market leading to increased competition for our products and services. Non-delivery of the expected benefits of the restructuring plan.
We are recognised as being experienced in the field of anaerobic digestion and combined heat and power generation (CHP). Our expertise in this complex biological process means that we can be trusted to provide an excellent service.	We have established electricity and heat power sale/purchase agreements with our regulated business. We will be entering into long term contracts with the wider supply market to process food waste.	Hazardous processes may result in our people being injured (Principal Risk ref 6). We may be exposed to increased volatility in energy prices. Regulatory or political change or local opposition to our plans may affect our ability to generate sufficient renewable energy to achieve our targets.

Non-regulated performance review

Severn Trent Services delivered a mixed performance in 2013/14. Operating Services performed well, winning new contracts and delivering growth year on year. However, in our Products business, shipments were below expectations due to continuing customer project and delivery delays, leading to lower revenues and profit before interest, tax and exceptional items (PBIT) for Severn Trent Services as a whole.

After adjusting for the impact of disposals in 2012/13 and exchange movements, revenue was 1.3% higher but PBIT was down by 48.6%. Reported revenue fell by 5.2% to £311.1 million, while reported PBIT was down 43.7% at £7.1 million.

Operating Services

Operating Services grew year on year, winning new business in the US and UK, and successfully renewing contracts in the US and Italy, with contract retention rates overall ahead of target. Turnover increased to £209.9 million, up 8.0% after adjusting for exchange rates and disposals in the prior year.

The US business secured its largest ever win by monetary value in Bridgeport, Connecticut, to provide operation, maintenance, management and customer services for the local waste water collection and treatment systems.

The £13.8 million a year, 10 year contract is our first in Connecticut, giving us a presence in 22 states, and a potential springboard to win further work in New England. The business also won 24 new projects in the Texas Gulf Municipal Utility District region.

We also acquired 14 contracts from the California based SouthWest Water Company, representing approximately £4.8 million in annual revenue, which expands the number of public private partnerships we have in California.

In the UK, we took full ownership of the Severn Trent Costain business.

Our relationship with First Milk progressed with a 10 year design, build and operate contract to provide a new effluent treatment plant in South Wales.

We are well positioned in our plans to take advantage of the opening up of business retail market beginning in 2017, leveraging Severn Trent's skills and expertise to offer customers a single expert supplier.

Bridgeport, Connecticut

In January 2014 Operating Services began its largest ever contract in terms of monetary value with the Water Pollution Control Authority of the City of Bridgeport, Connecticut. The 10 year contract, which includes two subsequent five year options, requires us to provide operation, maintenance, management and customer services for the Authority's waste water systems.

Back River Wastewater Treatment Plant

Products has been awarded a contract to provide its TETRA® Denite® denitrification filter technology to the Back River Wastewater Treatment Plant (WWTP) in Baltimore, Maryland. The TETRA Denite process will be used to reduce high levels of nutrients discharged into the Chesapeake Bay. Upon completion, the £14 million installation will be the largest fixed-film denitrification system in the world.

Our 25 year, £1 billion operation and maintenance contract with the UK Ministry of Defence is now in its ninth year. We've continued to deliver our contractual commitments for environmental performance and asset improvement.

In Italy we successfully completed the reorganisation and refinancing of our associate business SII. This included an agreement to reduce the levels of any shareholder supporting guarantees and set up contracted repayment arrangements over 15 years for loans provided by shareholders. SII has already paid over the first amounts due under these new arrangements which will, over time, reduce the fully provided gross exposure of the group.

Water Purification (Products)

Performance was disappointing, with shipments below expectations due to continuing customer project and delivery delays across a number of markets, along with poor execution on some internal projects impacting negatively on both revenues and PBIT.

Products' performance in America and Europe was impacted due to difficult economic conditions and limited customer investment in water and waste water projects.

In emerging markets such as Asia Pacific, demand remained consistent for disinfection and filtration products due to continued urbanisation. In China, effluent discharge standards continued to drive filtration product demand. Important wins included a contract to provide our Capital Controls® chlorination system to the Chengdu Seventh Tap Water Plant in Chengdu, China.

In Severn Trent De Nora, we have secured a framework agreement with a global oil company for future installation of our OMNIPURE™ and BALPURE® products. Customer delays affected all product lines, largely in EMEA where the customers' development of new offshore operations is behind schedule.

In the marine market, we still await ratification of ballast water treatment standards by the International Maritime Organization. As a result, sales of our BALPURE® product line remain lower than expected. However, BALPURE® still delivered growth and we have a pipeline of new projects. We continue to invest in BALPURE®, so it has a broader reach across the marketplace. This includes modifying the product to make it more cost competitive for smaller ships, and taking costs out of the original design to improve its competitiveness across the product range.

Orders were up by 23% over the prior year, and the challenge is to now convert these orders into revenue. Turnover was £101.5 million, a decrease of 10.3% after adjusting for exchange rates and disposals in the prior year.

Action has already been taken to return the business to profitable growth, including installation of a new management team, and over the next 12 months our Products business will realign its cost base to improve margins growth. Nevertheless, we have taken a cautious view of the risks related to these actions and have recorded an impairment of £24.7 million against goodwill in the business. During the year the business continued its move to a regional operating model, which will better address our markets and bring us closer to our customers.

Our products must continue to deliver value for customers so we've created teams for each of our core product categories: disinfection, filtration and electrochlorination to assess our current platforms and determine future needs. As a result, a number of research and development projects in our filtration and ultraviolet disinfection portfolios were discontinued to focus on current needs. We are developing next generation products for traditional disinfection and gas feed markets that will deliver better value for money.

We are also developing a dedicated aftermarket sales team to create a new revenue stream, with Severn Trent De Nora the first to provide an offering.

Continuous improvement

Our teams, including Health, Safety and Environment, Human Resources and Legal Counsel, are dedicated to implementing systems and sharing best practices which empower our colleagues to do the right thing – the Severn Trent way. Protecting health and safety is one of our core values. We set targets every year for incremental improvement and we beat our Lost Time Incidents (LTI) target of 0.30 for 2013/14 with a score of 0.27 (see STS KPI: 1 on page 9). Our achievements included three consecutive months, and six months in total, with no LTIs.

The business also continues to adopt Safer Better Faster, our approach to continuous improvement, with a number of our facilities and offices introducing some or all elements of it. This is driving safety and operational improvements.

Better for Neil

Renewable Energy Manager Neil Liddell-Young expects our new £13 million food waste anaerobic digestion plant to generate a further 2% of our energy needs.

204 GWh
Severn Trent
generation 2013/14

We're generating 23% of our energy from **renewable sources**

Today, Severn Trent as a group generates 23% of Severn Trent Water's energy from a wide variety of sources. Having explored opportunities from water and sewage we are now expanding our non-regulated renewables portfolio, with our primary focus for expansion being the emerging food waste digestion market.

We've now started work on a new plant, which by 2016 will convert up to 44,000 tonnes of food and liquid waste into 17,026 Mwh of energy – equivalent to a further 2% of our requirements.

We're investing £13 million in the plant, at Coleshill, Warwickshire. This will create new challenges for our employees and supply chain as well as seven new jobs in the local community when it opens later this year. The plant's environmental benefits include preventing food waste going to landfill, reducing our net carbon emissions and providing high quality biofertiliser, to replace man-made alternatives. The plant will also further improve our resilience and our ability to serve our customers, by making us less reliant on electricity from the national grid.

Picture above: Agrivert Ltd plant

Non-regulated performance review continued

Customer service

It is our objective to provide excellent customer service. Since 2013 we have been monitoring customer satisfaction through our Voice of the Customer surveys (see measures of objectives 4 and 9 on page 9). For STS KPI: 11, this is the first year that we have full data for the whole of STS. We scored 4.24 out of 5 for this year.

Process

We've continued to invest in our systems. We've introduced a new enterprise resource planning system, and implemented the Workday human resource management system, which enables us to manage our global workforce of 2,387 employees from a central application. We have also implemented a global customer relationship management system and made all our operating systems cloud based. A common IT infrastructure improves our communications and allows us to develop common processes, so improving our efficiency.

Great people

Our successful health and safety performance is often recognised externally, for example in November 2013 we received a plant safety award from the Eastern Pennsylvania Water Pollution Control Operators Association.

We strive to support and develop our great people, their skills and opportunities for creative and innovative thinking. In 2012/13, we put in place a training and development team. This year, the team has been active across the business and initiated a range of training and leadership development programmes, including onboarding for new recruits. All colleagues who fulfil a leadership role are expected to further develop their skills and many of our managers have been involved in self awareness and team building events.

Nearly 900 employees took part in this year's Global Corporate Challenge, a 16 week team based physical activity and wellbeing programme involving more than 37,000 teams globally. Our employees took more than 919 million steps and walked 365,000 miles, finishing second among all the companies in the gas, electricity and water supply category and reporting many positive benefits.

Our employee engagement remains high but just below target, at 75% (2012/13: 77%). We conduct a bi-annual survey and quarterly pulse surveys, based on a random selection of 25% of our employees. These show continued positive perceptions of our business among our employees.

Information about diversity initiatives and our gender diversity, including statistics for the group, is provided in the Nominations Committee report on pages 52 and 53.

Information about diversity initiatives and human rights issues for the group is set out in the Corporate Responsibility Committee report on pages 57 to 59.

Renewables

In addition to the renewable energy generation that forms part of our regulated business (see page 22) we continued to build our non-regulated renewable capacity.

After securing planning permission, we've started work on site on our first food waste anaerobic digestion plant at Coleshill, Warwickshire. We're planning to commission the plant towards the end of 2014.

We've installed our first four large wind turbines at sites in Derby, Leicester and Newthorpe, and three of these are now generating electricity. Two more turbines are planned for the coming year. We've also expanded our crop anaerobic digestion plant in Nottingham. This can now produce 33% more renewable energy, including heat sales. Severn Trent Water uses the electricity and heat that we generate in its water and waste water treatment processes.

Outlook

Our expectations for our non-regulated business remain positive.

Recent new business in Operating Services will provide long term revenue stability, as the business seeks to expand into larger markets through organic growth.

Next generation products and new geographies will provide opportunities for Products, offsetting delayed customer spending in traditional markets. We will continue to invest in BALPURE®, while awaiting IMO ratification of ballast water treatment standards. We also expect to see sustainable growth from our aftermarket sales initiative. While moving to a regional operating structure, we will target continuous improvement across all business segments and ensure we properly manage our supply chain. Having the right cost base and appropriate products for each region will allow us to develop into a sustainable global business.

Our non-regulated renewable energy generation continues to grow as we seek to expand into different technologies and new markets.

Financial review

Group financial performance

The group has delivered a good financial performance overall with year on year improvements at Severn Trent Water and the Operating Services part of our non-regulated business Severn Trent Services, while the Products side has struggled with both market dynamics and execution on a number of projects.

In the regulated business, Severn Trent Water, the costs that we directly control were held at inflation, while other costs over which we have less direct influence, notably power costs, continued to increase at levels higher than inflation, a trend we have seen in prior years. We maintained our good performance on bad debts at 2.2% of turnover (UK GAAP), which is creditable in the current climate where household incomes remain under pressure. We continued to sustain our planned investment in the assets and infrastructure that support this long term business with total capital expenditure at £602.1 million, up 8.5% on the prior year, though infrastructure maintenance expenditure included in this figure and expensed under IFRS accounting rules was down £7.4 million (5%), driven by shorter term operational requirements.

With no substantial change in financing structures this year, finance costs increased to rising to £247.9 million (2013: £244.3 million) largely as a result of the higher level of net debt.

PBIT is profit before interest and tax; underlying PBIT is PBIT excluding exceptional items before tax as set out in note 8 on page 104. Our tax position this year reflects an outline agreement we have reached with HMRC on a long standing discussion regarding overpayments of tax in prior periods (as set out in note 13 on pages 105 to 106) and we have now factored this into our business plan for 2015 – 2020 to support lower customer prices in AMP6. Prior period comparative figures have been restated, where indicated, for the change in the accounting policy for retirement benefits. The impact is to decrease profit previously reported by £11.5 million, with an equal and opposite movement in reserves.

Group turnover was £1,856.7 million (2013: £1,831.6 million), an increase of 1.4% over last year.

Underlying group PBIT increased by 4.3% to £516.8 million (2013: £495.4 million). The primary factors affecting underlying PBIT are described in the commentary on Severn Trent Water and Severn Trent Services below.

There were net exceptional items before tax of £44.4 million (2013: £5.8 million). Group PBIT decreased 3.5% to £472.4 million (2013: £489.6 million).

Regulated – Severn Trent Water

Turnover in Severn Trent Water increased by 2.2% in 2013/14, to £1,544.8 million. Prices were increased by 1% less than November 2012 inflation of 3.0% from 1 April 2013 which gave rise to an increase in turnover of £29.8 million. The 2013 dry summer led to higher consumption from metered customers which increased turnover by £7.1 million year on year. Growth, net of the impact of meter optants, increased turnover by £1.3 million which was offset by other decreases amounting to £4.4 million.

Underlying PBIT increased by 4.0% to £518.6 million.

Operating costs increased by 3.1% to £600.3 million in line with expectations. Depreciation increased by £3.3 million due to the impact of capital expenditure increasing the size of the asset base and there was a decrease in infrastructure renewals expenditure of £7.4 million.

Directly managed costs increased in line with the level of inflation at 3.0% year on year, while indirectly managed costs, over which we have less control, increased by 3.2%.

	2014 £m	2013 £m	Increase/(decrease) £m	%
Directly managed costs				
Employee costs	**238.6**	226.6	12.0	5.3
Hired and contracted	**154.1**	147.5	6.6	4.5
Raw materials and consumables	**42.5**	43.4	(0.9)	(2.1)
Other	**48.8**	49.5	(0.7)	(1.4)
Costs capitalised	**(92.6)**	(87.1)	(5.5)	6.3
	391.4	379.9	11.5	3.0
Indirectly managed costs				
Bad debts	**31.3**	31.8	(0.5)	(1.6)
Power	**65.3**	60.6	4.7	7.8
Rates and service charges	**112.3**	110.1	2.2	2.0
	208.9	202.5	6.4	3.2
Operating costs	**600.3**	582.4	17.9	3.1

Overall net labour costs, including hired and contracted and after costs capitalised, were 4.6% higher period on period. Raw materials and consumables were lower than the prior year primarily due to savings within waste water.

Bad debts remained stable at 2.2% of turnover (UK GAAP) due to our continuing proactive approach and range of social tariffs to help customers pay their bills. The increase in power costs arose due to higher strike prices on our energy swaps.

During the year, Severn Trent Water invested £602.1 million (2013: £555.4 million) (UK GAAP, net of contributions) in fixed assets and maintaining and improving its infrastructure network. Included in this total was net infrastructure maintenance expenditure of £140.3 million (2013: £147.7 million), charged to the income statement under IFRS.

Financial review continued

Non-regulated – Severn Trent Services

	2014 £m	2013 £m	Increase/ (decrease) %
Turnover			
Services as reported	**311.4**	328.5	(5.2%)
Structural changes	**–**	(21.1)	
Impact of exchange rate fluctuations	**–**	0.1	
Like for like	**311.4**	307.5	1.3%

	2014 £m	2013 £m	Increase/ (decrease) %
Underlying PBIT			
Services as reported	**7.1**	12.6	(43.7%)
Structural changes	**–**	1.2	
Like for like	**7.1**	13.8	(48.6%)

In Severn Trent Services there was like for like growth in sales but underlying PBIT, measured on the same basis, was lower.

The like for like results show the prior year results using current year exchange rates and exclude the amounts in the prior year that arose from the Analytical Services and Metering Services businesses, which were sold in that year.

Performance was mixed. Operating Services performed well and like for like turnover was £209.9 million, an increase of 8.0% compared to the prior year. However, in Products, shipments were below expectations due to continuing customer project and delivery delays leading to lower like for like turnover at £101.5 million, a decrease of 10.3% compared to the prior year.

Both businesses were impacted by net exceptional costs totalling £31.5 million, the detail of which is in the exceptional items section below.

Corporate and other

Corporate overheads amounted to £13.6 million (2013: £14.6 million). Our other businesses generated an underlying profit of £2.5 million (2013: loss of £2.7 million). This included an underlying profit on our captive insurance activity of £2.3 million (2013: loss of £1.8 million) and an underlying loss of £0.4 million (2013: loss of £0.9 million) in our renewables business arising mainly from new investment feasibility and other similar costs taken to charge. There were exchange losses in Corporate of £0.7 million (2013: gains of £0.4 million).

Exceptional items before tax

There were net exceptional operating costs in the year to 31 March 2014 of £44.4 million (£4.3 million) which are described in further detail below, and in the prior year in Severn Trent Services there was a net exceptional loss on disposal of businesses of £1.5 million.

Exceptional operating items included:

- In Severn Trent Water, a profit of £8.2 million arising from the disposal of a number of properties;
- In Severn Trent Services exceptional costs of £31.5 million comprising:
  - In Products, a goodwill impairment of £24.7 million as the prospects for this business depend on the successful execution of a plan to reduce the structural cost base of the business and move it closer to growth markets. Management has taken a cautious view of the risks of delivery of the expected benefits of this plan and, in line with the requirements of accounting standards, has not included these benefits in its assessment of the recoverability of the goodwill. At 31 March 2014 the group was committed to restructuring costs of £3.4 million arising from the implementation of this plan. A write down of software development costs of £2.4 million arising from the termination of a planned ERP system replacement that will no longer be required as a result of this reorganisation has also been recorded as an exceptional cost.
  - In Operating Services costs of £1.2 million arising from the reorganisation of the business in the UK following the acquisition of Costain's minority share in that business and £1.0 million in Italy to complete a reorganisation of the senior management structure commenced in the prior year.
  - Release of £1.2 million from a provision recorded in the prior year for a commercial legal dispute that was settled in the current year for an amount lower than had been estimated.
- In Corporate there were exceptional costs of £18.7 million arising from advisory, legal and other services related to LongRiver Partners approach and an additional provision of £2.4 million relating to potential liabilities from warranties granted on disposal of a business in a prior year.

Net finance costs

The group's net finance costs were £247.9 million, compared with £244.3 million in the prior year.

The effective interest rate, including index linked debt, for 2013/14 was 5.8% (2013: 5.9%). The cash interest rate was 4.9% (2013: 4.9%). The non-cash interest charge was lower year on year following repayment of an index linked loan during the year. This was offset by an increased cash interest charge on a higher level of net debt. Changes to the accounting standard IAS 19R have resulted in an increase of £17.2 million in net pension finance cost (prior year figures have been restated by £12.4 million to reflect these changes).

Gains/(losses) on financial instruments

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

- Exchange rate exposure on borrowings denominated in foreign currencies;
- Interest rate 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 criteria for cash flow hedge accounting are met, the changes in value are taken to the income statement. If the risk that is being hedged does not impact the income statement in the same period then an accounting mismatch arises from the hedging activities and there is a net charge or credit to the income statement.

Where the derivatives are held to their full term, these mismatches are expected to net out. Furthermore, the changes in value that are recorded during the lives of the derivatives, unless crystallised, do not represent cash flows. Therefore the group presents adjusted earnings figures that exclude these non-cash items. An analysis of the amounts credited to the income statement in the period is presented in note 12 to the financial statements on page 105.

Profit before tax

Underlying group profit before tax increased by 7.1% to £269.1 million (2013: £251.3 million). Group profit before tax was £282.7 million (2013: £200.2 million).

Taxation

The current year tax charge for 2013/14 before exceptional items was £56.5 million (2013: charge of £27.9 million). This includes a charge of £9.3 million arising from adjustments to prior year tax computations. In the previous year adjustments to prior year tax computations resulted in a current tax credit of £29.2 million due primarily to an industry agreement over the treatment of infrastructure income in those computations. The deferred tax charge before exceptional tax was £21.5 million (2013: credit of £8.2 million).

An exceptional current tax credit of £59.2 million has been recognised, reflecting the anticipated refund of overpayment of tax in prior periods as HMRC has now agreed that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery. This has also resulted in an exceptional deferred tax credit of £56.2 million.

There was a further exceptional credit to deferred tax of £114.8 million (2013: £36.7 million) arising from the reduction in corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% from 1 April 2015.

In the prior year the group's UK subsidiary companies adopted the new accounting standard FRS 101, which changed the basis for those companies' corporation tax computations. The most significant impact of this change is that certain amounts that had been taxed in previous years were recognised as profits and will be taxed in future periods. Therefore, to prevent such items being taxed twice, the tax already paid on such items was repayable. The impact of this change was an exceptional credit in the prior year of £40.5 million to current tax and an exceptional charge of £38.8 million to deferred tax.

The total tax credit for the year was £152.2 million (2013: credit of £18.7 million).

See note 13 on pages 105 to 106 for further detail.

The underlying effective rate of current tax, excluding prior year credits, exceptional tax credits and tax on exceptional items and financial instruments, calculated on profit before tax, exceptional items before tax and gains/(losses) on financial instruments was 17.3% (2013: 25.4%).

We expect the effective rate of current tax, as defined above, for 2014/15 to be in the range of 20% to 22%.

Profit for the year and earnings per share

Profit for the year was £434.9 million (2013: £218.9 million).

Adjusted basic earnings per share (before exceptional items, gains/(losses) on financial instruments and deferred tax) were 88.4 pence (2013: 92.6 pence) (see note 15 on pages 107 to 108). Although underlying profit before tax was higher year on year, the previous year current tax charge benefited from a large prior year current tax credit and so adjusted earnings per share are lower year on year. Basic earnings per share were 182.1 pence (2013: 90.9 pence).

Cash flow

	2014 £m	2013 £m
Cash generated from operations	**730.2**	731.2
Net capital expenditure	**(463.9)**	(401.8)
Net interest paid	**(204.5)**	(233.4)
Tax received/(paid)	**27.2**	(72.5)
Other cash flows	**(0.6)**	(0.5)
Free cash flow	**88.4**	23.0
Acquisitions and disposals	**(11.4)**	11.1
Dividends	**(185.3)**	(322.0)
Net issue of shares	**2.3**	5.3
Change in net debt from cash flows	**(106.0)**	(282.6)
Non cash movements	**(44.2)**	(46.9)
Change in net debt	**(150.2)**	(329.5)
Net debt 1 April	**(4,297.3)**	(3,967.8)
Net debt at 31 March	**(4,447.5)**	(4,297.3)
Net debt comprises:		
Cash and cash equivalents	**123.2**	403.6
Bank overdrafts	**–**	(0.4)
Cross currency swaps hedging debt	**51.4**	100.7
Bank loans	**(594.9)**	(758.7)
Other loans	**(3,826.0)**	(3,840.9)
Finance leases	**(201.2)**	(201.6)
	(4,447.5)	(4,297.3)

Cash generated from operations was £730.2 million (2013: £731.2 million). Capital expenditure net of grants and proceeds of sales of fixed assets was £463.8 million (2013: £401.8 million). Net interest paid decreased to £204.5 million (2013: £233.4 million).

Financial review continued

In the first part of the year the group made payments of tax, however, the exceptional credits in prior periods arising from the water industry's outline agreement with HMRC resulted in tax refunds in the second half of the year. In total the group paid £48.5 million of tax and received tax refunds of £75.7 million resulting in net tax received of £27.2 million.

Net debt at 31 March 2014 was £4,447.5 million (2013: £4,297.3 million). Balance sheet gearing (net debt/net debt plus equity) at the year end was 80.3% (2013: 83.6%). Net debt, expressed as a percentage of RCV at 31 March 2014 of £7,618 million was 58.4% (2013: 58.4%). The group's net interest charge, excluding gains/(losses) on financial instruments and net finance costs from pensions, was covered 3.3 times (2013: 3.2 times) by profit before interest, tax, depreciation and exceptional items, and 2.1 times (2013: 2.0 times) by underlying PBIT.

Following the introduction of the new accounting standard, IFRS 13 'Fair Value Measurement', the group is required to amend its approach to estimating the fair value of its debt instruments to comply with the new standard which now places more emphasis on quoted prices in active markets rather than expected cash flows discounted using rates derived from market data. The fair value of net debt at 31 March 2014 is estimated to be £4,799.8 million (£4,880.4 million) compared to the book value of £4,447.5 million (2013: £4,297.3 million).

Treasury management and liquidity

The group's principal treasury management objectives are:

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability;
- to maintain an investment grade credit rating; and
- to maintain a flexible and sustainable balance sheet structure.

The group continues to carefully monitor liquidity. At 31 March 2014 the group had £123.2 million (2013: £403.6 million) in cash and cash equivalents and committed undrawn facilities amounting to £500 million (2013: £500 million). Average debt maturity is around 16 years. The group is funded for its investment and cash flow needs up to January 2015 without recourse to committed facilities or new debt.

Cash is invested in deposits with highly rated banks and liquidity funds and the list of counterparties is regularly reviewed.

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.

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, 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.

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 values are taken to gains/(losses) on financial instruments in the income statement. Since the terms of the swaps closely match those of the underlying notes, such changes tend to be broadly equal and opposite.

The group's current policy for the management of interest rate risk requires that not less than 45% of the group's borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2014, interest rates for 77% of the group's net debt of £4,447.5 million were fixed.

The group holds interest rate swaps with a net notional principal of £591.4 million and cross currency swaps with a net notional principal of £610.2 million which economically act to hedge the interest rate risk on floating rate debt or the exchange rate risk on certain foreign currency borrowings. However, the swaps do not meet the hedge accounting rules of IAS 39 and therefore the changes in fair value are taken to gains/(losses) on financial instruments in the income statement. During the year there was a credit of £44.5 million in relation to these instruments.

The group has entered into a series of forward starting interest rate swaps with a notional principal amount of £450 million that hedge the interest rate risk on the anticipated borrowing requirements of Severn Trent Water for AMP5. These swaps are treated as cash flow hedges and the changes in fair value are taken to other comprehensive income. During the year swaps with a notional principal amount of £225 million reached their start dates. Hedge accounting for these swaps was terminated as at 1 April 2013 because the group was not able to identify specific debt instruments that would qualify as the hedged items in a future hedging relationship. The fair value held in other comprehensive income at the date of termination will be amortised to the income statement over their remaining lives.

The group manages its electricity costs through a combination of self generation forward price contracts and financial derivatives. All of our external power requirements for the first four years of AMP5 and most of the remaining year have been hedged in this way, at prices below those allowed in the final determination.

The group's long term credit ratings are:

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

Pensions

The group operates two defined benefit pension schemes, of which the UK Severn Trent Pension Scheme (STPS) is by far the largest. Formal triennial actuarial valuations and funding agreements as at 31 March 2013 for the STPS and the other smaller defined benefit pension scheme have been agreed and renewed in the year. Deficit reduction contributions in total include a payment of £40 million in 2013/14, £35 million in 2014/15, £15 million in 2015/16 and then £12 million per annum in subsequent years to 2024/25. Further payments of £8 million per annum through an asset backed funding arrangement will also continue to 31 March 2032.

As previously announced, the final salary sections of the pension schemes will close to future accrual on 31 March 2015. The final salary sections were closed to new entrants in 2006. Consequently the age profile of scheme participants is expected to rise and hence service costs are also expected to rise until future accrual ceases in March 2015.

A new defined contribution pension scheme has been established and members of the defined benefit pension schemes will then become members of the new defined contribution pension scheme. The existing defined contribution pension scheme will also be replaced by the new pension arrangements with effect from 1 April 2015. From 1 April 2012 new employees have been automatically enrolled into this scheme and those employees who were not members of a Severn Trent scheme were automatically enrolled into this scheme from 1 April 2013.

The key actuarial assumptions for the defined benefit schemes have been updated for these accounts. On an IAS 19 basis, the estimated net position of the schemes was a deficit of £348.3 million as at 31 March 2014. This compares to a deficit of £383.7 million as at 31 March 2013. The movements in the net deficit are summarised in note 30 on pages 119 to 122. The funding level has increased to 84.0% (2013: 81.8%).

The major assumptions used in the valuation of the defined benefit pension schemes were as follows:

	2014	2013
Price inflation	**3.3%**	3.2%
Pension increases in payment	**3.3%**	3.2%
Pension increases in deferment	**3.3%**	3.2%
Discount rate	**4.4%**	4.4%
Remaining life expectancy for members currently aged 65 (years)		
– men	**21.3**	21.5
– women	**24.4**	24.6
Remaining life expectancy for members currently aged 45 upon retirement at 65 (years)		
– men	**22.6**	22.7
– women	**26.0**	26.2

The following table summarises the estimated impact on scheme liabilities resulting 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 £38 million
Price inflation	Increase/decrease by 0.1%	Increase/decrease by £35 million
Mortality	Increase in life expectancy by 1 year	Increase by £55 million

Accounting policies and presentation of the financial statements

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

Risk management

Our approach to risk:

Our approach to risk balances the need to efficiently mitigate the inherent risks in our business and the opportunity to improve our performance through the targeted management of selected risks.

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 an holistic view of effective risk management.

Within Severn Trent Water, our approach reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of our Severn Trent Water business is such that there are some significant inherent risks as illustrated in the section headed 'Principal risks'. We aim to have a strong control framework in place to enable us to understand our risks and manage them effectively.

Although the Severn Trent Services businesses are not generally regulated, we provide products and services for clients who operate in regulated environments and as a result, we take a similar approach to risk.

Our Enterprise Risk Management process:

We use an established Enterprise Risk Management (ERM) process across the group to assess and manage our most significant risks which are linked to our corporate objectives.

Our ERM process covers all types of risk including operational, financial and legal and regulatory.

We analyse both the possible causes of risk and what the impact would be if a risk crystallised. Using this process, we are able to consider the controls needed to minimise the likelihood of risks occurring and those which can help to maximise our resilience to risks. Our assessment of risks includes explicit consideration of the possible impact of the risk on the reputation of the group as a whole. The understanding which we are able to gain from our ERM process allows us to put in place effective mitigation strategies. Resilience of our services is vital and we regularly carry out exercises jointly with other agencies such as local authorities, police and fire services. During the year we have also started an extensive training programme to increase the number of trained staff available to respond to incidents.

The key risks are reported to the Audit Committee and discussed at the board every six months in the form of risk maps. In addition, individual risks or specific risk topics are also discussed by the board during the year. We have regular risk 'deep dives' at our executive team meetings. These take the form of updates from individual business teams within Severn Trent Water on their progress with improving controls and providing effective mitigation for their most significant risks.

Risk appetite

During the year the board held a series of discussions about our appetite for risk from four key perspectives: consistency with our culture and values; delivering what our customers need; retaining the confidence of our investors and compliance with the regulatory regime in which we operate. These perspectives were applied to eight specific areas:

- Health, safety and wellbeing;
- Financing the business;
- Ambition for growth;
- Future competitive position;
- Customer confidence;
- Resilience of our network;
- Relationships with regulators; and
- Sustainability of the business.

The board will continue to work on refining our approach to risk appetite in the coming year. The board discussions on risk appetite, in the context of our strategy, influence the outcome of the ERM process and, in particular, how we establish an appropriate target position for each significant risk.

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 Ref 4). The board receives regular updates relating to funding, solvency and liquidity matters.

Financial risks are discussed in detail on pages 33 to 37.

An example of risk management in practice

We rely on our network of partners and suppliers to enable us to continue our normal operations. Our ERM process recognises the risk of failure of the supply chain. We have analysed which of the causes of failure would impact on our essential operations in order to identify critical suppliers. We work with suppliers to understand their resilience plans and arrangements.

We also analyse the consequences of supply chain failure on our operations to understand where we can diversify to use alternative suppliers, or to temporarily adapt our processes.

One of the most critical items for our operations is having sufficient chemicals to allow us to treat water and waste water. As a result of our understanding of the risk we have put in place a strategy team to ensure that we manage the procurement of chemicals effectively. Our analysis has also helped us to decide on stock levels for our essential supplies.

Principal risks

We have a number of significant risks in common with other companies operating water and sewage treatment works, distribution networks and related activities (as shown on our business models on pages 14 to 15 and 26 to 27). These include:

- we, or our clients, operate in heavily regulated environments and are subject to many varied, complex and changing obligations. As result, we face risks associated with non-compliance;
- Severn Trent Water has an extensive network of assets and the failure of key individual or collections of these assets could result in a significant impact on our core business activities;
- our processes are sensitive to the impacts of extreme weather events such as drought or flooding;
- we face risks to the health, safety and wellbeing of our people, customers and contractors as a result of the nature of our operations;
- our business operations depend on the effective performance of key supply chain partners;
- we share a concern with many other businesses over our ability to fund long term pension promises; and
- we share concerns with other businesses over access to funding and over the security of funds placed with counterparties.

Where appropriate, these are discussed in the table of principal risks below.

Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
Customer perception				
1	We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.	Severn Trent Water	Failure to deliver the service customers expect will lead to customer dissatisfaction. As a regulated utility providing essential services, we recognise that customer trust is vital for us to maintain legitimacy. If we are unable to provide the level of service we want to our customers we may also suffer financial penalties under Ofwat's Service Incentive Mechanism (SIM).	We have co-ordinated programmes of work underway across all parts of Severn Trent Water to improve our processes and our technology to enable us to deliver outstanding customer service. Our performance as measured by Ofwat's SIM measure continues to improve. However, we are not improving as fast as some of our competitors and our performance is still not as good as we would like. We have set ourselves more challenging targets and our customer experience improvement programmes are working to deliver these at a faster rate for our customers.
2	We may be unable to take full advantage of the opportunities presented by the opening up of the business retail market to competition.	Group wide	We may lose income as a result of business retail customers moving to competitors or we may fail to successfully grow our business by being unable to develop sufficiently attractive services to win new customers.	Within Severn Trent Water our strategy reflects the needs of different groups of customers – whether large or small businesses and whether water is critical to their operations. Across the group we are developing our service offering which includes, for example, services to help customers understand and reduce their water consumption. We have established a dedicated programme, overseen by members of our Executive Committee, to put in place the systems, process and organisational changes needed to implement our strategy.
Legal and regulatory environment				
3	We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.	Severn Trent Water	The major part of our business, 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.	During the year we published the fourth in our 'Changing Course' series – 'Changing Course through the Sustainable implementation of the Water Framework Directive' which sets out our view on an approach to implementation which is affordable for our customers. We also commissioned a report from KPMG looking at the challenges and possible solutions for sustainable investment to maintain the water infrastructure. We will continue to engage with our peers, Ofwat and other regulators, UK Government departments and other stakeholders to inform the direction of regulatory policy where appropriate.

Risk Management continued

Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
Legal and regulatory environment				
4	We may be unable to develop and deliver a five year business plan which is acceptable to Ofwat, our customers, other stakeholders and which is financeable within the assumptions we have used.	Severn Trent Water	We submit a business plan to Ofwat every five years. At each of these price reviews, we have a risk that changes will be required to our plan to meet Ofwat's expectations. Once plans have been agreed, we face risks to delivery of the plan within the constraints and assumptions that we have adopted. Failure to achieve the targets set out in our agreed plan for the current price review period could result in Ofwat being less willing to support our business plan submission for the next price review period and could result in additional funding requirements in the current period.	We are using our established business planning processes to update our plan for the 2015–2020 price review period. We are engaging with Ofwat in order to respond to the feedback from their Risk Based Review. We will be providing an updated proposal in June which reflects Ofwat's feedback, the Risk and Reward Guidance and the views of our customers. We are reviewing progress against the plan agreed for the current price review period to confirm that we expect to achieve the agreed targets or that we have included appropriate compensation in our plan for the next period where we have failed to fully deliver the required service levels and outputs. We will continue to engage with our customer challenge group (the Water Forum) to ensure that we continue to respond to our customers when refining our plan.
5	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.	Group wide	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.	During the year, we have maintained our focus on raising awareness of updated policies via e-learning, face to face coaching and general communications. These communications include reminders of the principles of our Code of Conduct: Doing the right thing – The Severn Trent way. We are reviewing our methods of obtaining assurance in relation to compliance issues to ensure we have a consistent approach for all key obligations, including licence conditions, competition legislation and anti-bribery and corruption legislation.
Operations, assets and people				
6	Our assets or processes may fail resulting in injury to an employee, contractor or member of the public.	Group wide	The nature of our work requires our employees and contractors to undertake activities or to use equipment which have potential to cause serious harm. Whilst we take every precaution to prevent injury, asset failure or failure to follow agreed processes may result in someone being hurt. Specific examples include failure of one of our key assets such as a reservoir which could result in injury to customers or the public.	Our ongoing strategy for health, safety and wellbeing covers improving the management system, addressing the causes of incidents and improving health, safety and wellbeing. During the year, we have delivered a number of improvements, including a new reporting system and a new standard for local safety improvement teams. Our next steps include implementing new approaches to our safety standards and risk assessment. In addition to learning lessons from incidents, we continue to measure improvements in culture and the belief in our vision as well as substantial proactive safety activity to identify and remove hazards. Our assets are subject to regular and rigorous monitoring, including independent inspection of our reservoirs to ensure that they remain safe and that maintenance work is undertaken where needed. We will continue with our programme of safety improvements and with our rigorous monitoring and maintenance regimes for critical assets.

Ref	What is the risk?	Which part of Severn Trent is affected?	What does it mean for us?	What are we doing to manage the risk?
Operations, assets and people				
7	We may fail to meet all of our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.	Severn Trent Water	If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties either within the current price review period, or applied to the next price review. Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.	We continue to focus on finding and clearing blockages in our sewers and on our education programmes to help customers understand how to use our assets responsibly. Our business plan for 2015–2020 includes considerable investment in our above ground water assets to improve the resilience of our networks, reduce interruptions and improve the service that our customers receive.
8	Failure of certain key assets or processes may result in inability to provide a continuous supply of quality water to large populations within our area, or in damage to third party property.	Severn Trent Water	Some of our assets are critical to the provision of water to large populations for which there are limited alternative means of supply. These assets are regularly inspected and maintained and our assessment of the overall condition is good. If a failure were to occur the consequence would result in temporary inability to continue to serve our customers. In addition, our IT and telephony systems are critical to our operations and failure of these systems, for example materialisation of a cyber threat affecting our remote monitoring system, could have a significant effect.	During the year, as part of our planning for the next price review period from 2015–2020, we have undertaken extensive surveys of some of our largest, most critical assets. As a result we have a better understanding of the specific points around our network which could present a threat to our continuous operation. This has helped us to prioritise our spending requirements and informed our asset management plans which drive investment in maintenance and improvement of our assets in order to maintain our service to customers. During the year we have progressed work on implementing dual data centres to provide increased resilience for our key IT systems. We have also assessed the security of our systems in line with the '10 steps to cyber security' managed by CESG. Our business strategy for 2015–2025 includes significant investment to improve the resilience of our network, particularly by improving our ability to move water around our network. We also have security measures to protect our assets and contingency plans to maintain supplies in the event of failure.
Financial risks				
9	Changing demographics and fluctuations in the investment market may affect our ability to fund pensions promises sustainably.	Group wide	We provide significant funding for our schemes. We may be called upon to provide more money to reduce deficits in our pensions schemes.	We regularly revalue our schemes and monitor our investment performance. We will continue to monitor the performance of our pensions investments and to work closely with our third party advisors to ensure that the schemes are managed effectively.

The Strategic Report, as set out from the inside front cover through to page 41, has been approved by the board.

By order of the board

Bronagh Kennedy
General Counsel and Company Secretary
28 May 2014

Board of directors

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Committee membership key

- ■ Audit Committee
- ▲ Corporate Responsibility Committee
- ❖ Executive Committee
- ● Nominations Committee
- ★ Remuneration Committee

1. Dr Tony Ballance ❖

BSc (Hons) MA (Econ) PhD (49)

Director, Strategy and Regulation
Appointed to the board on 2 October 2007
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
Member of Water UK Council

2. John Coghlan ●

BCom ACA (56)

Independent non-executive director
Appointed to the board on 23 May 2014
John is a chartered accountant with substantial financial expertise and is a valuable addition to the board's existing skill set. He will become Chairman of the Audit Committee with effect from the conclusion of the AGM on 16 July 2014. John is currently Chairman of Inchcape Shipping Services and a non-executive director and Chairman of the Remuneration Committee of Lavendon Group plc. He was previously a non-executive director of Hibu plc (formerly Yell Group plc) from June 2002 to February 2014 and Chairman of the Audit Committee. Prior to this he was a non-executive director of Ashley House plc and DX Services PLC and until 2006 he was Deputy Chief Executive and Group Finance Director of Exel Plc.

External appointments
Chairman of Inchcape Shipping Services
Non-executive director and Chairman of the Remuneration Committee of Lavendon Group plc
Chairman of Freight Transport Association Ireland Limited

3. Richard Davey ■●★

BA (65)

Senior independent non-executive director
Appointed to the board on 1 January 2006
Richard spent the majority of his executive career in investment banking at NM Rothschild and Sons, in roles including Head of Investment Banking. Richard brings invaluable specialist financial expertise to the board, the Audit Committee and as chair of the Remuneration Committee, having run Rothschild's Financial Services Group and worked with a number of high street banks and insurers. Previously he held non-executive roles at Yorkshire Building Society, where he was Vice Chairman, Freeserve Plc and Scottish Widows Fund and Life Assurance Society.

External appointments
Non-executive Chairman, member of the Risk and Solvency Committee and Chairman of the Nomination Committee of Amlin Plc

4. Andrew Duff ▲●★

BSc FEI (55)

Non-executive Chairman
Appointed to the board on 10 May 2010 and Chairman on 20 July 2010
Andrew's extensive experience of international and regulated business, strategic management and customer service in high profile, dynamic environments have 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 led the restructuring and subsequent sale of Innogy to RWE in 2003.
He became CEO of the successor company, npower, and a member of the RWE Group Executive Committee. He was a non-executive director of Wolseley Plc from

July 2004 until his retirement in 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

5. Gordon Fryett ▲●

(60)

Independent non-executive director
Appointed to the board on 1 July 2009

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

External appointments

Alumnus of INSEAD

6. Olivia Garfield ▲❖●

BA (Hons) (38)

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

Non-executive director Tesco Plc

7. Martin Kane ❖

BSc CEng CEnv MICE MIWEM FIW (61)

Chief Executive Officer, Severn Trent Services
Appointed to the board on 2 October 2007

Martin joined Severn Trent Water in 1975 and 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 Water, from May 2006 until January 2012, when he was appointed Chief Executive Officer of Severn Trent Services.

External appointments

Member of the boards of Utilities and Service Industries Training Limited and National Association of Water Companies (US)
Trustee of International Society for Trenchless Technology

8. Martin Lamb ●★

BSc MBA (54)

Independent non-executive director
Appointed to the board on 29 February 2008

Martin has extensive experience of managing and developing large engineering businesses in all parts of the world. In May 2014, Martin left the board of IMI plc having served as Chief Executive for 13 years and after 33 years with the company. He oversaw the fundamental reshaping of IMI and held a number of senior management roles there. On 1 March 2014, Martin was appointed Chairman of Evoqua Water Technologies. His strong commercial acumen, experience of managing complex projects, and familiarity with current market pressures leave him well placed to add value to the Severn Trent business. Previously Martin was a non-executive director of Spectris plc.

External appointments

Chairman of Evoqua Water Technologies LLC
Member of the Advisory Board of AEA Investors Management (UK) Limited

9. Michael McKeon ❖

MA CA (57)

Finance Director
Appointed to the board on 13 December 2005

Michael brings significant financial and commercial expertise to the board and has over eight years' experience of the Severn Trent group. Prior to joining Severn Trent he was Finance Director of Novar Plc and before that, held various senior roles with Rolls-Royce Plc, including Finance Director of the Aerospace Group. He has extensive international business experience having worked overseas for CarnaudMetalbox, Elf Atochem and Price Waterhouse. Michael is a chartered accountant and a member of the Institute of Chartered Accountants of Scotland.

External appointments

Non-executive director and Chairman of the Audit Committee of The Merchants Trust Plc

10. Baroness Noakes ■●

DBE LLB FCA (64)

Independent non-executive director
Appointed to the board on 29 February 2008

Sheila brings valuable expertise to the board as an experienced director and Audit Committee Chairman of UK listed companies and with extensive and varied professional, political and public sector experience. A qualified chartered accountant, she previously headed KPMG's European and International Government practices and has been President of the Institute of Chartered Accountants in England and Wales. Sheila was appointed to the House of Lords in 2000 and has served on the Conservative front bench in various roles including as shadow treasury minister between 2003 and May 2010. Previously she held non-executive roles on the Court of the Bank of England, Hanson Plc, ICI Plc, John Laing and SThree. Sheila will retire from the board with effect from the conclusion of the 2014 AGM.

External appointments

Non-executive director, member of the Group Audit Committee and Group Nominations Committee and Chairman of the Board Risk Committee of The Royal Bank of Scotland Group Plc
Deputy Chairman, senior independent director and Chairman of the Nominations Committee of Carpetright Plc

11. The Hon. Philip Remnant ■●★

CBE ACA MA (59)

Independent non-executive director
Appointed to the board on 31 March 2014

Philip is a senior investment banker with substantial advisory and regulatory experience. A chartered accountant, he is Senior Independent Director of Prudential Plc, a Deputy Chairman of the Takeover Panel, a non-executive director of UK Financial Investments Limited and Chairman of City of London Investment Trust plc. He was previously a 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. Previously he served on the board of Northern Rock plc and from 2007 to 2012 was Chairman of the Shareholder Executive.

External appointments

Senior independent director and member of the Audit, Nominations and Remuneration Committees of Prudential Plc.
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
Trustee of St Paul's Cathedral Foundation

12. Andy Smith ❖

BTech (Hons) (53)

Director of Water Services
Appointed to the board on 2 October 2007

Andy brings a broad range of executive and operational expertise gained from diverse sectors to the board. Andy has significant experience having worked in the UK and overseas with global businesses such as BP, Mars and Pepsi, in engineering and operational management roles. Previously he was a member of the board at Boots Group Plc.

13. Dr Angela Strank ▲●★

BSc PhD (Geology) (61)

Independent non-executive director
Appointed to the board on 24 January 2014

Angela is Chief Scientist at BP Group. She has held various senior strategic, technical and commercial leadership roles at BP since joining in 1982, most recently 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, technology and transformational change are a complementary addition to the board's skill set.

External appointments

Board of Governors of the University of Manchester
University College London, Energy Institute International Advisory Board

Executive Committee

The Chief Executive during the year under review was Tony Wray, who retired on 11 April 2014. Liv Garfield succeeded Tony as Chief Executive on 11 April 2014.

The Executive Committee oversees the development and execution of the Severn Trent strategy. It also has accountability for achieving business results. The terms of reference of the Executive Committee are available on the company's website (www.severntrent.com) or from the Company Secretary.

During the year, the Executive Committee met to consider strategy, business management, policy and planning, and operational performance.

Members of the Executive Committee are delegated responsibility to sit on steering groups that oversee the delivery of our strategy and business management. During the year, steering groups were set up to oversee areas such as the submission of our PR14 plan to Ofwat and the integrated delivery of our year end results and Ofwat Annual Regulatory Returns.


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1. Dr Tony Ballance

BSc (Hons) MA (Econ) PhD (49)

Director, Strategy and Regulation

Please see full biography on page 42.

2. Simon Cocks

BA (Hons) (48)

Waste Water Services Director

Joined Severn Trent in July 2009. Simon is an electrical engineer by training. He previously worked for London Electricity in various operational and management roles and, more recently, for National Grid where he was Head of UK Operations Performance and Planning, then Commercial Director for the gas and electricity business in the UK and Europe and held the position of Chief Procurement Officer before joining Severn Trent. Simon is a board member of UK Water Industry Research.

3. Evelyn Dickey

BSc (Hons) (51)

Director of Human Resources

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 Chemists.

4. Olivia Garfield

BA (Hons) (38)

Chief Executive

Please see full biography on page 43.

5. Myron Hrycyk

MBA (57)

Chief Information Officer

Joined Severn Trent in April 2008. Myron has held senior IT posts for major organisations across a range of business sectors, Financial Services, Publishing, Automotive and Logistics/Supply Chain. He has delivered strategic IT and business transformation programmes, restructured corporate IT units and deployed high performance IT practices. Myron also has executive responsibility for Supply Chain & Procurement.

6. Angela Hunter-Dobson

MA (Hons) (42)

Customer Relations Director

Joined Severn Trent in May 2012. Angela commenced her career with IBM during its transformation from manufacturing to services business. She has since held senior operational leadership positions for Barclays, Hiscox and Vodafone, delivering customer services across B2B, B2C, domestic, international, indirect and regulated markets. In addition to leading award winning customer operations, she has consulted widely in the area of customer service in multiple sectors.

7. Martin Kane

BSc CEng CEnv MICE MIWEM FIW (61)

Chief Executive Officer, Severn Trent Services

Please see full biography on page 43.

8. Bronagh Kennedy

(BA) (Hons) (50)

General Counsel and Company Secretary

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

9. Michael McKeon

MA CA (57)

Finance Director

Please see full biography on page 43.

10. Alec Richmond

BSc (Econ) FCA FIIA (56)

Director of Internal Audit

Joined Severn Trent in June 2007. Prior to that, he worked for Cadbury Schweppes Plc, leading the company's global internal audit service from 2000–2005. Before joining Severn Trent, he worked for RSM Robson Rhodes as a director and a member of the management board responsible for Risk Assurance Services. Alec is a fellow of the Institute of Chartered Accountants in England and Wales and the Institute of Internal Auditors.

11. Andy Smith

BTech (Hons) (53)

Director of Water Services

Please see full biography on page 43.

Chairman's letter

Andrew Duff
Chairman

Governance in Severn Trent

The way we are structured

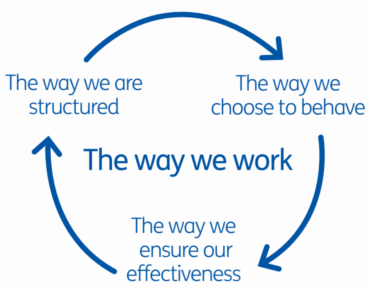
- Our organisation is structured to allow for effective and efficient decision making with clear accountabilities.

The way we choose to behave

- Our Code of Conduct: 'Doing the right thing – The Severn Trent way' sets out our approach to responsible business behaviours.
- The Code of Conduct is supported by 15 group policies and our behaviours model. Further details of these can be found on our website (www.severntrent.com).

The way we ensure our effectiveness

- We always look to ensure our people have the right skills in order to drive performance improvement.
- Management assurance is provided by a combination of effective management processes and risk and compliance activities.
- Independent assurance is provided primarily by Internal Audit, by our external auditors and other external bodies.



Dear Shareholder

At Severn Trent, we are committed to delivering value to our stakeholders and building a sustainable business, which is underpinned by good governance. As a board we are accountable to shareholders for ensuring that effective governance processes are in place and complied with.

The board's role is to:

- understand and meet its obligations to the company's stakeholders;
- govern the group within a framework of prudent and effective controls which enable risk to be assessed and managed;
- approve the group's strategic objectives; and
- ensure that sufficient resources are available to enable it to meet those objectives.

Good governance ensures that decisions flow down the organisation, so we implement them correctly, and that information flows up to those that need it to make decisions. Ultimately, good governance ensures that the board has access to timely, relevant and robust information, so it can run the business effectively.

During the year I led the review of our board's effectiveness and looked at how we have made progress with the areas identified as requiring further improvement at the last review. We have overseen the continued embedding of our Code of Conduct across our businesses and reviewed our supporting policies.

I believe that good governance is critically dependent on behaviour and culture, as well as organisation and process. The following sections of this report set out how good governance supports our activities at Severn Trent and describe how the board applies the principles of the UK Corporate Governance Code – in the way we are structured, the way we choose to behave and the way we ensure our effectiveness.

Assessing our governance arrangements in terms of these headings enables us to establish the right long term behaviours, which will help us to deliver the group's strategic objectives in a sustainable manner.

I firmly believe that we will continue to deliver value and achieve sustainable growth for our company through the successful mix of good governance, a clear strategy with a supporting business plan and a strong management team to execute it.

Andrew Duff
Chairman

Compliance with the UK Corporate Governance Code

The version of the Corporate Governance Code applicable to the current reporting period is the September 2012 UK Corporate Governance Code (the 'Governance Code'). The Governance Code is available on the Financial Reporting Council's website (www.frc.org.uk).

For the whole of the financial year ended 31 March 2014, Severn Trent was compliant with the Governance Code, with the exception that the adequacy of arrangements in relation to the company's whistleblowing procedures falls within the remit of the Corporate Responsibility (CR) Committee, rather than the Audit Committee. The CR Committee's remit is to deal with any allegations from employees relating to any breaches under Severn Trent's Code of Conduct. The Audit Committee reviews reports of matters arising in respect of financial or internal control matters from the company's whistleblowing procedures and the company's procedures for preventing and detecting fraud and bribery, and receives reports on non-compliance. The board considers that these arrangements are appropriate.

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 as we manage legal, financial and administrative issues throughout the group. The GAA are designed to facilitate good control, efficient decision making and demonstrable compliance.

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 issues, the delegated authority is subject to an obligation to work with specialist business services areas (such as Tax, Treasury, Group Finance and Company Secretariat) which provide additional expertise and a group wide perspective.

Governance of subsidiaries

The membership of the board of the listed company, Severn Trent Plc, is the same as that of its regulated subsidiary, Severn Trent Water Limited. This structure was implemented in 2007 when it was decided to integrate the management of the companies to gain greater transparency and insight of Severn Trent Water by the Plc board.

Following his appointment as CEO of Severn Trent Services in January 2012, Martin Kane became a non-executive director of Severn Trent Water Limited.

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

Subsidiary company boards are required to be managed scrupulously with respect to legal, fiscal and administrative matters. In particular, the relationships between Severn Trent Water Limited and our other businesses such as Severn Trent Services are monitored and controlled to ensure that we comply with our obligations on arm's length transactions between them.

The way we are structured

Board membership

During the year under review your board has comprised the non-executive Chairman, five executive directors and seven independent non-executive directors. During the year the board announced the retirement of Dr Bernard Bulkin and the appointment of Dr Angela Strank as a non-executive director, with effect from 24 January 2014. The board also announced the appointment of Philip Remnant as a non-executive director with effect from 31 March 2014. During the year the board also announced the appointment of Liv Garfield as Chief Executive with effect from 11 April 2014. Following the year end, the board announced the appointment of John Coghlan as a non-executive director with effect from 23 May 2014 and the retirement of Baroness Noakes as a non-executive director with effect from the conclusion of the AGM on 16 July 2014.

Photographs of the members of the board, together with their biographies and a description of the complementary skills and diverse experience that they bring to bear, can be found on pages 42 and 43.

We believe this unitary board brings an appropriate balance of innovation, experience, independence and challenge to ensure effective decision making.

In accordance with the Governance Code, all the directors will retire at this year's AGM and submit themselves for election or re-election by the shareholders, with the exception of Baroness Noakes who will be retiring from the board with effect from the conclusion of the 2014 AGM.

Details of our policy on diversity in the boardroom are provided in the Nominations Committee report on pages 52 and 53.

Role of the Chairman

The role of Andrew Duff, your Chairman, is to lead a unitary board, facilitating the contribution of its members at its meetings, and to be responsible for ensuring that the principles and processes of the board are maintained in line with the board governance framework.

Agendas for board meetings are agreed by the Chairman in consultation with the Chief Executive and Company Secretary, although any director may request that an item be added to the agenda. The Chairman has authority to act and speak for the board between its meetings, including engaging with the Chief Executive. He reports to the board and committee chairmen as appropriate on decisions and actions taken between meetings of the board. He also meets with the non-executive directors without the executive directors present, to consider the performance of the executive directors and to provide feedback.

Senior independent non-executive director

Richard Davey is your senior independent non-executive director. He chairs the Remuneration Committee and is a member of the Audit and Nominations Committees. The board has agreed that Richard will act as Chairman of the board in the event that the Chairman is unable to do so for any reason.

Non-executive directors

Your non-executive directors are appointed to the board to contribute their independent external expertise and experience in areas of importance to the group. Their competencies include corporate finance, general finance, corporate strategy, customer care, property, environmental and technology matters, general management, transformational change and supply chain management. They also provide independent challenge and rigour to the board's deliberations and are encouraged to make independent assessments of the group's competencies. The non-executive directors, led by the senior independent non-executive director, meet without the Chairman at least once a year for them to appraise the Chairman's performance and they have other meetings during the year without executive directors present.

Reporting obligations

As a public listed company, the company is required to comply with a range of reporting obligations set out by law and regulation.

The company recognises the importance of effective communication as a key part of building shareholder value and that, to prosper and achieve growth, it must earn the trust of security holders, employees, customers, suppliers, communities and the economic regulator of Severn Trent Water Limited, Ofwat, by being open in its communications and consistently delivering on its commitments.

The company announces its results on a half yearly basis and complies with the requirement to make interim management statements.

The Chief Executive has established a Disclosure Committee, chaired by the Finance Director, with specific responsibilities for the delivery of the interim and year end financial and regulatory reporting processes. The Disclosure Committee oversees the delivery of an integrated plan incorporating all elements of the year end reporting process, namely the group's preliminary results announcement and report and accounts, the company's AGM, the statutory and regulatory accounts of Severn Trent Water Limited, the Annual Regulatory Compliance Statement and the Annual Regulatory Performance Report.

Your board has reviewed the status of the non-executive directors and considers them all to be independent in character and judgement as defined by the Governance Code.

Chief Executive

Responsibility has been delegated to the Chief Executive to implement the company's strategy. During the year under review the Chief Executive was Tony Wray, who retired on 11 April 2014. Liv Garfield succeeded Tony as Chief Executive on 11 April 2014 and is empowered to take all decisions and actions that further the company's strategy and which in her judgement are reasonable, having regard to the Chief Executive limits set out in the company's GAA. The non-executive directors, led by the Chairman, appraise the Chief Executive's performance annually.

Executive directors

The executive directors support the Chief Executive in driving the implementation of strategy forward in Severn Trent. They are committed to doing this in a responsible way which takes account of commitment to our Code of Conduct, the long term sustainable and responsible stewardship of the business and the delivery of better value, better services and a healthier environment for our customers and the communities in which we live and work.

Role of the Company Secretary

All directors have access to the advice and services of the Company Secretary, Bronagh Kennedy, and the Company Secretariat team. Bronagh is responsible for ensuring that the board operates in accordance with the governance framework it has adopted and that there are effective information flows to the board and its committees and between senior management and the non-executive directors.

The appointment and resignation of the Company Secretary is a matter for consideration by the board as a whole.

Terms and conditions of appointment

We have made the terms and conditions of appointment of the directors available for inspection by any person at the company's registered office during normal business hours. They will also be available at the AGM.

Board processes

We have documented processes in place regarding:

- the board's tasks and activities; and
- the matters specifically reserved for the board's decision making, the authority delegated to the Chief Executive, the accountability of the Chief Executive for that authority, and guidance on managing the relationship between the board and the Chief Executive.

The board has reserved the following for its own consideration:

- the appointment of the Chief Executive, directors and the Company Secretary;
- the strategy and budgets of the company;
- the GAA which set out the group's delegated approval limits;
- decisions regarding the company and its subsidiaries required to be made by the company's GAA, constitutional documents, statute or external regulation; and
- the approval or adoption of documents, including the report and accounts, required to be made by the board by the company's GAA, constitutional documents, statute or external regulation.

Governance report continued

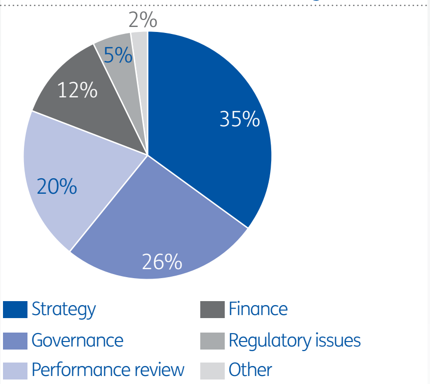
Board attendance at scheduled meetings in 2013/14

Andrew Duff	7/7
Tony Ballance	7/7
Dr Bernard Bulkin	6/6
Richard Davey	7/7
Gordon Fryett	7/7
Martin Kane	7/7
Martin Lamb	7/7
Michael McKeon	7/7
Baroness Noakes*	6/7
Andy Smith	7/7
Dr Angela Strank	2/2
Tony Wray	7/7

* Unable to attend one meeting owing to personal reasons.

How the board has spent its time

Focus of scheduled board meetings



Board attendance at additional meetings in 2013/14

Andrew Duff	7/7
Tony Ballance	7/7
Dr Bernard Bulkin	5/5
Richard Davey	7/7
Gordon Fryett*	6/7
Martin Kane*	6/7
Martin Lamb*	6/7
Michael McKeon	7/7
Baroness Noakes*	5/7
Andy Smith	7/7
Dr Angela Strank	2/2
Tony Wray	7/7

* Unable to attend certain additional meetings held at short notice owing to prior business commitments.

Board meetings

We have regular scheduled meetings of the board and of its permanent committees throughout the year and any additional meetings and ad hoc committee meetings are convened as and when required.

Papers, including minutes of board committees held since the previous board meeting and performance reports, are circulated in advance of each meeting.

There is an agreed procedure in place which allows directors to take independent professional advice in the course of their duties and all directors have access to the advice and services of the Company Secretary. If a director has a concern over any unresolved matter they may require the Company Secretary to minute that concern.

The chart opposite shows how the board has spent its time at scheduled board meetings. The board monitors the performance of the Severn Trent Water and Severn Trent Services businesses at every meeting and receives monthly updates on performance against the KPIs stated on pages 8 and 9 of the Strategic Report. The board also regularly discusses reports on capital efficiency. The board monitors governance matters and developments in best practice through the Governance report provided by the Company Secretary, a standing item on the board agenda. The board also formally reviews compliance with the Governance Code on an annual basis.

During the year three additional board meetings were convened to consider the submission of the business plan to Ofwat and the appointment of the new Chief Executive. The board met a further four times to carefully evaluate the proposals received from LongRiver Partners. As part of this process, the board also carefully listened to the views of its shareholders.

Four ad hoc committee meetings of the board were convened to consider such matters as Severn Trent Plc's preliminary and interim results and interim management statements.

In addition to formal meetings, the board attended a full day strategy session this year, where the board and executive team together considered the areas of future value creation across the Severn Trent business.

Board committees

The four permanent committees of the board assist in the execution of its responsibilities and the board has delegated some of its responsibilities to those board committees. The committees assist the board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the board on decisions and actions taken, and making any necessary recommendations.

The terms of reference of the Audit, Remuneration and Nominations Committees comply with the provisions of the Governance Code, except as reported on page 45, and are available for inspection, together with the terms of reference of the Corporate Responsibility Committee, on our website (www.severntrent.com) or may be obtained on request from the Company Secretary.

The effectiveness of each of the committees has been reviewed during the year as part of the internal board review and the committees have also considered their terms of reference during the year.

Reports from the Chairmen of these committees are set out on pages 52 to 76 of this report.

The way we choose to behave

Code of Conduct: 'Doing the right thing – The Severn Trent way'

Every day Severn Trent 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 customers, doing what is right ethically – and indeed what is right legally.

However, sometimes it is not so clear. 'Doing the right thing – The Severn Trent way' details the principles we work by. This is our Code of Conduct and explains who we are, what we stand for and how we work; it also tells our customers and business partners that they can trust and rely on us. These principles apply to everyone in Severn Trent's businesses, no matter where in the world they are based. They provide a common and consistent framework for responsible business practices and set out the standards we need to follow in our day to day activities.

During the year we have continued to roll out the Code of Conduct across the group to make sure that everyone in the business understands what it is all about and upholds our ethical standards. All employees are provided with a copy in their local language as part of their induction. Training sessions are also available and all teams have been encouraged to discuss it through regular communications exercises.

We have also continued to roll out our Code of Conduct into our supply chain, as explained in the Corporate Responsibility report on page 59.

During autumn 2013 employees across Severn Trent Water Limited attended 'Our Journey Continues' sessions which focused on the next steps in the journey to be the best water and waste water company in the UK. These sessions also provided a refresher on the importance of Doing the right thing – The Severn Trent way and emphasised how these principles and our Code of Conduct were at the heart of our standard ways of working.

Policies

The Code of Conduct is supported by 15 group policies and our behaviours model. Further details of these can be found on our website (www.severntrent.com). During the year we have completed the annual review of the policies to ensure they are fit for purpose.

Conflicts of interests

The board has a full documented process in place to authorise situational conflicts in accordance with the provisions of the Companies Act 2006 and under the company's articles of association.

At every board meeting there is a standing agenda item at the beginning of the meeting to consider and discuss whether any potential conflict exists. If it does then the relevant director does not attend the meeting when that item is discussed.

An annual review of conflicts is carried out and is incorporated into the year end process of verifying directors' interests. Half yearly reports are also made to the board of all directors' conflicts and directors are reminded of their obligations to disclose any potential conflicts.

In March 2014, the Nominations Committee considered in detail the management of Martin Lamb's situational conflict arising as a consequence of his appointment as Chairman of Evoqua Water Technologies, which conflicts with the Severn Trent Services Water Purification (Products) business in terms of product line and competition for customers. The benefits of Martin's valuable contribution to the board as a recently retired Chief Executive and the relatively small size of the Products business in the context of the group as a whole were taken into consideration by the Nominations Committee. The board concurred with the recommendation of the Nominations Committee and approved the authorisation of the situational conflict in accordance with the articles of association and the proposed management of the situational conflict, which will be kept under regular review.

Governance report continued

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. In March 2012 shareholders were re-consulted as to their preferred method of receiving company communications. Following the consultation, 49,153 shareholders (79%) receive confirmation that the annual report is available to view online, whilst 12,942 shareholders (21%) continue to receive a hard copy.

Our website (www.severntrent.com) contains an archive of annual reports together with other information relevant to investors. This includes comprehensive share price information, financial results, company news and financial calendars.

The company offers a Dividend Reinvestment Plan (DRIP). Details of the DRIP are available on our website and the website of Equiniti, our registrar.

Shareholder networking programme

The aim of the programme is to offer retail shareholders the opportunity to learn more about the company, through site visits and talking to staff.

As part of our Shareholder Networking Programme, participants in November 2013 had a choice to visit either a waste water or clean water site. These were hosted by Simon Cocks, Waste Water Services Director and Andy Smith, Director of Water Services. Eighteen participants were taken to our Minworth Sewage Treatment Works (Birmingham) for a tour and presentation by Simon. Thirteen participants were taken to Campion Hills Water Treatment Works (Royal Leamington Spa) for a tour and presentation by Andy. This was followed by both groups visiting our operating centre in Coventry.

Positive feedback was given on the organisation and content with strong support for the company continuing the programme, both from shareholders and employees who enjoyed the interest shown in their work.

The situational conflict will be managed by Martin Lamb not being provided with access to any information relating to the Products business. However, in order to enable him to perform his duties as a director of the company, Martin will have access to information at the aggregated Severn Trent Services level. In addition, he will not be present at, or participate in, any board or committee discussions or vote on any matter relating to the Products business. Martin resigned as a member of the Audit Committee with effect from 21 March 2014.

Interests

No director had a material interest at any time during the year in any contract of significance with the company or any of its subsidiary undertakings.

Shareholder engagement

Annual General Meeting

The AGM of the company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 16 July 2014.

Presentations are made on the group's activities, performance during the year and an operationally focused presentation prior to the formal business of the meeting. The Chairmen of the Audit, Corporate Responsibility, Remuneration and Nominations Committees, together with all other directors, attend the AGM.

The AGM gives shareholders an opportunity to feed back to the company on performance, management and the way we work in a very direct fashion, through the way they vote. Shareholders may also meet informally with directors and senior management before and after the meeting and ask formal questions during the meeting.

The board encourages shareholders to attend the company's AGM and to exercise their right to vote. The notice of meeting and related papers are sent to shareholders at least 20 working days before the meeting. Separate resolutions are proposed on each substantially separate issue. The poll results from the 2014 AGM will be made available on our website after the meeting.

The way we ensure our effectiveness

Induction

On joining the board, a director's induction needs are evaluated and then they are provided with a comprehensive and personalised induction pack which includes information on our business, key operations and processes, how we are regulated, how we are shaping future regulation, strategic plans, financial reports, business plans and information on our governance framework.

Meetings are arranged with members of the executive management team and with external advisers who provide support to the relevant board committees on which the directors may serve. Visits to operational and office sites across the group and management presentations are also arranged for directors joining the board and subsequently throughout the year.

These arrangements have been followed for the induction of Liv Garfield, Dr Angela Strank, Philip Remnant and John Coghlan.

Continuing professional development

The directors received updates throughout the year on matters such as changes to best practice governance guidelines. The directors also have access to professional development provided by external bodies and our advisers.

Continuing professional development (CPD) requirements were considered as part of the board effectiveness review referred to below. No additional requirements were identified.

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.

Presentations are made to shareholders and analysts following the release of the interim and year end results. The Chief Executive and Finance Director regularly meet shareholders during the year. The Chairman and the senior independent non-executive director have also met shareholders separately from executive directors and are available to meet shareholders at their request. The board receives written feedback following meetings with institutional shareholders and monitors shareholder activity on a quarterly basis at its meetings.

During March and April 2013 Makinson Cowell, an independent capital markets advisory firm, undertook an investor audit which set out to ascertain both bondholders' and shareholders' views of us as a company, our strategy, performance, and effectiveness of our communications. It also aimed to determine our standing relative to our peers and to the equity and debt markets as a whole.

The main findings of the audit were that Severn Trent is regarded by shareholders and bondholders as more strongly placed today for the next regulatory period than was the case three years ago (when the previous audit was conducted); that the performance of Severn Trent Water has improved; there was a positive view about the company's financial position and greater appreciation of its conservative financial strategy; and investors rated the management team more highly than three years ago.

An online directors' resource library and CPD repository has been created for use by the directors. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section, Strategy Day materials and details of board training sessions. It also includes a further reading section which contains regular updates and guidance on changes to legislation and best practice.

Performance and effectiveness reviews

An independent review of the effectiveness of the board is conducted every three years. The last external review was carried out in November 2011 and an independent review will be commissioned during the 2014/15 financial year.

In January 2014, the board commenced an internal review of its effectiveness and that of its committees. The review was led by the Chairman and was assisted by the Company Secretary who conducted a series of confidential interviews with each director. Following the feedback from the board effectiveness review, a review of each individual director's performance was carried out by the Chairman.

In terms of improvements identified in the previous year's internal review, it was concluded that good progress had been made. Steps had been taken to ensure appropriate time was allocated for consideration of strategic matters. The board had considered leadership and succession planning with particular focus on the development of management below the Executive Committee level. During the year the board reviewed progress against the five year talent management and succession plan and the outputs from the 2012/13 talent management process.

This year's review confirmed continued board strengths, including the quality of the relationship between executive and non-executive directors, a diverse and complementary balance of skills and experience and effective use of time. All board committees remained highly effective and had continued to improve during the year.

The only suggested improvements to effectiveness were in relation to the annual off-site board strategy discussions which had been impacted by the considerable amount of time that had been required to be devoted in the year to the preparations for submission of the Severn Trent Water Limited final business plan to Ofwat. It was anticipated that this should not be the case in the current year. A review of the forward agendas for each committee will also be carried out at the start of each year to ensure that matters requiring the attention of the board as a whole were considered in the right forum.

The board will continue to formally review progress against the recommendations arising from the board effectiveness reviews every six months.

Nominations Committee

Andrew Duff
Chairman of the Nominations Committee

The main purpose of the Committee is to assist the board by keeping the composition of the board under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board. It also advises the board on issues of directors' conflicts of interest and independence. The full terms of reference for the Committee can be found on our website (www.severntrent.com) and are also available from the Company Secretary.

Succession planning

When considering new appointments to the board, the Committee oversees the preparation of a role specification that is provided to an independent recruitment organisation retained to conduct a global search. In addition to the specific skills, knowledge and experience deemed necessary, the specification contains criteria such as:

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

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year.

The Committee keeps under review the balance of skills on the board and the knowledge, experience, length of service and performance of the directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the company. The results of these reviews are important when the board considers succession planning and the election and reappointment of directors. Members of the Committee take no part in any discussions concerning their own circumstances.

The members of the Committee in 2013/14 were the non-executive directors of the board and the Chief Executive, Tony Wray.

During the year the Committee considered the composition of the board, the succession plan for the Chief Executive role, the board's diversity policy and the board's effectiveness review. It also reviewed the strength and depth of talent and succession planning below Executive Committee level. In addition, as detailed on pages 49 and 50, the Committee reviewed Martin Lamb's situational conflict of interest in March 2014.

In April 2013 the Committee initiated a succession planning process to search for a new Chief Executive following Tony Wray's announcement of his intention to retire in the spring of 2014. Spencer Stuart and The Zygos Partnership were appointed as advisors and were provided with a role specification and a detailed brief of the desired candidate profile and their services were used to conduct a thorough search to identify suitable candidates. The Committee considered a list of potential candidates and those shortlisted were interviewed by members of the board. Tony Wray took no part in any meetings relating to this process.

Following this process, the board accepted the Committee's recommendation that Liv Garfield join the board as Chief Executive with effect from 11 April 2014. Liv brings a wealth of experience managing customer service delivery and complex infrastructure and organisations in a regulated environment.

During the year the Committee also initiated searches for new non-executive directors. The Zygos Partnership was appointed as advisor and was provided with a role specification and a detailed brief of the desired candidate profile and its services were used to conduct a thorough search to identify suitable candidates. The Committee considered a list of potential candidates and those shortlisted were interviewed by members of the board and also by Liv Garfield as Chief Executive designate. Following this process, the board accepted the Committee's recommendation that Dr Angela Strank, Philip Remnant and John Coghlan join the board.

The appointment of Dr Angela Strank as a non-executive director, with effect from 24 January 2014, maintained the balance of the appropriate skill set on the board in the context of the retirement of Dr Bernard Bulkin. Angela's track record and experience in technology, transformational change and strategy are complementary to the board's existing skill set and she became a member of the Nominations, Remuneration and Corporate Responsibility Committees upon joining the board.

Philip Remnant was appointed as a non-executive director with effect from 31 March 2014 and he became a member of the Audit, Remuneration and Nominations Committees upon joining the board. Philip has substantial financial, public sector and regulatory experience and provides a valuable additional contribution to the board's existing skill set.

John Coghlan was appointed as a non-executive director with effect from 23 May 2014 and he became a member of the Nominations Committee upon joining the board. John will become Chairman of the Audit Committee with effect from the conclusion of the AGM on 16 July 2014, at which time Baroness Noakes will be retiring from the board. John has substantial financial expertise and is a valuable addition to the board's existing skill set.

Committee attendance in 2013/14

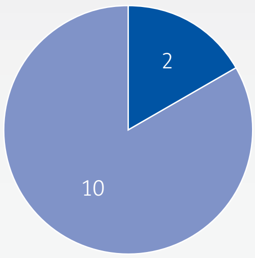
Andrew Duff	9/9
Dr Bernard Bulkin	7/7
Richard Davey*	8/9
Gordon Fryett*	8/9
Martin Lamb*	8/9
Baroness Noakes*	8/9
Dr Angela Strank	2/2
Tony Wray**	4/9

* Unable to attend one meeting owing to prior business commitments.

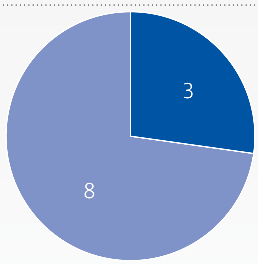
** Did not attend meetings at which the appointment of his successor was being considered.

Gender diversity as at 31 March 2014

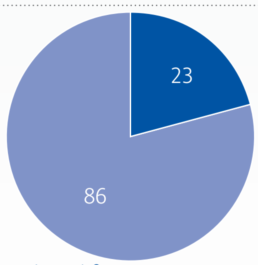
Board



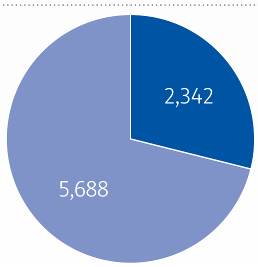
Executive Committee



Senior management



Total workforce



Male Female

As part of the selection process for the new directors, the Committee evaluated the balance of skills, experience, independence and knowledge on the board and used this evaluation in the preparation of the role specifications. Neither Spencer Stuart nor The Zygos Partnership has any other connection with the company, other than in respect of their role as advisor in the appointment of the new Chief Executive and non-executive directors.

Both search companies used are signatories to the voluntary code of conduct for executive search firms to address gender diversity on corporate boards and best practice for the related search process.

In accordance with the requirements of the Governance Code, all members of the board will seek election or re-election at the AGM in July 2014, with the exception of Baroness Noakes who will be retiring from the board with effect from the conclusion of the AGM. In March 2014 the Committee formally reviewed the performance, contribution and commitment of each of the directors retiring at this year's AGM and seeking reappointment, and supported and recommended their reappointment to the board. The Committee has confirmed that each director continues to perform well, both on an individual and collective basis, making a valuable contribution to the board's deliberations and demonstrating commitment to the long term interests of the company.

The Committee also supported and recommended the election of the newly appointed directors, Liv Garfield, Dr Angela Strank, Philip Remnant and John Coghlan. The appointment of these new executive and non-executive directors brings new skills and experience to the board, and overall the balance of such remained both diverse and complementary.

Diversity

Further to the publication of the Davies Report, 'Women on Boards', in February 2011, boards of FTSE 350 companies have been encouraged to promote greater female representation on corporate boards. Guidance from the Financial Reporting Council has also highlighted the importance of greater diversity of psychological profile around the board table.

Severn Trent believes that a diverse and inclusive culture is a key factor in being a successful business. Severn Trent Plc aspires to the targets in the Davies Report to promote greater female representation on listed company boards.

As and when board appointment opportunities arise, we make full use of the procedures recommended by the Davies Report and by the Governance Code to support this aspiration. All board appointments have been and will continue to be based on merit and must be in the interests of all stakeholders.

A breakdown by gender of the number of persons who were directors of the company, senior managers and other employees as at 31 March 2014 is set out opposite.

As at 31 March 2014, we had two female members on our board of 12 (representing 17%) and three female members out of 11 on the Executive Committee (representing 27%). As at the date of this report, and following the retirement of Tony Wray and appointment of Liv Garfield as Chief Executive on 11 April 2014 and appointment of John Coghlan on 23 May 2014, there are three female members on our board of 13 (representing 23%) and four female members out of 11 on the Executive Committee (representing 36%).

Severn Trent is seeking to build a diverse pool of future leaders and details of diversity initiatives being undertaken are set out in the Corporate Responsibility Committee report on page 59.

Andrew Duff
Chairman of the Nominations Committee

Audit Committee

Baroness Noakes DBE
Chairman of the Audit Committee

The 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 and monitoring the effectiveness and objectivity of the internal and external auditors. It also oversees the assurance of regulatory returns made by Severn Trent Water Limited to Ofwat. The role and the responsibilities of the Committee are set out in written terms of reference. These can be found on our website (www.severntrent.com) and are also available from the Company Secretary.

This report provides details of the role of the Audit Committee and the work it has undertaken during the year.

The members of the Committee are Baroness Noakes DBE (Chairman), Richard Davey and Philip Remnant (appointed with effect from 31 March 2014), whose experience and backgrounds are set out on pages 42 and 43. Martin Lamb was appointed to the Committee upon the retirement of Dr Bernard Bulkin on 24 January 2014 and resigned from the Committee with effect from 21 March 2014. The board is satisfied that all the Committee members have recent and relevant financial experience and that all members of the Committee remain independent.

The members of the Committee receive updates on financial reporting and the group's regulatory framework in various forms throughout the year. The Chairman, Chief Executive, Finance Director, Director of Internal Audit, Group Financial Controller and the external auditors 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 both the internal and external auditors.

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

The Committee reports to the subsequent meeting of the board on the Committee's work. It met four times in 2013/14 and its work focused on four key areas:

- financial statements and accounting policies;
- risk management and internal controls;
- oversight of internal and external audit; and
- the regulatory reporting obligations of our subsidiary Severn Trent Water Limited, including scrutinising the assurance process underpinning the PR14 submission.

The Committee's performance was included in the review of the boards effectiveness referred to on page 51.

Financial statements and accounting policies

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 4 of the financial statements on page 98.
The Committee receives detailed reports both from the Finance Director 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 auditors' 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 auditors and satisfies itself the judgements made by management are robust and should be supported. The following areas were the most important ones examined for 2013/14:

- whether further impairments of the goodwill and intangible assets related to businesses in Severn Trent Services, in particular in relation to the Products business were required;
- whether the assumptions used to calculate the amount of the deficit in the group's defined benefit pension schemes were reasonable and in line with those used by similar companies;
- the way in which derivative instruments were accounted for and in particular the impact of the adoption of IFRS 13;
- the amount of provisions held for tax liabilities which were still the subject of discussion with the tax authorities; and
- the proposed disclosure of material items of income or expenditure and whether these meet the criteria to be classified as exceptional items.

Committee attendance in 2013/14

Baroness Noakes	4/4
Dr Bernard Bulkin	3/3
Richard Davey*	3/4
Martin Lamb	1/1

* Unable to attend one meeting owing to prior business commitments.

The Committee reviewed the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statement made in the Directors' report that the company is a going concern.

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

In reviewing the financial statements, the Committee receives input from the Disclosure Committee, which is chaired by the Finance Director. The work of the Disclosure Committee is described further on page 47.

An additional governance requirement from this year is for the board to confirm that the report and accounts are fair, balanced and understandable. The Disclosure Committee undertakes a detailed review of the annual report and accounts prior to making a recommendation that the board could make the fair, balanced and understandable statement, contained in the Directors' responsibility statement on page 82. The Committee reviewed the Disclosure Committee's process at its meetings in March and May 2014.

Deloitte LLP (Deloitte) reported to the Committee on their review of the half year interim results and on their audit of the year end financial statements.

Internal controls

The Committee receives regular reports from Internal Audit in respect of their work on internal controls and reviews management letters received from the external auditors.

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

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

The Committee also reviewed the group's approach to cyber security and IT continuity. Given the increasing dependency of the business on technology, this remains an area of crucial importance and further reviews have been carried out during the year.

Further details of our internal control framework can be found in the Directors' report on page 80.

Internal Audit

The Director of Internal Audit and his team report on a day-to-day basis to the executive team on the effectiveness of the group's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the group's assets and resources. This work is summarised and reported to the Committee on a regular basis and is a key element of the assurance that the Committee receives on the risks and controls in the group. The Director of Internal Audit is free to raise any issues with the Committee or its Chairman at any time during the year.

The effectiveness of the Internal Audit function, its plans, level of resources and budget are reviewed at least annually by the Committee. In addition, during the year, an external quality assessment of Internal Audit was conducted by Grant Thornton and the findings were reviewed by the Committee. There were no material matters identified for the Audit Committee as a result.

In March 2014 the Committee met separately with the Director of Internal Audit and his Internal Audit team and had a detailed discussion of the work of Internal Audit, including in particular the processes which led to the Internal Audit plan for 2014/15.

Audit Committee continued

Policy on the provision of non-audit services

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

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

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

Non-audit services where the external auditors may be used include: audit related services required by statute or regulation, tax compliance and tax planning advice, due diligence on acquisitions and disposals, services related to fraud, Corporate Responsibility report reviews and regulatory support.

The approval of the Committee or its Chairman is always required if a non-audit service provided by the auditors is expected to cost more than £100,000 or if non-audit fees for the year would exceed the amount of the audit fee.

Furthermore, the procurement of non-audit services will need to comply with the Utility Contracts Regulations and all services requirements over the current EC threshold will have to be subject to tender.

The Committee also meets once a year with the Director of Internal Audit without management present.

External auditors

Deloitte audits all significant subsidiaries of the group. Annually, the Committee reviews the external auditors' audit plan and reviews and assesses information provided by them confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. The Committee also reviews the auditors' effectiveness, which involves: assessment of the auditors by the Committee and key executives; and confirmation that the auditors meet minimum standards of qualification, independence, expertise, effectiveness and communication. The Committee also meets privately with the external auditors at least once per year. These assessments are carried out prior to the Committee recommending to the board that the external auditors be proposed for reappointment at the AGM.

Deloitte was appointed auditors of the company in 2005, pursuant to a competitive tender process. The company does not currently have a policy of tendering the external audit at specific intervals but would initiate a tender process if there were any concerns about the quality of the audit or the independence and objectivity of the auditors. The company is committed to complying with UK and EU rules on audit tenders which will require the audit to be formally tendered in the next few years. There are no contractual obligations that act to restrict the Committee's choice of external auditors.

Details of the amounts paid to Deloitte for audit and non-audit services are provided in note 7 to the accounts on page 103.

Severn Trent Water Limited

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

In May 2013 the Committee reviewed the assurance framework in place for the Annual Regulatory Compliance Statement process. In September and November 2013 the Committee reviewed the process, timeline and assurance framework for the production of the 2014/15 Principal Statement and its submission to Ofwat.

Deloitte makes reports to Ofwat in respect of Severn Trent Water Limited's regulatory accounts. The Annual Regulatory Performance Report, which provides an overall picture of company performance, covers many aspects which are not financial and Severn Trent Water Limited appoints engineering consultants, Atkins, to report on those aspects. The Committee receives reports from Atkins on their work as part of its review of the Annual Regulatory Returns.

An additional requirement during the year was oversight of the assurance processes which were designed to ensure that a high quality plan was submitted to Ofwat as part of PR14. This involved both internal assurance processes and assurance provided by a number of external assurance providers for specific aspects of the final business plan submission. The Committee reviewed the overall processes in September 2013 and in November 2013 reviewed the draft reports received from the assurance providers. The Committee's findings were reported to the board as part of its deliberations prior to the submission of the final business plan in December 2013.

Corporate Responsibility Committee

Gordon Fryett
Chairman of the Corporate Responsibility Committee

The Committee provides guidance and direction to the group's Corporate Responsibility programme, reviews the group's key non-financial risks and opportunities and monitors progress.

The terms of reference for the Committee can be found on our website (www.severntrent.com) and are also available from the Company Secretary.

The Committee reviews annually the adequacy of the group's formal whistleblowing policy and procedures which deal with allegations from employees relating to breaches of the Code of Conduct and reviews at each of its meetings the whistleblowing incident log.

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

The members of the Committee are Gordon Fryett (Chairman), Andrew Duff, Liv Garfield and Dr Angela Strank. Gordon Fryett was appointed Chairman of the Committee upon the retirement of Dr Bernard Bulkin on 24 January 2014. Dr Angela Strank was appointed a member of the Committee upon her appointment to the board on 24 January 2014 and Liv Garfield was appointed a member of the Committee as successor to Tony Wray as Chief Executive on 11 April 2014.

Our CR framework

Our Code of Conduct 'Doing the right thing – The Severn Trent way', provides the structure and a common CR framework for both our businesses – regulated and non-regulated. The nine principles of our Code of Conduct are:

1. Keeping everyone healthy and safe
2. Supporting employees' rights and diversity
3. Maintaining ethical and honest behaviour
4. Staying free from bribery and corruption
5. Keeping our communications open and responsible
6. Delivering excellent customer service
7. Working within the community
8. Protecting our environment
9. Standing up for what's right

To monitor performance, both Severn Trent Water and Severn Trent Services have an effective performance management system in place through core business Key Performance Indicators (KPIs), see pages 8 and 9 of the Strategic Report for further details. These are overseen by the relevant management teams and the board. Many of the business KPIs relate directly to our CR focus areas and therefore contribute significantly to our CR performance and are linked to our reward arrangements. We report internally on our CR performance through senior management and the Committee. Externally, we report through a number of channels including our website and our annual report and accounts.

Committee meetings

The Committee provides board oversight of our CR framework, including the strategy and performance related to health, safety, environment and the community as well as employee and supply chain matters. CR KPIs and whistleblowing cases are reviewed at every meeting. Key areas of discussion and review are set out below:

- Severn Trent Services CR framework and ongoing development of measures, including actions identified in customer and employee engagement surveys;
- following a change in guidance by the Environment Agency, the Committee discussed the approach to categorisation of pollution incidents and the impact on performance and target setting. The Committee also reviewed the improvement and intervention activities to drive improved environmental performance and customer outcomes. The Committee received pollution incident performance reports throughout the year as part of its performance monitoring;
- the provision of occupational health services in Severn Trent Water and Severn Trent Services. This is an area of crucial importance, alongside health and safety, and the Committee will continue to review absence trends and the implementation of occupational health programmes within the group. Details of our occupational health programmes are provided in the Strategic Report on page 23;
- the Committee received two reports from Internal Audit with respect to their work on non-financial risk: an update on Internal Audit activity and progress on key Internal Audit findings. The Committee subsequently received more detailed papers on fire safety and the application of our Code of Conduct in our Supply Chain; and

Corporate Responsibility Committee continued

- Additionally, the Committee discussed updates on waste management, the PR14 engagement programme, river water quality, community involvement, employee satisfaction, supply chain management, customer communications and drinking water quality.

CR activities

We are committed to CR and see it as an integrated part of our business. Therefore our activities in this regard are discussed in the Strategic Report because operating in a responsible way is how we work at Severn Trent.

Human rights
We have a responsibility to understand our potential impacts on human rights and to mitigate or eliminate them. We are committed to operating in accordance with the United Nations Global Compact Principles and our Code of Conduct 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 and Severn Trent Services to support key human rights.

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 believe this fosters a joint understanding of business needs and helps to deliver common solutions aimed at making our business successful.

Internationally, Severn Trent Services operates a small number of sales and marketing offices where union membership is not available due to national law. It is important that these employees and those who do not wish to join a union are not at a disadvantage.

All Severn Trent employees are encouraged to raise concerns at work through their line manager, however, we recognise that employees may feel inhibited in certain circumstances. In this case, employees are encouraged to use our confidential and independent whistleblowing helpline, operated by Safecall, an independent company that specialises in handing concerns at work. The service is available internationally and Safecall provide a translation service allowing any employee to access it.

Equality
Severn Trent believes that a diverse and inclusive culture is a key factor in being a successful business. We do not tolerate discrimination under any circumstances and believe in treating everyone equally with fairness, encouragement and respect. Our Code of Conduct and our group Human Resources Policy govern all aspects of employee rights and diversity. Underpinning these are individual business level policies that define our approach to a diverse and inclusive environment.

Committee attendance in 2013/14

Gordon Fryett	4/4
Dr Bernard Bulkin	3/3
Andrew Duff	4/4
Dr Angela Strank*	0/1
Tony Wray	4/4

* Unable to attend one meeting owing to personal reasons.

Diversity

To attract and draw skills from a diverse pool of talent we aim to have an appropriate balance of gender and ethnicity that represents the labour market we are part of and the customer base we serve. In 2012, we conducted gender diversity research with women employees in Severn Trent Water to understand what is important to them in developing careers at Severn Trent. We have used the outcome of this research to provide opportunities to all employees to shadow our Executive team and better understand what is involved in senior management.

Our diversity monitoring provides us with details that help focus our diversity effort in specific parts of our work and our organisation and provides insights about how attractive we are to different parts of the labour market. We measure activity at three recruitment stages (attract, shortlist and hire) for gender and ethnicity. This informs our interventions and investigates whether we have an appropriate mix of employees.

We have also undertaken training with employees involved in recruitment to ensure that we do not have an unconscious bias within the attraction and selection programme. This includes looking at how and where we advertise roles to ensure we reach a diverse pool of potential applicants.

Throughout 2013/14, we have also focused on increasing diversity in our applicants with a primary focus on our entry level schemes for apprenticeships and graduates. We have looked at the communications we use to attract new applicants and how we can reach a broader range of our community.

Within Severn Trent Services we are currently establishing partnerships with a number of job site providers with a view to helping us encourage greater diversity in our management positions.

Our gender diversity metrics as at 31 March 2014 are set out in the Nominations Committee report on page 53.

Prevention of child labour and forced labour

We will refuse the use of child labour and forced labour under any circumstances. The highest risk for Severn Trent is through our supply chain, therefore we work with our suppliers to ensure they operate to the same standards we set ourselves.

Our Code of Conduct has been built into the procurement tender process as part of the prequalification questionnaire template in Severn Trent Water. During 2013/14 500 suppliers have been assessed for risk and importance, to guide further engagement on our Code of Conduct. We have engaged with all our priority suppliers and identified plans to close any gaps as appropriate.

Severn Trent Services has implemented a risk based approach to assessing supplier compliance with their Supplier Code of Conduct. All high risk suppliers have undergone a review for compliance and commitment to the Code. In addition, 100% of new suppliers during 2013/14 signed documentation to validate their commitment.

Prevention of bribery and corruption

Our group-wide Anti-Bribery and Anti-Fraud Policy prohibits bribery and corruption in all our business dealings, regardless of the country or culture within which we work. Employees identified as high risk through a risk review for Severn Trent Water and all employees of Severn Trent Services are required to undertake an online training module and examination to ensure awareness of and compliance with this policy.

During 2012/13 Severn Trent Services undertook a risk assessment and review of its existing international sales representative and distributor network to identify potential risks and check compliance with the policy. A risk profile and review is undertaken for all new sales representatives and distributors. This helps to ensure that our global channel partners comply with our policy and expectations.

Remuneration Committee

Richard Davey
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.

Dear Shareholder

In 2013/14, we have delivered on our commitments to our stakeholders, with operational improvements, below inflation rises to customer bills, higher levels of service to customers and higher returns to shareholders through the growing dividend. This performance has been reflected in the payments under our incentive plans.

The annual bonus payments to executive directors for the financial year to 31 March 2014 were between 49.3% and 78.7% of base salary, reflecting a good year of operational performance of the business. During the year, awards under the Share Matching Plan (SMP) vested at 78% of the maximum based on performance over the three years to 20 May 2013. The Long Term Incentive Plan (LTIP) awards based on performance over the three years to 31 March 2014 will vest in full. There is a detailed breakdown of the targets set and the payments under the annual bonus, SMP and LTIP on pages 68 to 70.

Key policy developments for 2014/15

During the year the Committee reviewed the remuneration policy to ensure that it supported the business strategy and provided an appropriate means to reward the executives for their contribution to our performance. Following this review and consultation with the company's key shareholders, the Committee has decided to simplify the long term incentive structure and have a single long term incentive plan. No further awards will be made under the SMP and shareholder approval is being sought at the AGM for a new LTIP to replace the current LTIP which expires in 2015. The performance metrics under the new LTIP will be the same as under the current plan (a sliding scale of Return on Regulatory Capital Value (RoRCV) targets measured over three years) and the award levels for 2014 will be 125% of salary for the Chief Executive and 80% of salary for the other executive directors, which incorporates the value of the SMP forgone.

In addition, we would like to inform you that we are introducing a change to the bonus structure for executive directors and other managers for 2014/15. While the Severn Trent Water balanced scorecard and individual performance remain highly relevant, the Committee has now decided that a significant element of the bonus for these directors should be based on demanding key business objectives, the achievement of which has the capacity to transform the business. Finally, following a review of market practice and shareholder feedback, the shareholding guidelines for the Chief Executive have increased from 150% to 200% of salary and the guidelines for the other executive directors have increased from 100% to 125% of salary respectively. No other significant changes are being made to the remuneration policy.

Executive director changes

During the course of the year, the Committee considered the retirement of the current Chief Executive, Tony Wray and the recruitment arrangements for his successor, Liv Garfield. Full details of their respective leaving and joining arrangements are set out in the Annual report on remuneration on page 75.

Structure of the report

This is the first year of compliance with the new regulations on remuneration reporting and I hope you find the remuneration report more transparent and easy to understand. In line with the regulations, the remuneration report is split into two sections. The Policy Report sets out the remuneration policy for the executive directors of Severn Trent Plc for the next three years and will be subject to a binding vote by shareholders at the AGM. The Annual report on remuneration provides details of the amounts paid to the directors for the year ended 31 March 2014 and sets out how the policy will be applied for the forthcoming year. This letter and the Annual report on remuneration will be subject to an advisory vote at the AGM. There will also be a separate binding vote to approve the new LTIP.

We have sought and carefully considered the feedback from shareholders in the changes we have made to simplify the remuneration policy. I hope you are supportive and can approve all three resolutions at the AGM.

Richard Davey
Chairman of the Remuneration Committee

Policy report

This section of the remuneration report, setting out the remuneration policy for the directors of Severn Trent plc, is subject to approval by shareholders at the AGM on 16 July 2014 and will take effect, subject to approval, from this date.

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 the 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 aims to ensure that executive salary increases are normally aligned to the increases for the rest of the workforce. Furthermore, the annual bonus operates on a similar basis with the bonus schemes operated throughout Severn Trent Water (using the same balanced scorecard), all UK employees may participate in the HMRC approved Save As You Earn (SAYE) scheme and UK based Severn Trent Water employees may also participate in a Share Incentive Plan (SIP). 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 pro-actively 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 Association of British Insurers, the National Association of Pension Funds and proxy advice agencies such as Institutional Shareholder Services. When any material changes are made to the remuneration policy, the Remuneration Committee Chairman will discuss these with major shareholders in advance, and will offer a meeting for a more detailed discussion.

Remuneration policy for the executive directors

The following table sets out a summary of each element of the executive directors' remuneration packages.

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Salary	To recruit and reward 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 salary levels for the directors for 2014 are set out in the Annual report on remuneration on page 75. 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 expenses. Relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate.	The value of the other benefits is based on the cost to the company and there is no pre-determined maximum limit.

Remuneration Committee continued

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Pension	To provide a pension 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. Different legacy arrangements remain in place for some directors and the maximum limits are as set out in the notes following this table.
Annual bonus	To encourage improved operational performance and align the interests of directors with shareholders through the partial deferral of payment in shares.	For executives other than the CEO of Severn Trent Services (STS), at least 50% of the bonus will be based on the Severn Trent Water balanced scorecard, with the balance relating to key business objectives and personal contribution. For the CEO of STS, the majority of the bonus will be based on the financial and non-financial performance of STS. 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 bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.	Maximum annual bonus of 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 RoRCV to out-perform the target set out in Ofwat's final determination. A sliding scale of targets is set. 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 current grant level is 125% for the Chief Executive and 80% of base salary for the other directors. Up to 25% of an award may vest for threshold performance.
Save As You Earn scheme (SAYE) and Share Incentive Plan (SIP)	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 the group's SAYE scheme and SIP 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 are carefully selected annually to align with the relevant business unit's strategic and key performance indicators. 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.

Long term incentives

a) LTIP

RoRCV is used to assess performance under the LTIP. This is consistent with the measure used by Ofwat in setting customer prices as part of the final determination (the process whereby Ofwat sets the level of prices Severn Trent Water can charge customers) and reflects the efficiency of earnings rather than simply being an absolute measure of profit. It is verified and published as part of the Annual Regulatory Performance Report. The Committee believes that the use of RoRCV provides a strong alignment between the long term financial and operational performance of the group and the reward delivered to management.

Performance is measured over the three financial years with a sliding scale of targets applied. The Committee reserves the discretionary power to adjust the formulaic outturn of the RoRCV condition 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, but may be invoked by the Committee in order to take into account factors such as regulatory changes, changes in the financing of the company and extreme weather events (not an exhaustive list). This discretion can be operated upwards or downwards, but the Committee would consult with its major shareholders before making any upwards adjustment. In relation to the awards granted in 2013 and prior, there is a cap and collar limiting the extent to which this discretion can be applied (if the vesting result indicated by the RoRCV 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 will not apply to awards granted from 2014.

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%).

b) Legacy Share Matching Plan

Until 2013, awards were also made under a Share Matching Plan (SMP). Under the SMP, the policy has been that 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 financial underpin. At the time of release participants also receive the value of the dividends paid on vested shares over the performance period. The executive directors have outstanding awards under the SMP related to grants made in 2011, 2012 and 2013. 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.

Remuneration Committee discretion

The Committee will operate all 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 terminations), retrospective adjustment of award size (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets if events happen that 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.

Pension policy

The executive directors participate in a variety of pension arrangements. The policy for future appointments, which is reflected in the remuneration package agreed for Liv Garfield, is a company contribution to a defined contribution scheme and/or cash allowance up to a maximum of 25% of salary. Legacy arrangements for the other directors include a 40% of salary cash allowance for Michael McKeon and Andy Smith and 30% of salary for Martin Kane. Tony Ballance is a member of the Severn Trent Pension Scheme (Pension Choices section), a defined contribution scheme. He currently contributes 3% of salary and the company contributes 30%, plus a further 2.5% in respect of death in service and ill health benefits. The normal retirement age for the scheme is 65 although retirement prior to 65 is possible with the consent of the company.

Martin Kane, Andy Smith and Tony Wray are legacy members of the company's defined benefit pension scheme. Please see pages 72 and 73 for further details.

Remuneration Committee continued

External directorships

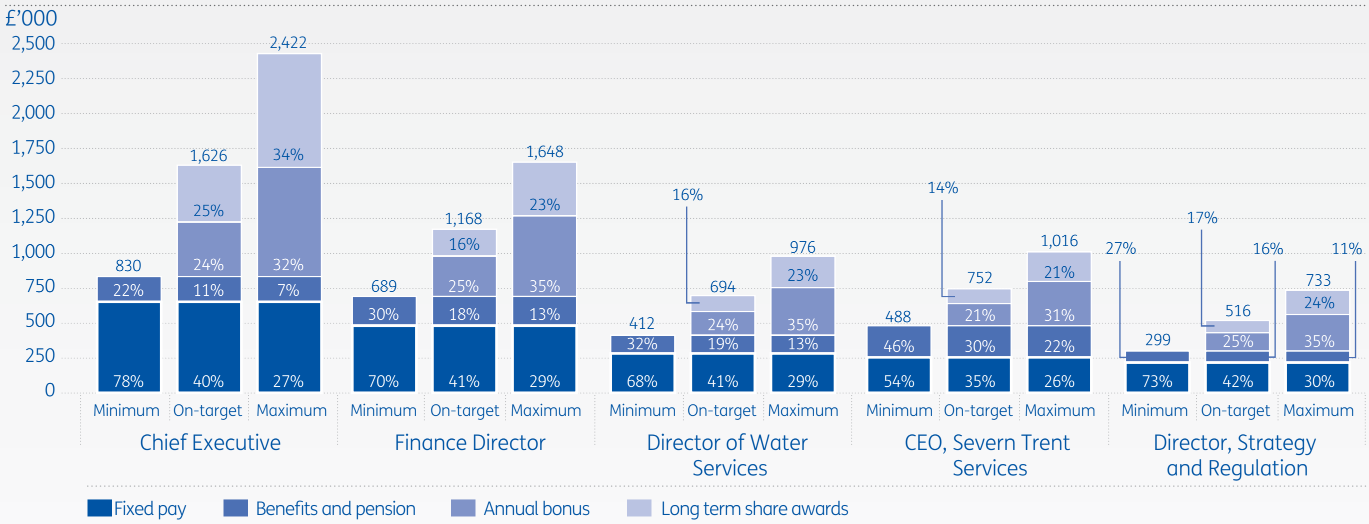
Executive directors are permitted to take on external non-executive directorships, though normally only one other FTSE 100 appointment, to bring a further external perspective to the group and help in the development of key individuals' experience. In order to avoid any conflicts of interest, all appointments are subject to the approval of the Nominations Committee. Executive directors are permitted to retain the fees arising from one appointment.

Shareholding guidelines

The company operates shareholding guidelines under which executive directors are expected to build and maintain a shareholding in the company. The Chief Executive 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, SMP and deferred share bonus until the shareholding guidelines have been met.

Reward scenarios

The charts below show how the composition of each of the executive directors' remuneration packages varies at different levels of performance achievement.



Minimum pay is fixed pay only (i.e. salary + benefits + pension). On-target pay includes fixed pay, a 60% of salary bonus and 50% vesting of the LTIP awards (with grant levels of 125% of salary for the Chief Executive and 80% of salary for the other executive directors). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards. No share price growth has been factored into the 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 2014. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2014 (estimated value used in the case of Liv Garfield). Note that the majority of Martin Kane's taxable benefits relate to his relocation to the US. The executive directors are also permitted to participate in the company Save As You Earn Scheme and Share Incentive Plan but they have been excluded from the above graph for simplicity.

Service contracts and policy on payments for loss of office

The remuneration related elements of the current contracts for executive directors are shown in the table below.

Provision	Policy
Notice period	12 months from either party
Termination payment	Under the policy and as reflected in the service contract for Liv Garfield and all future appointments, payments for loss of office comprise a maximum of 12 months' salary and benefits only. The policy under other executive directors' legacy contracts provides for a maximum payment in the case of redundancy, payment in lieu of notice or termination in breach of the agreement by the company of 175% of base salary. In determining actual payouts, the Committee shall have regard to the overriding requirement to be fair to both the company and the executive. In particular, the company shall not be required to reward failure on the part of the executive (which in the case of the contracts other than for Michael McKeon is reflected in the financial performance of the group) and shall have regard to the current corporate governance standards at the date of termination of the executive. In such cases, the Committee may exercise its discretion to reduce the payment by up to 10% (lowering the payment to 157.5% of salary) and in the case of Michael McKeon it may reduce the payment as it thinks fit.
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).

Provision	Policy
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 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	The default treatment is that awards will lapse on cessation of employment. However, executives 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 (based on the proportion of the performance period that the executive has been employed rounded up to the nearest month). The Committee may determine that the award should vest early, and in exceptional circumstances may time pro-rate the award to a lesser extent. For the outstanding awards under the legacy 2005 LTIP, the time pro-rating is calculated by rounding up to the nearest full year.
Share Matching Plan	The directors have outstanding awards relating to grants made in 2011, 2012 and 2013. The default treatment is that awards will lapse on cessation of employment. However, executives will be treated as a good leaver in certain prescribed circumstances or by the discretion of the Committee, in which case the matching award will normally continue to run for the full three years subject to performance and time pro-rating (rounded up to the nearest calendar month). The Committee, however, may decide to pro-rate to a lesser extent and/or allow the award to vest early.
Recruitment awards	As detailed under the recruitment policy, the Committee has the discretion to grant awards to buy-out an executive's awards at their previous employer if necessary to secure their employment. The terms of any recruitment award will be determined on a case by case basis. In relation to the one-off awards granted to Liv Garfield, on her appointment as Chief Executive, these are subject to performance conditions and will not be subject to time pro-rating in the event of the early termination of her appointment by the company. This lack of time pro-rating was agreed in recognition of the fact that the expected value of the forfeited awards at BT was significantly higher with much of it being non-performance related (and which would not have been scaled back for a similar event).

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary. Outstanding awards under the SAYE and SIP would vest in accordance with the terms of the plans as approved by HMRC.

All non-executive directors have letters of appointment with the company for an initial period of three years, subject to annual re-appointment at the AGM. The Chairman's appointment may be terminated by the company. The appointment letters for the Chairman and non-executive directors provide that no compensation is payable on termination, other than accrued fees and expenses.

Approach to recruitment and promotion

The remuneration packages for all new executive directors will be set in line with the company's approved policy. The Committee will take into account, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing the best candidate.

Annual bonuses and long term incentives will be awarded in line with the maximum limits set outlined in the policy on page 62. Participation in the plans will normally be pro-rated for the year of joining.

The Committee may make additional cash and/or share based awards if deferred pay is forfeited by an executive 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 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 i.e. 'golden hellos', will not be made.

Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted.

Remuneration Committee continued

Chairman and non-executive directors

The remuneration policy for non-executive directors, other than the Chairman, is determined by the board. 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-executives 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. Reasonable expenses are paid where necessary. 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. All of the directors are subject to appointment or reappointment at the 2014 AGM, with the exception of Baroness Noakes who will be retiring from the board with effect from the conclusion of the 2014 AGM.

Annual report on remuneration

This part of the report will be subject to an advisory vote at the AGM. The information on pages 67 to 74 is audited.

Membership of the Remuneration Committee and its advisors

The members of the Committee are listed in the table below. All are independent non-executive directors, as defined under the Governance Code, with the exception of the company Chairman who was independent on his appointment. During the year ended 31 March 2014, the Committee met six times to discuss key remuneration issues arising, the review and operation of the company's remuneration policy and market updates by its advisors.

Remuneration Committee attendance in 2013/14

Richard Davey*	5/6
Andrew Duff*	5/6
Dr Bernard Bulkin	4/4
Martin Lamb	6/6
Dr Angela Strank	2/2

* Unable to attend one meeting owing to prior business commitments.

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. The Chief Executive, Director of Human Resources and General Manager of Reward and Policy also attended the Committee meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

To ensure that the company's remuneration practices are in line with best practice, the Committee has access to advice from New Bridge Street (NBS) (a trading name of Aon Hewitt Limited). NBS is the independent advisor to the Committee and were appointed in 2011. Neither Aon Hewitt Limited nor any other part of Aon plc provided other services to the company during the year. The total fees paid to NBS during the year were £209,089 excluding VAT. The Committee reviews the appointment of its advisors annually and is comfortable that the advice it receives is objective and independent.

Directors' emoluments

£'000	Base salary and fees	Benefits in kind(i)	Pension(ii)	Annual bonus(iii)	Long term incentives(iv)	Other(v)	Total	Base salary and fees	Benefits in kind(i)	Pension(ii)	Annual bonus(iii)	Long term incentives(iv)	Other(v)	Total
	Year ending 31 March 2014							Year ending 31 March 2013						
Non-executive directors														
Dr Bernard Bulkin (vi)	**47.3**	**–**	**–**	**–**	**–**	**0.1**	**47.4**	63.0	–	–	–	–	–	63.0
Richard Davey	**75.0**	**–**	**–**	**–**	**–**	**0.2**	**75.2**	75.0	–	–	–	–	0.3	75.3
Andrew Duff (Chairman)	**250.0**	**–**	**–**	**–**	**–**	**–**	**250.0**	250.0	–	–	–	–	–	250.0
Gordon Fryett	**53.3**	**–**	**–**	**–**	**–**	**–**	**53.3**	50.0	–	–	–	–	–	50.0
Martin Lamb	**50.0**	**–**	**–**	**–**	**–**	**–**	**50.0**	50.0	–	–	–	–	–	50.0
Baroness Noakes	**65.0**	**–**	**–**	**–**	**–**	**0.3**	**65.3**	65.0	–	–	–	–	0.3	65.3
Philip Remnant (vii)	**0.2**	**–**	**–**	**–**	**–**	**–**	**0.2**							
Dr Angela Strank (viii)	**9.4**	**–**	**–**	**–**	**–**	**–**	**9.4**							
Executive directors														
Tony Ballance	**202.1**	**16.6**	**74.6**	**162.0**	**144.2**	**6.3**	**605.8**	198.5	16.5	72.8	195.8	78.9	4.2	566.7
Martin Kane	**255.5**	**145.8**	**76.6**	**126.5**	**161.9**	**5.0**	**771.3**	250.8	121.0	75.2	288.0	98.7	2.4	836.1
Michael McKeon	**463.1**	**16.5**	**185.6**	**344.8**	**326.9**	**0.5**	**1,337.4**	452.2	16.6	181.3	446.2	199.7	0.6	1,296.6
Andy Smith	**262.9**	**16.5**	**149.9**	**210.5**	**192.3**	**9.7**	**841.8**	256.8	16.9	160.7	253.8	117.4	0.6	806.2
Tony Wray	**561.2**	**16.5**	**228.6**	**452.4**	**489.5**	**11.9**	**1,760.1**	552.4	16.5	223.3	546.4	296.1	0.6	1,635.3
Total	**2,295.0**	**211.9**	**715.3**	**1,296.2**	**1,314.8**	**34.0**	**5,867.2**	2,263.7	187.5	713.3	1,730.2	790.8	9.0	5,694.5

Footnotes:

(i) Benefits include a car allowance of £15,000 per annum, family level private medical insurance, life assurance worth 6 x base salary, telephone allowances and participation in an incapacity benefits scheme. The figure shown for Martin Kane includes remuneration paid as compensation for his required relocation to the US. This figure includes his US cost of living expenses, comprising of accommodation costs, UK and US private medical insurance, vehicle costs, air fares, tax advice, flexible benefits, US disturbance allowance, utility costs and a residual payment in respect of a share award. He also received compensation for UK tax suffered on US benefits £49,434 (2013: £44,270).

(ii) In the year to 31 March 2014 Andy Smith was a member of the defined benefit pension scheme and the figure shown represents the annual cost to the company of providing the defined benefit pension up to the annual scheme cap £141,000 (2013: £137,400) plus the annual cash supplement paid in lieu of a pension above the cap £52,770 (2013: £51,670). From 1 April 2014 Andy Smith will receive a salary supplement in lieu of pension worth 40% of base salary in line with legacy contractual arrangements. Tony Ballance is a member of the defined contribution scheme and the figure shown is the contribution paid into the scheme by the company in the year. For the other executive directors the figure shown is the annual cash supplement paid in lieu of a pension.

(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) The 2014 figure is comprised of:

- The vesting of the 2011 LTIP award. The performance period for this award ended on 31 March 2014 and the awards will vest in June 2014. The value of the shares has been estimated by using the average share price for the period from 1 January 2014 to 31 March 2014 of £17.71.
- The vesting of the 2010 SMP award. The performance period for this award ended on 20 May 2013 and the awards vested on 14 June 2013 at a share price of £17.57.

The 2013 figure is comprised of:

- The vesting of the 2010 LTIP award. The performance period for this award ended on 31 March 2013 and the awards vested on 14 June 2013 at a share price of £17.57.

(v) For non-executive directors, this figure relates to expenses. For executive directors, this figure consists of the value obtained from inclusion in the Severn Trent all employee Save As You Earn Scheme and Share Incentive Plan.

(vi) Retired from the board on 24 January 2014.

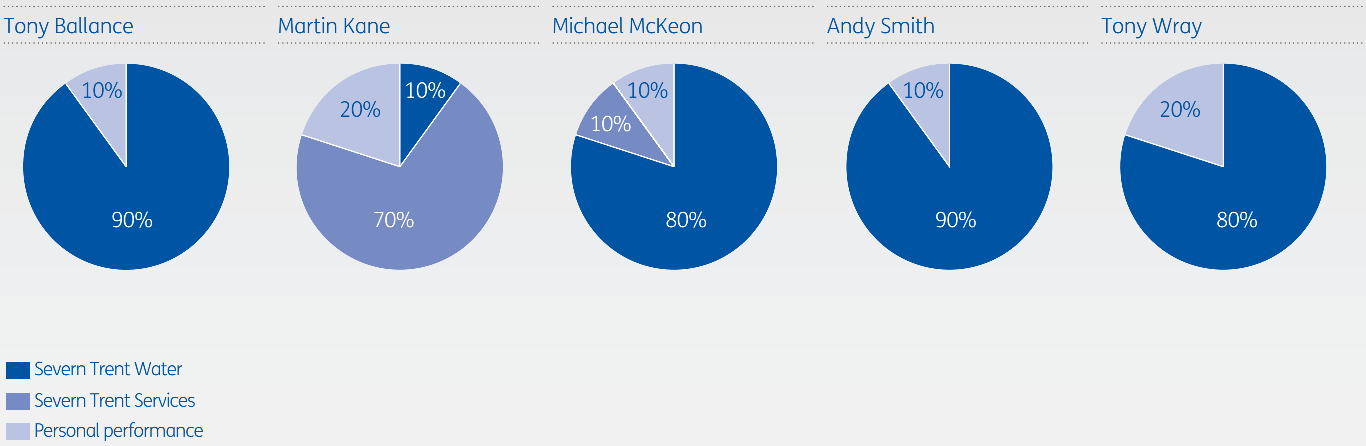
(vii) Joined the board on 31 March 2014.

(viii) Joined the board on 24 January 2014.

Remuneration Committee continued

Annual bonus outturn for 2013/14

The weighting of the performance measures for the annual bonus awarded during the year was as follows:



Performance of Severn Trent Water

The bonus outturn in respect of Severn Trent Water performance was determined by reference to a balanced scorecard of measures, based on 10 of the company's 16 Key Performance Indicators (KPIs). The Committee believes that the use of the selected 10 Severn Trent Water KPIs continues to be both an effective and challenging annual bonus metric and meets the needs of the business. The bonus entitlement was determined by reference to the aggregate number of points awarded across all the KPIs. The targets taken together are considered by the board to have an impact on the longer term financial performance of the company and a number of them are reported to Ofwat.

The KPIs used to determine the annual bonus are:

Key Performance Indicators			Target	Stretch	Outturn	Points
Employee • Providing a safe working environment • Developing a confident and productive workforce	KPI 1	Lost time incidents per 100,000 hrs worked	0.28	0.27	0.21	130
	KPI 2	Employee motivation	79%	80%	81%	130
Customer • Quality interaction with the customer	KPI 4	Service Incentive Mechanism – Qualitative	4.52	4.73	4.48	99
	KPI 5	Service Incentive Mechanism – Quantitative	162	154	143	130
	KPI 7	Serviceability – Waste	75	66	57	130
	KPI 8	Serviceability – Water	70	68	202	0
Financial • Asset base enhancement • Management of cost base	KPI 9	Capital Expenditure (net) versus final determination – % outperformance	0%	0.2%	0%	100
	KPI 11	Operating Expenditure versus final determination – % outperformance	0%	0.6%	0%	100
Environment • Minimising environmental impact	KPI 12	Pollution incidents (cat 1, 2 and 3)	491	475	449	130
	KPI 16	Leakage Ml/d – Post MLE	456	449	441	130
					Total	1,079

Each KPI has 100 target points, 130 stretch points and, in theory, extra points can be earned for above stretch performance. For executive directors to be awarded the maximum bonus available they are required to achieve 1,300 aggregate points. During the year, 6 of the 10 KPIs exceeded the stretch level of performance, generating an aggregate initial score of 1,443 points. After examining the overall performance and indicative bonus outturn the Committee determined that each of the 6 KPIs should be capped at the level of stretch performance (i.e. 130 points per KPI). As a consequence the final aggregate score was 1,079 points. The resulting bonus awarded for the Severn Trent Water portion of the annual bonus was 63.2% of its bonus element maximum, representing a strong performance in the year and continues the positive progressive trend in the outturn of the KPIs.

Performance of Severn Trent Services

In respect of Martin Kane, performance was measured against the profit before interest and tax (PBIT) (before exceptional items) and non-financial objectives of Severn Trent Services.

	Weighting	% achieved
PBIT	65%	0% out of 65%
Non-financial objectives	35%	26.75% out of 35%
Total	100%	26.75%

The total bonus payable for Severn Trent Services' performance was 26.75% of the maximum. In respect of Michael McKeon, his performance was measured against the achievement of the Severn Trent Services business plan. He was awarded 25% of the maximum bonus available as although the financial measures were not met the strategic outcomes were driven successfully.

Personal contribution

All directors had 10% of their bonus opportunity measured against personal objectives, with the exception of the Chief Executive and Chief Executive of Severn Trent Services, who had 20%. The personal objectives set related to PR14 and the AMP6 business plan, development of the retail business, talent and succession planning and transition management.

Overall achievement for 2013/14

	STW performance	STS performance	Personal performance	Total bonus			
	% salary	% salary	% salary	% salary (max 120%)	Cash £	Deferred shares £	Total £
Tony Ballance	68.26	–	8.40	76.66	80,987	80,987	161,974
Martin Kane	7.58	22.47	19.20	49.25	63,267	63,267	126,534
Michael McKeon	60.67	3.00	10.20	73.87	172,417	172,417	344,834
Andy Smith	68.26	–	8.40	76.66	105,249	105,249	210,497
Tony Wray	60.67	–	18.00	76.87	452,364	–	452,364

The bonus is paid 50% in cash and 50% in shares (deferred for three years). The deferred shares will be granted in June 2014. The deferred shares are not subject to any further conditions save for continued employment. Tony Wray retired from the board on 11 April 2014 and the Committee exercised its discretion to pay his bonus solely in cash.

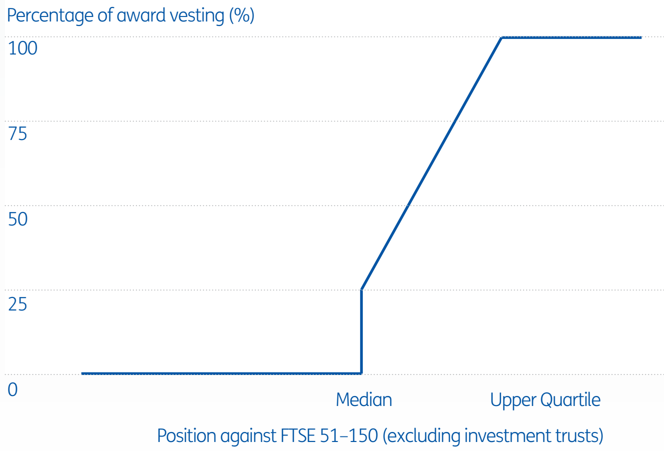
Long term incentive awards vesting in relation to performance in 2013/14

The 2010 SMP awards and the 2011 LTIP awards have or will vest based on performance during the year.

2010 SMP awards

The 2010 SMP awards were subject to a TSR performance condition, measured relative to companies ranked 51–150 in the FTSE by market capitalisation (excluding investment trusts). The performance period was three years commencing on the date of grant (21 May 2010). In addition, the Committee must be satisfied that the company's TSR was reflective of the company's underlying performance. The performance period ended on 20 May 2013 with Severn Trent ranked 27 out of 82 companies. The Committee was satisfied that the company's TSR appropriately reflected the company's underlying performance and the award vested at 78.0%.

TSR vesting schedule

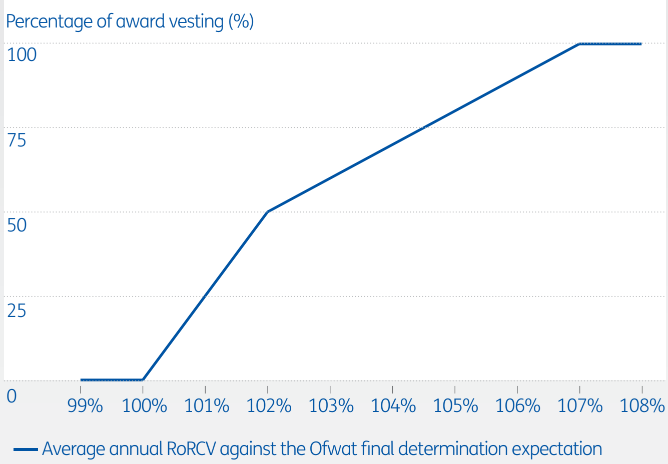


Remuneration Committee continued

2011 LTIP awards

The 2011 LTIP awards were subject to an RoRCV performance condition, measured over three financial years to 31 March 2014. The Committee has various discretions in relation to determining the final vesting outcome as set out in the policy report. The performance period ended on 31 March 2014. The Committee considered the level of RoRCV out-performance of the Ofwat final determination for the 2011 LTIP award after adjusting RoRCV to exclude the impact of an exceptional tax credit. This showed the average RoRCV over the three years ending in 2013/14 had still outperformed the RoRCV Ofwat final determination by 16.5% therefore resulting in 100% vesting.

RoRCV vesting schedule for 2011, 2012 and 2013 LTIP awards



Summary of long term incentive awards vesting based on performance in 2013/14

Executive	Award type	Grant date	Number of shares granted	End of performance period	% vesting	Number of shares vesting	Value of resultant award[(i)]	Vesting date
Tony Ballance	SMP	21/05/10	2,069	20/05/13	78%	1,613	£28,340	21/05/13
	LTIP	22/06/11	6,525	31/03/14	100%	6,525	£115,558	01/04/14
Total							£143,898	
Martin Kane	SMP	21/05/10	2,586	20/05/13	78%	2,017	£35,439	21/05/13
	LTIP	22/06/11	7,121	31/03/14	100%	7,121	£126,113	01/04/14
Total							£161,522	
Michael McKeon	SMP	21/05/10	5,177	20/05/13	78%	4,038	£70,948	21/05/13
	LTIP	22/06/11	14,411	31/03/14	100%	14,411	£225,219	01/04/14
Total							£296,167	
Andy Smith	SMP	21/05/10	3,049	20/05/13	78%	2,378	£41,781	21/05/13
	LTIP	22/06/11	8,477	31/03/14	100%	8,477	£150,128	01/04/14
Total							£191,909	
Tony Wray[(ii)]	SMP	21/05/10	5,591	20/05/13	78%	4,360	£76,605	21/05/13
	LTIP	22/06/11	23,271	31/03/14	100%	23,271	£412,129	01/04/14
Total							£488,734	

(i) For the SMP award this is based on the share price at release of £17.57. For the LTIP award this is based on the average share price over the final three months of the performance period (£17.71) as the awards will not be released until June 2014.

(ii) Tony Wray retired from the board on 11 April 2014. As noted on page 75 he is being treated as a good leaver under the rules of the LTIP. His award vests as normal on 1 April 2014 and will be released after the end of the close period. In accordance with the rules, there is no pro-rata reduction since he served for the whole of the performance period.

Outstanding scheme interests, including share awards granted during the year

The table below sets out details of the executives' outstanding awards under the LTIP and SMP, deferred share awards under the Annual Bonus (ABS) and SAYE scheme as at 31 March 2014.

Executive	Award type	Maximum[ii] number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting/[i] exercise date	Awards granted during the year	
							Basis of award	Face value
Tony Ballance	2011 LTIP	6,525	0%	–	31/03/14	01/04/14	–	–
	2012 LTIP	5,741	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	5,855	0%	–	31/03/16	01/04/16	50% salary	£103,050
	2011 SMP	1,868	5%	–	19/05/14	20/05/14	–	–
	2012 SMP	1,721	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	2,963	5%	–	12/06/16	13/06/16	0.5:1 match	£48,926
	2011 ABS	3,736	–	–	–	30/06/14	–	–
	2012 ABS	3,442	–	–	–	28/06/15	–	–
	2013 ABS	5,926	–	–	–	26/06/16	Deferred bonus	£97,852
	2013 SAYE	725	–	1241	–	May–16	–	–
	2013 SIP	32	–	–	–	–	–	–
	Total	38,534						
Martin Kane	2011 LTIP	7,121	0%	–	31/03/14	01/04/14	–	–
	2012 LTIP	7,119	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	7,119	0%	–	31/03/16	01/04/16	50% salary	£125,300
	2011 SMP	2,131	5%	–	19/05/14	20/05/14	–	–
	2012 SMP	2,162	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	4,360	5%	–	12/06/16	13/06/16	0.5:1 match	£72,000
	2011 ABS	4,262	–	–	–	30/06/14	–	–
	2012 ABS	4,324	–	–	–	28/06/15	–	–
	2013 ABS	8,721	–	–	–	26/06/16	Deferred bonus	£144,000
	2011 SAYE	316	–	1137	–	May–14	–	–
	2012 SAYE	152	–	1177	–	May–15	–	–
	2013 SAYE	290	–	1241	–	May–16	–	–
	2014 SAYE	270	–	1331	–	May–17	–	–
	2013 SIP	32	–	–	–	–	–	–
	Total	48,379						
Michael McKeon	2011 LTIP	14,411	0%	–	31/03/14	01/04/14	–	–
	2012 LTIP	12,684	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	12,937	0%	–	31/03/16	01/04/16	50% salary	£227,700
	2011 SMP	3,938	5%	–	19/05/14	20/05/14	–	–
	2012 SMP	3,685	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	6,757	5%	–	12/06/16	13/06/16	0.5:1 match	£111,564
	2011 ABS	7,876	–	–	–	30/06/14	–	–
	2012 ABS	7,370	–	–	–	28/06/15	–	–
	2013 ABS	13,514	–	–	–	26/06/16	Deferred bonus	£223,128
	2009 SAYE	1,943	–	862	–	May–14		
	2013 SIP	32	–	–	–	–	–	–
	Total	85,147						
Andy Smith	2011 LTIP	8,477	0%	–	31/03/14	01/04/14	–	–
	2012 LTIP	7,460	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	7,610	0%	–	31/03/16	01/04/16	50% salary	£133,950
	2011 SMP	2,399	5%	–	19/05/14	20/05/14	–	–
	2012 SMP	2,234	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	3,842	5%	–	12/06/16	13/06/16	0.5:1 match	£63,436
	2011 ABS	4,798	–	–	–	30/06/14	–	–
	2012 ABS	4,468	–	–	–	28/06/15	–	–
	2013 ABS	7,684	–	–	–	26/06/16	Deferred bonus	£126,872
	2013 SAYE	725	–	1241	–	May–16	–	–
	2013 SIP	32	–	–	–	–	–	–
	Total	49,729						

Remuneration Committee continued

Executive	Award type	Maximum[ii] number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting/[i] exercise date	Awards granted during the year: Basis of award	Awards granted during the year: Face value
Tony Wray	2011 LTIP	23,271	0%	–	31/03/14	01/04/14	–	–
	2012 LTIP	21,875	0%	–	31/03/15	01/04/15	–	–
	2013 LTIP	22,312	0%	–	31/03/16	01/04/16	70% salary	£392,700
	2011 SMP	4,542	5%	–	19/05/14	20/05/14	–	–
	2012 SMP	4,733	5%	–	24/05/15	25/05/15	–	–
	2013 SMP	8,273	5%	–	12/06/16	13/06/16	0.5:1 match	£136,592
	2011 ABS	9,084	–	–	–	14/04/14	–	–
	2012 ABS	9,467	–	–	–	14/04/14	–	–
	2013 ABS	16,546	–	–	–	14/04/14	Deferred bonus	£273,185
	2013 SAYE	725	–	1241	–	May–16	–	–
	2013 SIP	32	–	–	–	–	–	–
	Total	120,860						

(i) Awards that are due to vest in a close period will be released on the first dealing day, where practicable, after the end of the close period. The expected release date for the 2011 LTIP awards is June 2014.

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

Long Term Incentive Plan awards

The LTIP awards are granted as conditional shares. The target range for all outstanding awards is the same as for the 2011 LTIP set out on page 70.

As noted on page 70, the 2011 LTIP vests at 100% on 1 April 2014, however as the company was in a close period the release of award will be made after this period ends. The 2013 LTIP awards were granted on 19 June 2013. The share price used to calculate the number of shares granted was £17.60.

Share Matching Plan awards

Awards are granted in line with the policy outlined in the Policy Report. For awards granted in 2011 onwards, TSR performance is measured over three different measurement periods, each commencing on the date of grant – 20% of each award is measured over 18 months, 30% over 27 months and 50% over 36 months. 25% of each part of the award will become eligible for vesting for median performance increasing (on a straight line basis) to full vesting for upper quartile performance or above. However, for any of the award to vest, the Committee must be satisfied that the company's TSR is reflective of the company's underlying performance over the full three year performance period.

The 2011 SMP awards vests, subject to performance, on 20 May 2014. The 2013 SMP awards were awarded on 26 June 2013. The share price on that date was £16.51.

Deferred shares under the Annual Bonus Scheme

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 conditional shares. The 2013 award relates to the deferral of the annual bonus for 2012/13. The award was granted on 26 June 2013. The share price used to calculate the number of shares granted was £16.51. The deferred shares relating to the annual bonus for 2013/14 will be granted in June 2014.

Save As You Earn

The executive directors, in common with all eligible UK employees of the group, are entitled to participate in the company's HMRC approved SAYE Scheme.

Share Incentive Plan

The directors received an award of free shares linked to the performance of Severn Trent Water under the Share Incentive Plan (worth £583) during the year on the same terms as other Severn Trent Water employees. The shares vest immediately on grant.

Directors' pension provisions

Name	Service completed in year (including transferred in service credits)	Accrued pension at 31.03.14	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of accrued pension at 31.03.13	Transfer value of accrued pension at 31.03.14	Increase in transfer value net of directors' contributions	Increase in value net of directors' contributions
Andy Smith	9	43,459	5,690	4,859	680.8	804.7	115.4	88.8
Tony Wray	6	30,743	925	269	511.5	547.6	36.1	0.0
Martin Kane	35	151,924	2,811	–469	2,748.9	2,828.7	79.8	–9.4

Notes:

The accrued pension figures and transfer value calculations have been provided by Towers Watson. The inflation figure used in respect of the year to March 2014 was as at September 2012 (2.2%) in line with statutory guidance for calculating the increase in value.

Tony Wray and Andy Smith are deferred members of the Severn Trent Pension Scheme (SSPS Section). Tony Wray ceased to contribute to the Scheme from 31 December 2011 and Andy Smith from 31 March 2014, when they became deferred pensioners of the Scheme and stopped accruing pensionable service. Their normal retirement age under the scheme is 60. Early retirement is available after the age of 55 with the consent of the company. Any pension would be subject to a reduction that the trustees consider appropriate, acting on actuarial advice, to reflect the expected longer payment of the pension. In the event of total incapacity, early retirement is available on an unreduced basis allowing for pensionable service to age 60. Under the Trust Deed and Rules, pensions in payment are guaranteed to increase in line with retail price inflation subject to a maximum of 5% each year (subject to Guaranteed Minimum Pensions being increased at least in line with statutory requirements).

Martin Kane is a member of the Severn Trent Pension Scheme (WPS Section) but opted out of the scheme in June 2007. While he no longer accrues additional years of service for pension purposes, consistent with the legislation, Martin Kane's accrued benefits generally continue to be linked to his final salary (or £161,000 plus RPI from 30 June 2007 to the date of his retirement, if higher) and scheme benefits are preserved in relation to ill health retirement and death in service.

External directorships

Michael McKeon was appointed as a non-executive director of The Merchants Trust Plc on 1 May 2008 and in respect of the appointment for the year ended 31 March 2014 he was paid fees of £26,042 (2013: £23,458).

Tony Wray was appointed as a non-executive director of Grainger plc on 24 October 2011 and in respect of the appointment for the year ended 31 March 2014 has been paid fees of £48,500 (2013: £41,250).

Both Michael McKeon and Tony Wray retained their respective fees in accordance with the above policy. No other executive directors currently hold any external fee earning non-executive directorships.

Directors' shareholdings and summary of outstanding share interests

As disclosed in the Policy Report, the company operates shareholding guidelines under which executive directors are expected to build and maintain a shareholding in the company (this was increased to 200% (2013: 150%) of salary for the Chief Executive and 125% (2013: 100%) of salary for other executive directors in January 2014). Details of the current shareholdings of the directors and whether they have met the new shareholding guidelines are set out below.

	Interests in shares as at 31 March 2014					
		Outstanding scheme interests				
Director	Beneficially owned	LTIP and SMP	Deferred shares under the Annual Bonus	SAYE options	Total	% shareholding guideline achieved*
Dr Bernard Bulkin[1]	554	–	–	–	–	–
Richard Davey	588	–	–	–	–	–
Andrew Duff	3,500	–	–	–	–	–
Gordon Fryett	2,220	–	–	–	–	–
Martin Lamb	3,012	–	–	–	–	–
Baroness Noakes	4,018	–	–	–	–	–
Philip Remnant[2]	–	–	–	–	–	–
Dr Angela Strank[3]	–					
Tony Ballance	15,526	24,673	13,104	725	38,502	152
Martin Kane	23,907	30,012	17,307	1,028	48,347	185
Michael McKeon	36,215	54,412	28,760	1,943	85,115	158
Andy Smith	26,220	32,022	16,950	725	49,697	185
Tony Wray[4]	45,596	85,006	35,097	725	120,828	100

* The share price used to calculate the percentage of the shareholding guideline achieved was £18.23 (as at 31 March 2014).

1 Dr Bernard Bulkin retired from the board on 24 January 2014.
2 Philip Remnant joined the board on 31 March 2014.
3 Dr Angela Strank joined the board on 24 January 2014.
4 Tony Wray retired from the board on 11 April 2014.

Shares counting towards achievement of the guideline include beneficially owned shares and the net of tax value of deferred shares under the annual bonus since they are not subject 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 31 March and 28 May 2014, other than Martin Kane acquired 316 shares on 27 May 2014, with a market price of 1,899 pence per share, following the exercise of his 2011 three year Sharesave scheme option, generating a £2,408 gain.

In addition, Tony Wray acquired 241 shares on 12 May 2014, with a market price of 1,885 pence per share, following the early exercise of his 2013 three year Sharesave scheme option, generating a £1,552 gain. The remaining 484 Sharesave options lapsed on 12 May 2014.

Remuneration Committee continued

Percentage increase in the remuneration of the Chief Executive

Chief Executive (£'000)	**2014**	2013	% Change
– Salary	**561.2**	552.4	1.6%
– Benefits	**16.5**	16.5	–
– Bonus	**452.4**	546.4	(17.2%)
Average per employee (£'000)			
– Salary	**28.5**	27.5	3.6%
– Benefits[1]	**0.4**	0.4	–
– Bonus[2]	**1.3**	1.2	8.3%

1 Includes car allowance and family level private medical insurance for senior and middle managers.

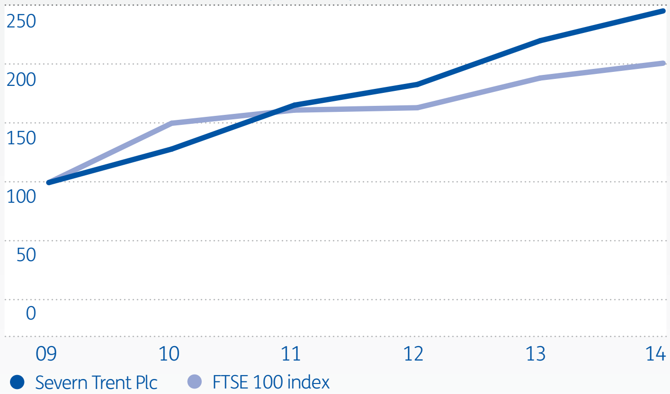
2 The figures are based on an estimate as the 2014 bonuses are not finalised before the date of publication.

The table above shows the movement in salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared against that of the average employee. The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the company's total wage bill as a result of movements in the number of employees. The comparator group used were Severn Trent Water employees based in the UK as this is where the vast majority of our employees are based.

Total shareholder return chart (not subject to audit)

This graph shows the value, by 31 March 2014, of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index. The FTSE 100 was chosen as the comparator index because the company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.

Total shareholder return (value £)



Source: Datastream

Total remuneration of the Chief Executive

					Year ending 31 March
	2010	2011	2012	2013	2014
Chief Executive	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,760.1
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%
LTIP vesting (% of maximum)	63.0%	0.0%	28.4%	57.5%	100%
SMP vesting (% of maximum)					78%

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.

	2014	2013	% Change
Staff costs (£'m)	**340.5**	340.9	(0.1%)
Dividends (£'m)	**185.3**	322.0	(42.5%)[(i)]

(i) The dividend in 2013 was unusually high due to the special dividend of £149.9 million paid in July 2013.

How the policy will be applied in 2014 onwards

Salary, benefits and pension

Base salaries for all executive directors will be increased by 2.7% from 1 July 2014, with the exception of the Chief Executive, Liv Garfield. As a new joiner to the company, Liv's salary will next be reviewed on 1 July 2015. The level of increase to be applied for 2014 is aligned to that which the company will apply to the salaries of the general UK workforce.

The base salaries for the executive directors from 1 July 2014 are as follows:

Liv Garfield	£650,000
Michael McKeon	£479,500
Andy Smith	£282,100
Martin Kane	£263,900
Tony Ballance	£217,100

Benefits and pension provision will be applied in line with the policy set out in the table on pages 61 and 62.

Annual bonus

For 2014/15 the bonus weightings will be 50% on the Severn Trent Water balanced scorecard, 40% on key business objectives and 10% on personal performance. For the CEO and CFO the key business objectives will relate to a mixture of Severn Trent Water and Severn Trent Services performance, while for the Director of Water Services and Director of Strategy and Regulation they will relate to Severn Trent Water performance. Martin Kane's bonus will be based 90% on the financial and non-financial performance of Severn Trent Services and 10% on personal objectives.

The structure and operation of the annual bonus will be as outlined in the policy table. The Committee considers the performance targets to be commercially sensitive and has therefore determined not to disclose them in advance. Full details of the targets used will be set out in next year's Remuneration report.

Long Term Incentive Plan

The LTIP awards for 2014 will be granted under the new plan, subject to its approval by shareholders at the 2014 AGM. The grants will be 125% of salary for the Chief Executive (set as part of the recruitment package) and 80% for the other executive directors (the award size being determined by the Committee after taking into account the potential value of the SMP forgone and after examining market remuneration levels generally). The awards will be subject to an RoRCV performance condition in line with existing awards.

The vesting scale will be as shown on page 70 (100%–107%).

Retirement from the board of Tony Wray

Tony Wray retired from the company on 11 April 2014 after completing his 12 month notice period. He will not receive any compensation for loss of office. As a retiree, Tony Wray will be treated as a good leaver in relation to his outstanding incentive awards. Consistent with the policy on terminations, his bonus for 2013/14 will be paid in cash and his outstanding deferred share bonus awards vested, in full, on cessation of employment. His outstanding awards under the SMP and LTIP will continue to vest on the normal vesting dates, subject to performance and a time pro-rata reduction. For the SMP awards and, as a condition of the grant of his 2013 LTIP, time pro-rating is calculated to the nearest month. For the 2012 LTIP award time pro-rating is calculated to the nearest full year. Any outstanding SAYE and SIP awards vest in accordance with their terms.

Recruitment of Liv Garfield as Chief Executive

The remuneration package granted to Liv Garfield on appointment is as follows:

- Salary of £650,000
- Pension contribution of 25% of salary
- Annual bonus potential of 120% of salary
- LTIP grant level of 125% of salary

The annual bonus and LTIP targets are in line with our policy. A one-off LTIP award was necessary to secure her appointment, as partial consideration for her significant unvested entitlements at BT. The award will be split into three equal tranches, the face value of each being £812,500 (125% of base pay of £650,000) vesting in 2014, 2015 and 2016 (matching the vesting times of her unvested entitlements). It will be subject to the same performance condition and continued employment condition as the equivalent Severn Trent LTIP awards vesting in each of those years. Awards will vest on a takeover and in the event of a good leaver subject to performance. There will be no scaling back on a time pro rata basis. This lack of pro rating was agreed in recognition of the fact that the expected value of the forfeited awards is very significantly higher with much of it being non-performance related (and which would not have been scaled back for a similar event).

In addition to this one-off award she will be reimbursed for reasonable expenses in relation to her relocation.

Remuneration Committee continued

Non executive directors' fees

The Chairman will receive a single fee of £257,000 for 2014/15 to cover all his board duties.

The 2014 fee levels for the non-executive directors are set out in the table below:

	Fees
Base fee paid to all non-executive directors	£51,350
Supplementary fees:	
– Senior independent director	£10,000
– Audit Committee Chairman	£15,000
– Remuneration Committee Chairman	£15,000
– Corporate Responsibility Committee Chairman	£13,000

The Chairman and non-executive directors normally serve for terms of three years. The current expiry dates of their letters of appointment are Richard Davey (31 December 2014), Andrew Duff (9 May 2016), Gordon Fryett (20 June 2015), Martin Lamb (1 March 2017), Baroness Noakes (16 July 2014), Philip Remnant (31 March 2017) and Dr Angela Strank (24 January 2017). However, all of the directors are subject to reappointment at the 2014 AGM.

Statement of shareholding voting at AGM

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

	Total number of votes	% of votes cast
For	141,217,885	99.74%
Against	367,093	0.26%
Total votes cast	141,584,978	100%
Abstentions	131,174	

Richard Davey
Chairman of the Remuneration Committee
28 May 2014

Directors' report

The directors present their report, together with the audited group financial statements, for the year ended 31 March 2014. The Governance section set out on pages 45 to 76 forms part of this report.

Principal activity

The principal activity of the group is to treat and provide water and remove waste water in the UK and internationally.

Details of the principal joint ventures, associated and subsidiary undertakings of the group at 31 March 2014 are shown in notes 19, 20 and 46 to the financial statements on pages 112 and 142.

Business review

The Strategic Report on the inside front cover through to page 41 provides detailed information relating to the group, its business models and strategy, the operation of its businesses and the results and financial position for the year ended 31 March 2014.

Details of the principal risks and uncertainties facing the group are set out in the risk management section on pages 38 to 41.

Directors and their interests

Biographies of the directors currently serving on the board are set out on pages 42 and 43.

All of the directors will be offering themselves for election or re-election at the Annual General Meeting (AGM), as set out in the Governance report on page 46, with the exception of Baroness Noakes who will be retiring from the board with effect from the conclusion of the AGM.

Details of directors' service contracts are set out in the Directors' remuneration report on pages 64 and 65. The interests of the directors in the shares of the company are shown on pages 70 to 73 of that report.

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. In accordance with the company's articles of association, and to the extent permitted by law, in November 2011 the company indemnified 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.

Indemnities were also entered into with Dr Angela Strank, Liv Garfield, Philip Remnant and John Coghlan upon their appointments to the board.

Severn Trent does not have in place any indemnities for the benefit of the auditors.

Employees

The average number of employees within the group is shown in note 9 to the financial statements on page 104.

Severn Trent believes that a diverse and inclusive culture is a key factor in being a successful business. Apart from ensuring an individual has the ability to do the job we do not discriminate in any way and make every effort to ensure that those with disabilities can take up employment with us. We endeavour to retain employees in the workforce if they become disabled, we make all reasonable adjustments to their role and, if necessary, look for redeployment opportunities to support them in seeking an alternative role within Severn Trent. We ensure that training, career development and promotion opportunities are available for all our employees irrespective of their gender, race, age or disability.

The provision of occupational health programmes is of crucial importance and, in particular, work has been undertaken during the year to promote awareness of mental health issues and the employee assistance programme available to Severn Trent Water employees.

The group actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of its activity and financial performance by way of company wide communication forums, briefings and publication to staff of all relevant information and corporate announcements. To help align employees' interests with the success of the company's performance, Severn Trent offers two employee share plans. The Severn Trent Sharesave Scheme, an HM Revenue and Customs approved SAYE plan, is offered to UK employees on an annual basis. The Severn Trent Share Incentive Plan, approved by HM Revenue and Customs, makes an annual award of shares to Severn Trent Plc and Severn Trent Water Limited employees, based on performance against the company's KPI targets.

Research and development

Expenditure on research and development is set out in notes 7 and 17 to the Financial statements on pages 103 and 110 respectively.

Treasury management

The disclosures required under the EU Fair Value Directive in relation to the use of financial instruments by the company are set out in note 37 to the Financial statements on pages 127 to 135. Further details on our treasury policy and management are set out in the Financial review on pages 36 and 37.

Post balance sheet events

Details of post balance sheet events are set out in note 44 to the group financial statements on page 141.

Directors' report continued

Dividends

An interim dividend of 32.16 pence per ordinary share was paid on 10 January 2014. The directors recommend a final dividend of 48.24 pence per ordinary share to be paid on 25 July 2014 to shareholders on the register on 20 June 2014. This would bring the total dividend for 2013/14 to 80.40 pence per ordinary share (2013: 75.85 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

On 27 July 2012 a special dividend of 63.0 pence per ordinary share was paid to shareholders.

Capital structure

Details of the company's issued share capital and of the movements during the year are shown in note 32 to the financial statements on page 123. 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 of association 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 135 to 138. 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 of association, the Governance Code, the Companies Act 2006 and related legislation. The articles may be amended by special resolution of the shareholders. The powers of directors are described in the Severn Trent Plc Board Governance document, the articles and the Governance report on pages 46 to 51.

Under its articles of association, the directors have authority to allot ordinary shares, subject to the aggregate nominal amount limit set at the 2013 AGM.

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 is considered to be significant in terms of their likely impact on the business of the group as a whole. There are no agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Substantial shareholdings

As at 31 March 2014 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	23,457,458	9.87%
Newton Investment Management Ltd	11,474,764	4.80%
Legal & General Group Plc	9,523,698	3.99%

Percentages rounded to two decimal places.

As at 28 May 2014, the company had been notified of the following holdings of voting rights in the ordinary share capital of the company: Blackrock Inc 23,457,458 (9.87%); Newton Investment Management Ltd 11,474,764 (4.80%) and Legal & General Group Plc 9,523,698 (3.99%).

Authority to purchase shares

The company was given authority at its AGM in 2013 to make market purchases of ordinary shares up to a maximum number of 23,882,260 shares. Similar authority will again be sought from shareholders at this year's AGM. No market purchases were made by the company during the year ended 31 March 2014.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £108,000 (2013: £97,707). 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. 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 2013 AGM, shareholders gave the company authorities 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 2014 the group incurred costs of £nil (2013: £nil). Those authorities will expire at the 2014 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 per annum. 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.

Report on greenhouse gas emissions

This is the first year Severn Trent has been required to report greenhouse gas (GHG) emissions in the Directors' report.

Severn Trent is committed to reducing its GHG emissions. For Severn Trent Water, which accounts for 98% of our total group emissions, we have been publicly reporting on our emissions since 2002. In that time we have reduced our emissions consistently. We have achieved this primarily by being more energy efficient and generating more renewable energy.

Our continued investment in renewable energy over the past decade and beyond now allows us to generate 204 GWh p.a., the equivalent of 23% of Severn Trent Water's electricity needs. We continue to lead the UK water industry in renewable energy production and our aim is to generate the equivalent of 30% by 2015.

Severn Trent Water has held the Carbon Trust Standard since 2009 in recognition of consistent emissions reductions and effective carbon management processes. Our gross GHG emissions have continued to reduce since we first achieved the Standard because of our reduction in energy consumption and our increase in self-supplied renewable energy. This year, Severn Trent Water used 894 GWh of electricity, which is 22 GWh (2.4%) less than in 2009 and Severn Trent self-supplied 154 GWh of electricity, 26 GWh (20.5%) more than in 2009.

Our approach of generating more of our own energy and reducing the amount we use reduces our costs and our reliance on the electricity grid.

Further details about our approach to climate change and the risks and opportunities it presents to our business are set out in our Carbon Disclosure Project (CDP) submission (www.cdp.net). The CDP request information about climate change from companies each year on behalf of investors and score each company on the quality and completeness of their responses. We have seen a year on year improvement in our CDP score and in 2013 we achieved 83%, compared to the average score of 81% across the FTSE 100.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO_2e), for the period 1 April 2013 to 31 March 2014.

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

Severn Trent Plc direct operational greenhouse gas emissions (tCO_2e)	2013/14
Emissions from combustion of fuel and operation of facilities (Scope 1)	169,844
Emissions from electricity purchased for own use (Scope 2)	330,679
Total annual gross operational emissions	500,523

Annual GHG intensity ratio (tCO_2/unit)	2013/14
Operational GHG emissions of Severn Trent per £m turnover	269.6

Our long term aim is to be carbon neutral and energy self sufficient, provided this is the best value option for our customers and investors. We plan to continue to reduce our emissions within Severn Trent Water by a further 3% between 2015 and 2020, primarily by reducing our energy use. We plan to continue to increase our renewable generation mainly within our non-regulated business where the focus for expansion is the emerging food waste digestion market. 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.

Notes:

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.

For Severn Trent Water, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 8.1' (released March 2014). 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.

Directors' report continued

Internal controls

The board is responsible for the group's system of internal control and for reviewing its effectiveness. The board reviews the effectiveness of the system of internal control, including financial, operational and compliance aspects including risk management, at least annually in accordance with the requirements of the Governance Code. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Audit Committee reviews the group's risk management process and the effectiveness of the system of internal control on behalf of the board and keeps under review ways in which to enhance the control and assurance arrangements. The Audit Committee receives reports every six months from the Chief Executive 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. During the course of its review of the system of internal control in 2013/14, the Audit Committee has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

The Internal Audit department provides objective assurance and advice on risk management and control. The external auditors (Deloitte) also report on significant financial control issues to the Audit Committee.

An independent reporter (Atkins) provides objective assurance in relation to the Severn Trent Water Limited Annual Regulatory Compliance Statement and Annual Regulatory Performance Report. Deloitte carried out a review of the agreed upon procedures relating to the calculation of the financial KPIs included in the Annual Regulatory Compliance Statement and the Annual Regulatory Performance Report.

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 2014 and up to the date of approval of the annual report, which is in accordance with the revised guidance on internal control published in October 2005 (the Turnbull Guidance).

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

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

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 auditors are unaware; and
- each of them has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are 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 auditors

Having carried out a review of their effectiveness during the year, the Audit Committee has recommended to the board the reappointment of Deloitte LLP and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP have indicated their willingness to continue as auditors. The Audit Committee will also be responsible for determining the audit fee on behalf of the board.

Accounts of Severn Trent Water Limited

Regulatory accounts for Severn Trent Water Limited are prepared and sent to Ofwat. A copy of these accounts will be available on the website of Severn Trent Water Limited (www.stwater.co.uk) or on request to the Company Secretary. There is no charge for this publication.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position and the business reviews of Severn Trent Water and Severn Trent Services are set out in the Strategic report, from the inside front cover to page 41. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 33 to 37. The group's objectives, policies and processes for managing its capital and its financial risk management objectives are described in the Financial review on pages 33 to 37 and in the Governance report. Details of the group's financial instruments, hedging activities and exposure to credit risk and liquidity risk are described in note 37 to the group financial statements.

The group's principal operating subsidiary, Severn Trent Water, is a regulated long term business characterised by multi year investment programmes. The group's strategic funding objectives reflect this. The group therefore seeks to attain a balance of long term funding or commitment of funds across a range of funding at the best possible economic cost. Average debt maturity is 16 years and the effective average interest cost during the year was 5.8%. The group is in a strong liquidity position and had £123.2 million in cash and liquid reserves and £500.0 million of undrawn committed bank facilities at 31 March 2014, which are expected to be sufficient to fund its investment and cash flow needs at least until December 2015 in the normal course of business.

Severn Trent Water operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities. As a consequence the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Annual General Meeting

The AGM of the company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 16 July 2014. 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 the company's website (www.severntrent.com).

By order of the board

Bronagh Kennedy
General Counsel and Company Secretary
28 May 2014

Directors' responsibility 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 parent company financial statements in accordance with Financial Reporting Standard 101 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 Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's and the group's performance, business models and strategy.

Responsibility statement

We confirm that to the best of our 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 management report, which is incorporated into the Directors' 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.

By order of the board

Andrew Duff
Chairman

Michael McKeon
Finance Director

28 May 2014

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Independent auditor's report to the members of Severn Trent Plc

Opinion on financial statements of Severn Trent Plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 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 Financial Reporting Standard 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated and Parent statement of comprehensive income, the Consolidated and Parent company balance sheets, the Consolidated cash flow statement, the Consolidated and Parent company statements of changes in equity and the related Consolidated notes 1 to 46 and Parent company notes 1 to 18. 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 Financial Reporting Standard 101 Reduced Disclosure Framework.

Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' report on page 82 that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

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.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Determination of the provision for impairment of trade receivables. Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in particular ageing categories.	We reviewed and challenged the information used to determine the bad debt provision by considering cash collection performance against historical trends and the level of bad debt charges over time. Specifically, we reviewed the actual history of slow paying customers in Severn Trent Water in the period using data analytics to understand the collection of previously aged debtors and to recompute the ageing analysis. We also tested the key controls relating to the data used in the bad debt model and agreed a sample of this data back to its source, being the billing system.
Revenue recognition risk in relation to the estimation of unbilled revenue in Severn Trent Water. For water and waste water customers with water meters, the amount recognised depends upon the volume supplied, including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. The estimated usage is based upon historical data and assumptions around consumption patterns.	We challenged the validity of management's estimate of the current year accrued revenue by comparing actual amounts billed to the estimate made in the prior year to determine the accuracy of the estimation techniques. In addition, we used data analytics to recompute the total level of unbilled revenue for the current year in Severn Trent Water as well as testing the controls around the key data inputs to the model and agreed a sample of this data back to its source.

Risk	How the scope of our audit responded to the risk
The assessment of the carrying value of goodwill Management is required to carry out an annual impairment test. This is a complex and subjective process which requires management to make estimates concerning the future cash flows of each cash-generating unit and associated discount and long term growth rates based on their view of the future prospects of the business.	We challenged the key assumptions relating to the estimated future cash flows of each cash-generating unit ('CGU') by considering historical performance against budget and our understanding of future prospects. We also compared the long term growth rates and discount rates for each CGU to industry benchmarks and performed sensitivity analysis to understand the cash flow impact of a reasonably possible change in assumptions. Regarding the £24.7 million impairment charge recorded in The group's US Water Purification business, we considered the impairment indicators identified by management, critically reviewed their assumptions in relation to estimated future cash flows of this CGU and held discussions with senior management to understand the future prospects of this business, and the related sensitivity analysis.
Determining the amount of the group's retirement benefit obligations. This process is complex and requires management (after taking advice from their actuarial advisors) to make a number of assumptions concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners.	With support from the pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 30, specifically regarding the discount rate, inflation rate and mortality assumptions with reference to comparable market and other data.
Determination of current and deferred tax balances 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.	With support from the tax specialists within our audit team, we considered the likely outcomes of uncertain tax positions and reviewed correspondence with the tax authorities to assess the appropriateness of the tax balances that have been recorded in the balance sheet.

The Audit Committee's consideration of these risks is set out on page 54.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We determined planning materiality for the group to be £18 million, which is approximately 7% of pre-tax profit before exceptional items and other adjustments including the fair value movements in financial instruments. These items are excluded to focus on the group's underlying trading performance, consistent with the group's internal and external reporting.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit scope focused on the consolidation at the parent company level and the group's two business segments being Severn Trent Water and Severn Trent Services. Severn Trent Water was subject to a full statutory audit and accounts for over 90% of the group's net operating assets and operating profit. The extent of our testing on Severn Trent Services was based on our assessment of the risks of material misstatement and the materiality of the segment's global business operations, principally in the UK and the US, the materiality of each component being lower than that of the group.

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. This primarily relates to the Severn Trent Services audit team in the US. The Senior Statutory Auditor or another senior member of the group team visits the Severn Trent Services audit team in the US at least once every two years.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Severn Trent Plc continued

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. Under the Listing Rules we are required to review certain elements of the Directors' remuneration report. We have nothing to report arising from these matters or our review.

Corporate governance statement

Under the Listing Rules we are also required to review the part of the Corporate governance statement relating to the company's compliance with nine 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 the 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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, strategically focused second partner reviews 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.

Carl D Hughes MA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

28 May 2014

Consolidated income statement

For the year ended 31 March 2014

	Note	2014 £m	2013 Restated £m
Turnover	5, 6	**1,856.7**	1,831.6
Operating costs before exceptional items	7	**(1,339.9)**	(1,336.2)
Exceptional operating costs	8	**(44.4)**	(4.3)
Total operating costs	7	**(1,384.3)**	(1,340.5)
Exceptional loss on disposal of business	8	**–**	(1.5)
Profit before interest, tax and exceptional items	5	**516.8**	495.4
Exceptional items before interest and tax	8	**(44.4)**	(5.8)
Profit before interest and tax		**472.4**	489.6
Finance income	10	**80.8**	78.4
Finance costs	11	**(328.7)**	(322.7)
Net finance costs		**(247.9)**	(244.3)
Gains/(losses) on financial instruments	12	**58.0**	(45.3)
Share of results of associates and joint ventures		**0.2**	0.2
Profit before tax, gains/(losses) on financial instruments and exceptional items		**269.1**	251.3
Exceptional items before tax	8	**(44.4)**	(5.8)
Gains/(losses) on financial instruments	12	**58.0**	(45.3)
Profit on ordinary activities before taxation		**282.7**	200.2
Current tax excluding exceptional credit	13	**(56.5)**	(27.9)
Deferred tax excluding exceptional credit	13	**(21.5)**	8.2
Exceptional tax credit	13	**230.2**	38.4
Total taxation on profit on ordinary activities	13	**152.2**	18.7
Profit for the year		**434.9**	218.9
Attributable to:			
Owners of the company		**433.8**	216.0
Non-controlling interests		**1.1**	2.9
		434.9	218.9
Earnings per share (pence)			
Basic	15	**182.1**	90.9
Diluted	15	**181.3**	90.5

Consolidated statement of comprehensive income

For the year ended 31 March 2014

	2014 £m	2013 Restated £m
Profit for the year	**434.9**	218.9
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Net actuarial gain/(loss) on defined benefit pension schemes	**3.7**	(39.2)
Tax on net actuarial gain/loss	**(0.8)**	9.0
Deferred tax arising on change of rate	**(12.3)**	(3.4)
	(9.4)	(33.6)
Items that may be reclassified to the income statement:		
Gain/(loss) on cash flow hedges	**15.1**	(39.0)
Deferred tax on gain/loss on cash flow hedges	**(3.0)**	9.0
Amounts on cash flow hedges transferred to the income statement in the year	**8.1**	14.8
Deferred tax on transfers to income statement	**(1.6)**	(3.4)
Exchange movement on translation of overseas results and net assets	**(9.7)**	5.4
	8.9	(13.2)
Other comprehensive loss for the year	**(0.5)**	(46.8)
Total comprehensive income for the year	**434.4**	172.1
Attributable to:		
Owners of the company	**434.3**	168.7
Non-controlling interests	**0.1**	3.4
	434.4	172.1

Consolidated statement of changes in equity

For the year ended 31 March 2014

	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
At 1 April 2012	232.6	83.8	400.2	256.9	973.5	7.9	981.4
Profit for the year (restated see note 3)	–	–	–	216.0	216.0	2.9	218.9
Losses on cash flow hedges	–	–	(39.0)	–	(39.0)	–	(39.0)
Deferred tax on losses on cash flow hedges	–	–	9.0	–	9.0	–	9.0
Amounts on cash flow hedges transferred to the income statement	–	–	14.8	–	14.8	–	14.8
Deferred tax on transfers to the income statement	–	–	(3.4)	–	(3.4)	–	(3.4)
Exchange movement on translation of overseas results and net assets	–	–	4.9	–	4.9	0.5	5.4
Actuarial losses (restated see note 3)	–	–	–	(39.2)	(39.2)	–	(39.2)
Tax on actuarial losses (restated see note 3)	–	–	–	9.0	9.0	–	9.0
Deferred tax arising from rate change	–	–	–	(3.4)	(3.4)	–	(3.4)
Total comprehensive income for the year	–	–	(13.7)	182.4	168.7	3.4	172.1
Share options and LTIPs							
– proceeds from shares issued	0.7	5.9	–	–	6.6	–	6.6
– value of employees' services	–	–	–	6.9	6.9	–	6.9
– own shares purchased	–	–	–	(1.3)	(1.3)	–	(1.3)
Current tax on share based payments	–	–	–	0.8	0.8	–	0.8
Transfer of infrastructure reserve	–	–	(314.2)	314.2	–	–	–
Dividends paid	–	–	–	(322.0)	(322.0)	(0.5)	(322.5)
At 31 March 2013	233.3	89.7	72.3	437.9	833.2	10.8	844.0
Profit for the year	–	–	–	433.8	433.8	1.1	434.9
Gains on cash flow hedges	–	–	15.1	–	15.1	–	15.1
Deferred tax on gains on cash flow hedges	–	–	(3.0)	–	(3.0)	–	(3.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.1	–	8.1	–	8.1
Deferred tax on transfers to the income statement	–	–	(1.6)	–	(1.6)	–	(1.6)
Exchange movement on translation of overseas results and net assets	–	–	(8.7)	–	(8.7)	(1.0)	(9.7)
Actuarial gains	–	–	–	3.7	3.7	–	3.7
Tax on actuarial gains	–	–	–	(0.8)	(0.8)	–	(0.8)
Deferred tax arising from rate change	–	–	–	(12.3)	(12.3)	–	(12.3)
Total comprehensive income for the year	–	–	9.9	424.4	434.3	0.1	434.4
Share options and LTIPs							
– proceeds from shares issued	0.6	4.5	–	–	5.1	–	5.1
– value of employees' services	–	–	–	5.8	5.8	–	5.8
– own shares purchased	–	–	–	(2.8)	(2.8)	–	(2.8)
Current tax on share based payments	–	–	–	1.0	1.0	–	1.0
Adjustment arising from change in non-controlling interest	–	–	–	(13.7)	(13.7)	2.2	(11.5)
Dividends paid	–	–	–	(185.3)	(185.3)	(0.6)	(185.9)
At 31 March 2014	**233.9**	**94.2**	**82.2**	**667.3**	**1,077.6**	**12.5**	**1,090.1**

Consolidated balance sheet

At 31 March 2014

	Note	2014 £m	2013 £m
Non-current assets			
Goodwill	16	**14.8**	41.7
Other intangible assets	17	**80.2**	99.3
Property, plant and equipment	18	**7,023.5**	6,760.0
Interests in joint ventures	19	**0.3**	0.3
Interests in associates	20	**4.9**	4.7
Derivative financial assets	21	**72.4**	130.1
Available for sale financial assets	35	**0.1**	0.1
		7,196.2	7,036.2
Current assets			
Inventory	22	**27.2**	32.1
Trade and other receivables	23	**513.2**	506.0
Current tax receivable		**16.5**	40.5
Derivative financial assets	21	**12.9**	1.0
Cash and cash equivalents	24	**123.2**	403.6
		693.0	983.2
Total assets		**7,889.2**	8,019.4
Current liabilities			
Borrowings	35	**(206.1)**	(170.3)
Derivative financial liabilities	27	**(24.8)**	(0.6)
Trade and other payables	28	**(412.7)**	(399.0)
Provisions for liabilities and charges	31	**(12.1)**	(11.1)
		(655.7)	(581.0)
Non-current liabilities			
Borrowings	35	**(4,416.0)**	(4,631.3)
Derivative financial liabilities	27	**(206.2)**	(309.6)
Trade and other payables	28	**(492.4)**	(453.4)
Deferred tax	29	**(654.0)**	(785.8)
Retirement benefit obligations	30	**(348.3)**	(383.7)
Provisions for liabilities and charges	31	**(26.5)**	(30.6)
		(6,143.4)	(6,594.4)
Total liabilities		**(6,799.1)**	(7,175.4)
Net assets		**1,090.1**	844.0
Equity			
Called up share capital	32	**233.9**	233.3
Share premium account	33	**94.2**	89.7
Other reserves	34	**82.2**	72.3
Retained earnings		**667.3**	437.9
Equity attributable to owners of the company		**1,077.6**	833.2
Non-controlling interests		**12.5**	10.8
Total equity		**1,090.1**	844.0

Signed on behalf of the board who approved the accounts on 28 May 2014.

Andrew Duff
Chairman

Michael McKeon
Finance Director

Company Number: 2366619

Consolidated cash flow statement

For the year ended 31 March 2014

	Note	2014 £m	2013 £m
Cash generated from operations	40	**730.2**	731.2
Tax received/(paid)		**27.2**	(72.5)
Net cash generated from operating activities		**757.4**	658.7
Investing activities			
Interest received		**6.5**	3.7
Net cash inflow from sale of businesses	39	**–**	12.4
Acquisition of subsidiaries	39	**–**	(1.3)
Acquisition of non-controlling interests		**(11.4)**	–
Proceeds on disposal of property, plant and equipment and intangible assets		**10.3**	16.1
Purchases of intangible assets		**(13.9)**	(16.0)
Purchases of property, plant and equipment		**(490.6)**	(429.2)
Contributions and grants received		**30.3**	27.3
Net cash used in investing activities		**(468.8)**	(387.0)
Financing activities			
Interest paid		**(206.9)**	(186.8)
Closed out swaps		**–**	(44.3)
Interest element of finance lease payments		**(4.2)**	(6.0)
Dividends paid to shareholders of the parent		**(185.3)**	(322.0)
Dividends paid to non-controlling interests		**(0.6)**	(0.5)
Repayments of borrowings		**(172.4)**	(259.9)
Repayments of obligations under finance leases		**(0.4)**	(17.4)
New loans raised		**0.7**	668.3
Issues of shares		**5.1**	6.6
Purchase of own shares		**(2.8)**	(1.3)
Net cash used in financing activities		**(566.8)**	(163.3)
(Decrease)/increase in cash and cash equivalents		**(278.2)**	108.4
Net cash and cash equivalents at beginning of period		**403.2**	294.7
Effect of foreign exchange rates		**(1.8)**	0.1
Net cash and cash equivalents at end of period		**123.2**	403.2
Net cash and cash equivalents comprise:			
Total cash and cash equivalents		**123.2**	403.6
Bank overdrafts		**–**	(0.4)
Net cash and cash equivalents at end of period		**123.2**	403.2

The decrease in cash and cash equivalents is reconciled to the movement in net debt in note 40.

Notes to the group financial statements

For the year ended 31 March 2014

1 General information

The Severn Trent group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the UK. 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 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 2014.

The financial statements have been prepared on the going concern basis (see Directors' report on page 81) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses for the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

b) Basis of consolidation

The financial statements include the results of Severn Trent Plc and its subsidiaries, joint ventures and associated undertakings. The results of subsidiaries, joint ventures and associated undertakings are included from the date of acquisition or incorporation and excluded from the date of disposal.

The results of subsidiaries are consolidated where the group has the power to control a subsidiary.

The results of joint venture undertakings are accounted for on an equity basis where the group exercised joint control under a contractual arrangement.

The results of 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 consolidated subsidiaries are identified separately from the group's equity therein. 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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Revenue recognition

Revenue 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.

Revenue 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, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and the stage of completion of these contracts.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the group's rights to receive payment have been established. Interest and dividend income are included in finance income.

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. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

2 Accounting policies (continued)

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 is included in investments in associates. 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 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 2m) 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) Intangible non-current assets

Intangible assets acquired separately are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, the historical cost model is applied to intangible assets.

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 assets is taken to the income statement through operating costs.

Intangible assets are reviewed for impairment where indicators of impairment exist.

h) Research and development

Research expenditure is expensed when it is incurred. Development expenditure is capitalised 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 cost can be measured reliably.

Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

i) Pre-contract costs

Pre-contract costs 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.

j) 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. The costs of like for like replacement of infrastructure components are recognised in the income statement as they arise. Where it is probable that the expenditure will cause future economic benefits to flow to the group, then costs are 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.

Borrowing costs directly attributable to the acquisition, construction or production of assets, that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are ready for their intended use.

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

2 Accounting policies (continued)

k) Leased assets

Where the group obtains assets under leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the group as lessee (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.

l) 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 the income statement 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 income statement in the period that they become receivable.

m) 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.

n) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads.

o) 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.

p) Retirement benefits

The group operates both defined benefit and defined contribution pension 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, which is the increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net deficit.

Changes in the retirement benefit obligation arise from differences between the return on scheme assets and interest included in the income statement, and from actuarial gains and losses from experience adjustments and changes in demographic or financial assumptions. Such changes are classified as remeasurements and are charged or credited to equity and recorded in the statement of comprehensive income in the period in which they arise.

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

2 Accounting policies (continued)

q) 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 in the group's captive insurance subsidiary 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.

r) Purchase of own shares

Shares held by the Severn Trent Employee Share Ownership Trust which have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

s) Financial instruments

(i) Financial assets

Financial assets are classified into the following categories:

- at fair value through profit or loss;
- held to maturity investments;
- available for sale financial assets;
- loans and receivables; and
- derivatives designated as hedging instruments.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is so designated or if it is classified as 'held for trading'. Derivative financial assets that are not designated and effective as hedging instruments are required to be classified as 'held for trading' by IAS 39. However, the group's Treasury Policy, described in the Financial Review on page 36, is that the group does not hold or issue derivative financial instruments for trading. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in gains/losses on financial instruments in the income statement. Fair value is determined using the methodology described in note 36. Interest receivable in respect of derivative financial assets is included in finance income.

Held to maturity investments

Where the group has the ability and intent to hold an investment to maturity the financial asset is classified as held to maturity. Such financial assets are measured at amortised cost using the effective interest rate method, with any gains or losses being recognised in the income statement.

Available for sale financial assets

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as available for sale are measured at fair value, with gains or losses recognised in other comprehensive income. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in other comprehensive income is taken to the income statement. Where there is no active market in the investments and the fair value cannot be measured reliably, the investments are held at cost.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. Such assets are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method unless there is objective evidence that the asset is impaired, where it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the group's historical collection experience for receivables of similar age.

Derivatives designated as cash flow hedges

The fair value of derivative financial assets that are designated as hedging instruments is determined using the methodology included in note 36. Hedge accounting is described below.

(ii) Financial liabilities

Financial liabilities are classified as either:

- at fair value through profit or loss;
- other financial liabilities; or
- derivatives designated as hedging instruments.

Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is so designated or if it is classified as 'held for trading'. Derivative financial liabilities that are not designated and effective as hedging instruments are required to be classified as 'held for trading' by IAS 39. However, the group's Treasury Policy, described in the Financial Review on page 36, is that the group does not hold or issue derivative financial instruments for trading. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in gains/losses on financial instruments in the income statement. Fair value is determined using the methodology described in note 36. Interest payable in respect of derivative financial liabilities is included in finance costs.

Other financial liabilities

Other financial liabilities, including borrowings, are initially recognised at fair value less transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Derivatives designated as cash flow hedges

The fair value of derivative financial liabilities that are designated as hedging instruments is determined using the methodology included in note 36. Hedge accounting is described below.

2 Accounting policies (continued)

s) Financial instruments (continued)

(iii) Hedge accounting

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. Such derivative instruments are recognised and measured in accordance with the accounting policies described above.

At the inception of the hedge relationship, the group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking hedge transactions; and
- whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows (as appropriate) of the hedged item.

The group continues to test and document the effectiveness of the hedge on an ongoing basis.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the hedging instrument is taken to gains/losses on financial instruments in the income statement where the effective portion of the hedge will offset the gain or loss on the hedged item.

When hedge accounting is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion in gains/losses on financial instruments in the income statement. The gains or losses deferred in equity in this way are recycled through gains/losses on financial instruments in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

When hedge accounting is discontinued any cumulative gain or loss on the hedging instrument 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.

Hedges of net investments in foreign operations

Where forward currency contracts and foreign currency borrowings are used to hedge net investments in foreign currency denominated operations, to the extent that they are designated and effective as net investment hedges, they are matched in equity against changes in value of the related assets. Any ineffectiveness is taken to gains/losses on financial instruments in the income statement.

(iv) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in gains/losses on financial instruments in the income statement.

t) 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.

u) 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. Cash and cash equivalents also include overdrafts repayable on demand.

Net debt comprises borrowings, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), cash and cash equivalents.

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.

v) 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.

2 Accounting policies (continued)

v) Foreign currency (continued)

Exchange differences arising in respect of foreign exchange instruments taken out as hedges of overseas investments are also treated as movements in equity to the extent that the hedge is effective (see note 2s)).

All other foreign currency denominated assets and liabilities of the company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All profits and losses on exchange arising during the year are dealt with through the income statement.

w) 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.

Where a group of assets which comprises operations that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the group (a component), has been disposed of or classified as held for sale, and it:

- represents a separate major line of business or geographical area of operations; or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale;

then the component is classified as a discontinued operation.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Depreciation is not charged on such assets.

3 New accounting policies and future requirements

The group has also adopted IAS 19 'Employee Benefits' (revised). The revised standard changes the method of calculating the net finance cost on defined benefit pension schemes. Previously the discount rate used to calculate the scheme liabilities at the previous balance sheet date was applied to the liabilities and the expected return on the scheme's assets was applied to the assets. Under the revised standard the discount rate is applied to the net deficit to determine the net finance cost. Scheme administration costs were previously deducted from the expected return on assets. Such costs are now included in operating costs. There is no change to the measurement of the net surplus or deficit recognised in the balance sheet. The difference between the interest income calculated on the scheme assets and the actual return is recognised in other comprehensive income as an actuarial gain or loss.

The standard must be applied retrospectively and so the prior year numbers have been restated. The net impact of this change is shown below:

	2014 £m	2013 £m
Profit for the period		
Operating profit	**(3.0)**	(2.6)
Net finance cost	**(17.2)**	(12.4)
Decrease in profit before tax for the period	**(20.2)**	(15.0)
Deferred tax	**4.0**	3.5
Decrease in profit for the period	**(16.2)**	(11.5)
Other comprehensive income		
Net actuarial gains	**20.2**	15.0
Tax on actuarial gains	**(4.0)**	(3.5)
Decrease in other comprehensive loss	**16.2**	11.5
Impact on net assets	**–**	–

The group has adopted IFRS 13 'Fair Value Measurement' in this financial year. This standard sets out the approach to determining fair values in financial statements and provides additional guidance on how to measure fair value but does not change when fair value is permitted or required. In particular, the standard requires the group to take account of its own credit risk in determining the fair value of financial liabilities. The standard is applied prospectively and hence has no impact on amounts previously recognised. In the current period the fair value of derivative financial liabilities and the gain on financial instruments was £8.5 million higher as a result of the adoption of this standard.

Following adoption of IFRS 13 the group has reviewed and amended its methodology for calculating the fair value of debt. The approach taken and the impact on amounts disclosed previously are set out in note 36.

The impact of new accounting polices on earnings per share is disclosed in note 15.

IFRS 13 also amended IAS 36 'Impairments of assets' to require disclosure of the recoverable amount of cash-generating units. However, this requirement was removed by an amendment to IAS 36 which is not mandatory for the group until 1 April 2014 but it has been adopted early in these financial statements.

IFRSs 10, 11 and 12 were issued in May 2011 with an effective date of 1 January 2013. The EU has adopted these standards with effect from 1 January 2014 but with early application permitted. The group has elected not to apply these standards early and will adopt them with effect from 1 April 2014.

IFRS 10 'Consolidated Financial Statements' includes a new definition of control to be used to determine when entities are consolidated. The standard is not expected to have a material impact on the group's financial statements.

3 New accounting policies and future requirements (continued)

IFRS 11 'Joint Agreements' replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities'. IFRS 11 uses the definition of control given in IFRS 10 to define joint control and removes the option to account for joint ventures using proportionate consolidation. This is not expected to have a material impact on the group's financial statements.

IFRS 12 'Disclosure of Interests in Other Entities' provides disclosure requirements for subsidiaries, associates, joint agreements and structured entities which were previously covered in IAS 27, IAS 28 and IAS 31. Additional disclosures will be required in the group financial statements to meet the requirements of the standard.

At the date of approval of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 9 'Financial Instruments' is likely to affect the measurement and disclosure of financial instruments. This Standard has not yet been adopted by the EU.

4 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.

The more significant judgements were:

a) 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.

b) 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.

c) Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit ('CGU') to which goodwill has been allocated. The value in use calculation requires the group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate to calculate present value. Details of the assumptions used are set out in note 16 to the financial statements.

The key accounting estimates were:

a) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the group's experience of similar assets. Details are set out in note 2 j).

b) Retirement benefit obligations

Determining the amount of the group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, 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 are set out in note 30 to the financial statements.

c) Unbilled revenue

Severn Trent Water raises bills and recognises revenue in accordance with its right to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and waste water customers with water meters, the amount recognised depends on the volume supplied including an estimate of the sales value of units supplied between the date of the last meter read and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing to the end of the financial year. The estimated usage is based on historical data, judgement and assumptions.

d) Provision for impairment of trade receivables

Provisions are made against Severn Trent Water's trade receivables based on historical experience of levels of recovery from accounts in a particular ageing category. The actual amounts collected could differ from the estimated level of recovery which could impact operating results.

e) Fair value of derivatives

Determining the fair value of derivatives where quoted prices are not available requires estimates to be made of the future expected cash flows and an appropriate discount rate which reflects the credit risk of the counterparties. The valuation techniques and key inputs used are described in note 36.

5 Segmental analysis

The group has two reportable segments: Severn Trent Water and Severn Trent Services. The key factor determining the identification of reportable segments is the regulatory environment in which the businesses operate. Severn Trent Water is subject to economic regulation by Ofwat and operates under a licence to provide water and sewerage services within a defined geographical region in England and Wales. Severn Trent Services is not subject to economic regulation and operates in markets in the USA, Europe and Asia.

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 Severn Trent Water's operations are described on pages 13 to 24 of the Strategic report and those of Severn Trent Services on pages 25 to 32.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with group accounting policies. These are eliminated on consolidation.

The group has a large and diverse customer base and there is no significant reliance on any single customer.

The measure of profit or loss that is reported to STEC for the segments is profit before interest, tax and exceptional items (underlying PBIT). A segmental analysis of sales and underlying PBIT is presented below.

2014	**Severn Trent Water £m**	**Severn Trent Services £m**
External sales	1,542.6	310.0
Inter-segment sales	2.2	1.4
Total sales	**1,544.8**	**311.4**
Profit before interest, tax and exceptional items	518.6	7.1
Exceptional items	8.2	(31.5)
Profit/(loss) before interest and tax	**526.8**	**(24.4)**
Profit before interest, tax and exceptional items is stated after:		
Amortisation of intangible assets	28.0	1.3
Depreciation of property, plant and equipment	267.5	4.3
Profit on disposal of fixed assets	(0.3)	(0.2)

2013	Severn Trent Water Restated £m	Severn Trent Services Restated £m
External sales	1,509.3	320.6
Inter-segment sales	1.7	7.9
Total sales	1,511.0	328.5
Profit before interest, tax and exceptional items	498.5	12.6
Exceptional items	13.3	(16.1)
Profit/(loss) before interest and tax	511.8	(3.5)
Profit before interest, tax and exceptional items is stated after:		
Amortisation of intangible assets	28.9	1.5
Depreciation of property, plant and equipment	261.4	5.3
Loss/(profit) on disposal of fixed assets	1.5	(1.4)

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.

Interests in joint ventures and associates are not material and are not included in the segmental reports reviewed by STEC.

5 Segmental analysis (continued)

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 which includes the following components:

2014	Severn Trent Water £m	Severn Trent Services £m
Operating assets	7,442.2	172.8
Goodwill	1.3	14.6
Interests in joint ventures and associates	0.1	5.0
Segment assets	7,443.6	192.4
Segment operating liabilities	(1,155.7)	(92.2)
Capital employed	**6,287.9**	**100.2**

2013	Severn Trent Water £m	Severn Trent Services £m
Operating assets	7,218.7	173.1
Goodwill	1.3	41.7
Interests in joint ventures and associates	0.1	4.9
Segment assets	7,220.1	219.7
Segment operating liabilities	(1,137.4)	(94.0)
Capital employed	6,082.7	125.7

Operating assets comprise other intangible assets, property, plant and equipment, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

Additions to other intangible assets and property, plant and equipment were as follows:

2014	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	8.2	5.5
Property, plant and equipment	519.6	6.9

2013	Severn Trent Water £m	Severn Trent Services £m
Other intangible assets	13.6	2.2
Property, plant and equipment	451.7	8.6

The reportable segments' revenue is reconciled to group turnover as follows:

	2014 £m	2013 £m
Severn Trent Water	**1,544.8**	1,511.0
Severn Trent Services	**311.4**	328.5
Other	**13.1**	10.1
Inter-segment sales	**(12.6)**	(18.0)
Group turnover	**1,856.7**	1,831.6

5 Segmental analysis (continued)

Segmental underlying PBIT is reconciled to the group's profit before tax and discontinued operations as follows:

	2014 £m	2013 Restated £m
Underlying PBIT		
– Severn Trent Water	**518.6**	498.5
– Severn Trent Services	**7.1**	12.6
– Corporate and other costs	**(11.5)**	(16.9)
Consolidation adjustments	**2.6**	1.2
Group underlying PBIT	**516.8**	495.4
Exceptional items allocated to segments		
– Severn Trent Water	**8.2**	13.3
– Severn Trent Services	**(31.5)**	(16.1)
– Corporate and other	**(21.1)**	(3.0)
Share of results of associates and joint ventures	**0.2**	0.2
Net finance costs	**(247.9)**	(244.3)
Gains/(losses) on financial instruments	**58.0**	(45.3)
Profit before tax	**282.7**	200.2

The reportable segments' assets are reconciled to the group's total assets as follows:

	2014 £m	2013 £m
Segment assets		
– Severn Trent Water	**7,443.6**	7,220.1
– Severn Trent Services	**192.4**	219.7
Corporate assets	**68.2**	49.5
Other financial assets	**208.6**	534.8
Current tax recoverable	**16.5**	40.5
Consolidation adjustments	**(40.1)**	(45.2)
Total assets	**7,889.2**	8,019.4

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the group's total liabilities as follows:

	2014 £m	2013 £m
Segment liabilities		
– Severn Trent Water	**(1,155.7)**	(1,137.4)
– Severn Trent Services	**(92.2)**	(94.0)
Corporate liabilities	**(60.1)**	(64.7)
Other financial liabilities	**(4,853.1)**	(5,111.8)
Deferred tax	**(654.0)**	(785.8)
Consolidation adjustments	**16.0**	18.3
Total liabilities	**(6,799.1)**	(7,175.4)

The consolidation adjustments comprise elimination of intra-group creditors.

5 Segmental analysis (continued)

Geographical areas

The group's sales were derived from the following countries:

	2014 £m	2013 £m
UK	**1,616.9**	1,584.7
USA	**145.9**	142.2
Other	**93.9**	104.7
	1,856.7	1,831.6

The group's non-current assets (excluding financial instruments, deferred tax assets and post employment benefit assets) were located in the following countries:

	2014 £m	2013 £m
UK	**7,084.8**	6,834.2
USA	**36.1**	61.1
Other	**2.9**	10.8
	7,123.8	6,906.1

6 Revenue

	2014 £m	2013 £m
Water and sewerage services	**1,534.5**	1,500.9
Other services	**181.1**	180.1
Sale of goods	**98.9**	110.7
Service concession arrangements (note 42)	**42.2**	39.9
Total turnover	**1,856.7**	1,831.6
Interest receivable (note 10)	**4.8**	2.6
	1,861.5	1,834.2

Group financial statements Notes to the group financial statements

7 Operating costs

	2014			2013		
	Before exceptional costs £m	Exceptional costs £m	Total £m	Before exceptional costs Restated £m	Exceptional costs £m	Total Restated £m
Wages and salaries	286.1	4.3	290.4	282.9	1.2	284.1
Social security costs	22.7	–	22.7	20.2	–	20.2
Pension costs	32.3	–	32.3	29.8	–	29.8
Share based payments	6.2	–	6.2	6.8	–	6.8
Total employee costs	347.3	4.3	351.6	339.7	1.2	340.9
Power	71.1	–	71.1	65.8	–	65.8
Carbon Reduction Commitment	5.9	–	5.9	5.7	–	5.7
Raw materials and consumables	126.6	0.3	126.9	130.8	–	130.8
Rates	75.7	–	75.7	73.2	–	73.2
Charge for bad and doubtful debts	32.1	–	32.1	33.1	–	33.1
Service charges	31.6	–	31.6	31.9	–	31.9
Depreciation of property, plant and equipment	270.0	–	270.0	264.6	–	264.6
Amortisation and impairment of intangible fixed assets	29.3	2.4	31.7	30.5	3.6	34.1
Impairment of goodwill	–	24.7	24.7	–	4.6	4.6
Hired and contracted services	212.7	21.5	234.2	196.2	3.7	199.9
Operating leases rentals						
– land and buildings	2.9	0.2	3.1	3.1	–	3.1
– other	1.6	–	1.6	1.9	–	1.9
Hire of plant and machinery	3.3	–	3.3	4.4	–	4.4
Research and development expenditure	5.0	–	5.0	5.4	–	5.4
(Profit)/loss on disposal of property, plant and equipment	(0.4)	(8.2)	(8.6)	2.9	(13.3)	(10.4)
Foreign exchange gain/(losses)	0.7	–	0.7	(0.3)	–	(0.3)
Infrastructure maintenance expenditure	140.3	–	140.3	147.7	–	147.7
Other operating costs	86.3	(0.8)	85.5	95.8	4.5	100.3
	1,442.0	44.4	1,486.4	1,432.4	4.3	1,436.7
Release from deferred income	(9.5)	–	(9.5)	(9.3)	–	(9.3)
Own work capitalised	(92.6)	–	(92.6)	(86.9)	–	(86.9)
	1,339.9	44.4	1,384.3	1,336.2	4.3	1,340.5

Further details of exceptional costs are given in note 8.

During the year the following fees were charged by the auditors:

	2014 £m	2013 £m
Fees payable to the company's auditors for		
– the audit of the company's annual accounts	0.1	0.1
– the audit of the company's subsidiaries	0.5	0.5
Total audit fees	0.6	0.6
Fees payable to the company's auditors and their associates for other services to the group		
– audit related assurance services	0.1	0.2
– other services relating to taxation	0.1	–
– other assurance services	0.4	–
– services relating to corporate finance	–	0.1
Total non-audit fees	0.6	0.3

Details of directors' remuneration are set out in the Directors' remuneration report on pages 60 to 76.

Group financial statements Notes to the group financial statements

8 Exceptional items before tax

	2014 £m	2013 £m
Exceptional operating costs		
Severn Trent Water		
Profit on disposal of fixed assets	**(8.2)**	(13.3)
	(8.2)	(13.3)
Severn Trent Services		
Restructuring costs	**5.6**	1.6
Impairment of intangible assets	**2.4**	4.5
Impairment of goodwill	**24.7**	4.6
Provision for customer contractual dispute	**(1.2)**	3.9
	31.5	14.6
Corporate and other		
Professional fees on proposed transaction that did not proceed	**–**	3.0
Professional fees related to LongRiver proposal	**18.7**	–
Provision for terminated operations and disposals	**2.4**	–
	21.1	3.0
Total exceptional operating costs	**44.4**	4.3
Exceptional loss on disposal of businesses	**–**	1.5
Exceptional items before tax	**44.4**	5.8

Exceptional tax is disclosed in note 13.

9 Employee numbers

Average number of employees (including executive directors) during the year:

	2014 Number	2013 Number
By type of business		
Severn Trent Water	**5,634**	5,458
Severn Trent Services	**2,339**	2,749
Corporate and other	**19**	14
	7,992	8,221

10 Finance income

	2014 £m	2013 Restated £m
Interest revenue earned on:		
Bank deposits	**1.8**	2.6
Other financial income	**3.0**	–
Total interest revenue	**4.8**	2.6
Interest income on defined benefit scheme assets	**76.0**	75.8
	80.8	78.4

11 Finance costs

	2014 Total £m	2013 Total £m
Interest on bank loans and overdrafts	**22.0**	27.7
Interest on other loans	**205.0**	191.6
Interest on finance leases	**7.7**	8.5
Total borrowing costs	**234.7**	227.8
Other financial expenses	**2.3**	2.7
Interest cost on defined benefit scheme obligations	**91.7**	92.2
	328.7	322.7

Borrowing costs of £13.8 million (2013: £10.4 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.11% (2013: 5.12%). Tax relief of £3.2 million (2013: £2.5 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £2.8 million (2013: £2.4 million).

12 Gains/(losses) on financial instruments

	2014 £m	2013 £m
Loss on cross currency swaps used as hedging instruments in fair value hedges	**(26.5)**	(7.3)
Gain arising on adjustment for foreign currency debt in fair value hedges	**21.9**	3.4
Exchange gain/(loss) on other loans	**24.2**	(1.1)
Loss on cash flow hedges transferred from equity	**(8.1)**	(14.8)
Hedge ineffectiveness on cash flow hedges	**2.0**	–
Gain/(loss) arising on swaps where hedge accounting is not applied	**44.5**	(25.5)
	58.0	(45.3)

The group's hedge accounting arrangements are described in note 37 e).

13 Taxation

a) Analysis of tax charge in the year

	2014			2013		
	Before exceptional tax £m	Exceptional tax £m	Total £m	Before exceptional tax Restated £m	Exceptional tax £m	Total Restated £m
Current tax						
Current year at 23% (2013:24%)	**47.2**	**–**	**47.2**	57.1	(40.5)	16.6
Prior years at 24% (2013: 26%)	**9.3**	**(59.2)**	**(49.9)**	(29.2)	–	(29.2)
Total current tax	**56.5**	**(59.2)**	**(2.7)**	27.9	(40.5)	(12.6)
Deferred tax						
Origination and reversal of temporary differences – current year	**30.2**	**–**	**30.2**	(3.8)	38.8	35.0
Origination and reversal of temporary differences – prior year	**(8.7)**	**(56.2)**	**(64.9)**	(4.4)	–	(4.4)
Exceptional credit arising from rate change	**–**	**(114.8)**	**(114.8)**	–	(36.7)	(36.7)
Total deferred tax	**21.5**	**(171.0)**	**(149.5)**	(8.2)	2.1	(6.1)
	78.0	**(230.2)**	**(152.2)**	19.7	(38.4)	(18.7)

The current tax charge before exceptional tax was £56.5 million (£27.9 million). This includes a charge of £9.3 million arising from adjustments to prior year tax computations. In the previous year a current tax credit of £29.2 million arose due primarily to an industry agreement over the treatment of infrastructure income in prior years' computations.

13 Taxation (continued)

a) Analysis of tax charge in the year (continued)

Tax credits arising from unusual items in each year have been disclosed as exceptional. An exceptional current tax credit of £59.2 million has been recognised, reflecting the anticipated refund of overpayment of tax in prior periods as HMRC has now agreed that certain capital expenditure within our water and waste water treatment works is eligible for capital allowances as plant and machinery. This has also resulted in an exceptional deferred tax credit of £56.2 million.

In the prior year the group's UK subsidiary companies adopted the new accounting standard FRS 101, which changed the basis for those companies' corporation tax computations. The most significant impact of this change is that certain amounts that had been taxed in previous years were recognised as profits and will be taxed in future periods. Therefore, to prevent such items being taxed twice, the tax already paid on such items was repayable. The impact of this change was an exceptional credit of £40.5 million to current tax and an exceptional charge of £38.8 million to deferred tax.

The Finance Act 2013 was enacted in the year and implemented a reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014 and then to 20% with effect from 1 April 2015. This has resulted in a deferred tax credit of £114.8 million in the income statement and a deferred tax charge of £12.3 million in reserves.

b) Factors affecting the tax charge in the year

The tax credit for the year is reconciled to tax on profit at the standard rate of corporation tax in the UK below:

	2014 £m	2013 £m
Profit on ordinary activities before tax	**282.7**	200.2
Tax at the standard rate of corporation tax in the UK 23% (2013: 24%)	**65.0**	48.2
Tax effect of expenditure not deductible in determining taxable profits	**15.7**	4.0
Current year impact of rate change	**(3.7)**	(1.2)
Effect of different rates in overseas jurisdictions	**0.4**	0.6
Adjustments in respect of prior years	**(114.8)**	(33.6)
Exceptional deferred tax credit arising from rate change	**(114.8)**	(36.7)
Total tax credit	**(152.2)**	(18.7)

c) Tax charged/(credited) directly to equity

In addition to the amount credited to the income statement, the following amounts of tax have been charged/(credited) directly to equity:

	2014 £m	2013 Restated £m
Current tax		
Tax on share based payments	**(1.0)**	(0.8)
Tax on pension contributions in excess of profit and loss charge	**–**	(1.5)
Total current tax credited to equity	**(1.0)**	(2.3)
Deferred tax		
Tax on actuarial gains/losses	**0.8**	(7.5)
Tax on cash flow hedges	**4.6**	(5.6)
Effect of change in tax rate	**12.3**	3.4
Total deferred tax charged/(credited) to equity	**17.7**	(9.7)

Group financial statements Notes to the group financial statements

14 Dividends

Amounts recognised as distributions to equity holders in the period:

	2014		2013	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2013 (2012)	**45.51**	**108.6**	45.51	99.9
Interim dividend for the year ended 31 March 2014 (2013)	**32.16**	**76.7**	30.34	72.2
Total ordinary dividends	**77.67**	**185.3**	75.85	172.1
Special dividend	**–**	**–**	63.00	149.9
Total dividends	**77.67**	**185.3**	138.85	322.0
Proposed final dividend for the year ended 31 March 2014	**48.24**			

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

15 Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Severn Trent Employee Share Ownership Trust which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the company's shares during the year.

Basic and diluted earnings per share from continuing operations are calculated on the basis of profit from continuing operations attributable to the equity holders of the company.

The calculation of basic and diluted earnings per share is based on the following data:

(i) Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2014 £m	2013 Restated £m
Profit for the period attributable to the equity holders of the company	**433.8**	216.0

(ii) Number of shares

	2014 m	2013 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.2**	237.7
Effect of dilutive potential ordinary shares		
– share options and LTIPs	**1.1**	1.1
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.3**	238.8

b) Adjusted earnings per share

	2014 pence	2013 Restated pence
Adjusted basic earnings per share	**88.4**	92.6
Adjusted diluted earnings per share	**88.0**	92.1

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of deferred tax, gains/losses on financial instruments and exceptional items in both 2014 and 2013. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

15 Earnings per share (continued)

b) Adjusted earnings per share (continued)

Adjustments to earnings

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2014 £m	2013 Restated £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	433.8	216.0
Adjustments for		
– exceptional items before tax	44.4	5.8
– current tax related to exceptional items at 23% (2013: 24%)	(0.9)	(0.5)
– (gains)/losses on financial instruments	(58.0)	45.3
– deferred tax excluding exceptional charge	21.5	(8.2)
– exceptional tax	(230.2)	(38.4)
Earnings for the purpose of adjusted basic and diluted earnings per share	210.6	220.0

c) Impact of changes in accounting policy

As described in note 3, the group has adopted IAS 19R and IFRS 13 in the period. The impact on basic and diluted earnings per share in the current and prior year is shown below.

(i) Basic earnings per share

	2014 Pence	2013 Pence
Basic earnings per share under previous accounting policies	185.3	95.7
Impact of IAS 19 revised	(6.8)	(4.8)
Impact of change in valuation of derivative liabilities	3.6	–
Basic earnings per share under revised accounting policies	182.1	90.9

	2014 Pence	2013 Pence
Adjusted basic earnings per share under previous accounting policies	96.9	98.9
Impact of IAS 19 revised	(8.5)	(6.3)
Adjusted basic earnings per share under revised accounting policies	88.4	92.6

(ii) Diluted earnings per share

	2014 Pence	2013 Pence
Diluted earnings per share under previous accounting policies	184.5	95.2
Impact of IAS 19 revised	(6.8)	(4.7)
Impact of change in valuation of derivative liabilities	3.6	–
Diluted earnings per share under revised accounting policies	181.3	90.5

	2014 Pence	2013 Pence
Adjusted diluted earnings per share under previous accounting policies	96.4	98.4
Impact of IAS 19 revised	(8.4)	(6.3)
Adjusted diluted earnings per share under revised accounting policies	88.0	92.1

Group financial statements Notes to the group financial statements

16 Goodwill

	2014 £m	2013 £m
Cost		
At 1 April	**45.2**	55.8
Disposals	**–**	(12.0)
Exchange adjustments	**(2.3)**	1.4
At 31 March	**42.9**	45.2
Impairment		
At 1 April	**(3.5)**	(10.9)
Impairment charge in the year	**(24.7)**	(4.6)
Impairment previously recorded on disposals	**–**	12.0
Exchange adjustments	**0.1**	–
At 31 March	**(28.1)**	(3.5)
Net book value		
At 31 March	**14.8**	41.7

Goodwill impairment tests

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment. All of the group's goodwill is in the Severn Trent Services segment.

A summary of the goodwill allocation by CGU is presented below:

	2014 £m	2013 £m
Water Purification US	**1.4**	27.1
Operating Services US	**11.2**	12.3
Services Italy	**2.2**	2.3
	14.8	41.7

The group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2m).

The value in use calculations use cash flow projections based on financial budgets approved by management covering a five year period. The key assumption underlying these budgets is revenue growth and margin. Management of each CGU determines assumptions based on past experience, current market trends and expectations of future developments.

Cash flows beyond the five year period are extrapolated using an estimated nominal growth rate stated below. The growth rate does not exceed the long term average growth rate for the economy in which the CGU operates. The assumptions used in relation to growth rates beyond the five year period and discount rates were:

	Nominal growth rate		Post tax discount rate		Pre-tax discount rate	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Water Purification US	**See below**	3.5	**6.8**	5.6	**17.3**	6.2
Operating Services US	**3.5**	3.5	**6.8**	5.6	**9.1**	6.5
Services Italy	**2.5**	2.5	**6.5**	6.8	**8.8**	8.2

The weighted average growth rates used are consistent with the forecasts included in industry reports except for Water Purification US where a growth rate of 3.5% has been applied for the first five years beyond the initial five year period which is then reduced by 2% per annum for the next 15 years with an extrapolation at the resulting growth rate at 25 years into perpetuity. This reflects management's best estimate of the prospects for the existing products and the business's current product development expertise.

Specific discount rates for the CGUs are not available and hence a post tax discount rate reflecting risks relating to the CGU has been estimated and used to calculate the value in use of the CGU from its post tax cash flow projections. The equivalent pre-tax discount rate is disclosed above.

As a result of the impairment review, the group has recorded an impairment loss against the goodwill in its Water Purification US CGU. The recoverable amount of the business has been determined by calculating the value in use of the CGU using the assumptions described above.

16 Goodwill (continued)

Goodwill impairment tests (continued)

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 Operating Services US or Services Italy below their carrying value are not reasonably possible and an impairment has been recorded in relation to Water Purification US. Therefore no sensitivity analysis has been presented.

17 Other intangible assets

	Computer software		Other	
	Internally generated £m	Purchased £m	Internally generated £m	Total £m
Cost				
At 1 April 2012	121.8	179.6	26.6	328.0
Additions	6.0	8.5	1.5	16.0
Acquisition of businesses	–	–	1.3	1.3
Disposal of businesses	–	–	(1.7)	(1.7)
Exchange adjustments	–	0.6	0.5	1.1
At 1 April 2013	127.8	188.7	28.2	344.7
Additions	4.6	8.4	0.8	13.8
Disposals	–	(74.7)	(5.0)	(79.7)
Reclassifications	43.9	(43.9)	–	–
Exchange adjustments	(0.2)	(0.5)	(1.4)	(2.1)
At 31 March 2014	176.1	78.0	22.6	276.7
Amortisation				
At 1 April 2012	(102.2)	(95.7)	(14.1)	(212.0)
Amortisation for the year	(16.7)	(12.4)	(1.4)	(30.5)
Exceptional impairment	–	–	(3.6)	(3.6)
Disposal of businesses	–	–	1.2	1.2
Exchange adjustments	–	(0.2)	(0.3)	(0.5)
At 1 April 2013	(118.9)	(108.3)	(18.2)	(245.4)
Amortisation for the year	(13.9)	(14.5)	(0.9)	(29.3)
Exceptional impairment	(2.4)	–	–	(2.4)
Disposals	–	74.7	5.1	79.8
Reclassifications	(5.1)	5.1	–	–
Exchange adjustments	0.1	0.3	0.4	0.8
At 31 March 2014	**(140.2)**	**(42.7)**	**(13.6)**	**(196.5)**
Net book value				
At 31 March 2014	**35.9**	**35.3**	**9.0**	**80.2**
At 31 March 2013	8.9	80.4	10.0	99.3

Other assets primarily comprise capitalised development costs and patents.

Group financial statements Notes to the group financial statements

18 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Total £m
Cost					
At 1 April 2012	2,673.2	4,310.4	3,420.5	57.0	10,461.1
Additions	127.2	103.3	220.7	8.7	459.9
Disposals	(2.8)	(0.1)	(24.5)	(4.4)	(31.8)
Disposal of businesses	(11.3)	–	(17.5)	–	(28.8)
Reclassifications	(0.4)	–	0.7	–	0.3
Exchange adjustments	0.3	–	1.4	0.7	2.4
At 1 April 2013	2,786.2	4,413.6	3,601.3	62.0	10,863.1
Additions	136.5	127.0	266.4	6.7	536.6
Disposals	(4.9)	(0.3)	(12.9)	(4.2)	(22.3)
Exchange adjustments	(0.7)	–	(2.8)	(1.4)	(4.9)
At 31 March 2014	**2,917.1**	**4,540.3**	**3,852.0**	**63.1**	**11,372.5**
Depreciation					
At 1 April 2012	(868.8)	(1,121.7)	(1,857.4)	(35.4)	(3,883.3)
Charge for the year	(60.9)	(29.6)	(167.5)	(6.6)	(264.6)
Disposals	3.0	–	19.1	4.1	26.2
Disposal of businesses	7.5	–	11.8	–	19.3
Reclassifications	0.7	0.1	(0.2)	0.4	1.0
Exchange adjustments	(0.2)	–	(1.0)	(0.5)	(1.7)
At 1 April 2013	(918.7)	(1,151.2)	(1,995.2)	(38.0)	(4,103.1)
Charge for the year	(64.1)	(30.9)	(168.4)	(6.6)	(270.0)
Disposals	3.7	–	12.8	3.8	20.3
Exchange adjustments	0.2	–	2.5	1.1	3.8
At 31 March 2014	**(978.9)**	**(1,182.1)**	**(2,148.3)**	**(39.7)**	**(4,349.0)**
Net book value					
At 31 March 2014	**1,938.2**	**3,358.2**	**1,703.7**	**23.4**	**7,023.5**
At 31 March 2013	1,867.5	3,262.4	1,606.1	24.0	6,760.0

The carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value				
At 31 March 2014	**–**	**119.6**	**38.5**	**158.1**
At 31 March 2013	–	118.5	54.8	173.3

Property, plant and equipment includes £604.1 million (2013: £509.2 million) in respect of assets in the course of construction for which no depreciation is charged.

19 Interests in joint ventures

	2014 £m	2013 £m
Group's share of		
Non-current assets	**0.1**	0.1
Current assets	**0.6**	0.7
Current liabilities	**(0.4)**	(0.5)
	0.3	0.3
Group's share of		
Turnover	**0.4**	0.4
Operating costs	**(0.4)**	(0.4)
Profit before tax	**–**	–
Tax	**–**	–
Profit after tax	**–**	–

As at 31 March 2014 and 2013 the joint ventures had no 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 the joint ventures. The group had no capital commitments in relation to its interests in the joint ventures at 31 March 2014 or 2013.

Particulars of the group's principal joint venture undertakings at 31 March 2014 were:

Name	Country of incorporation	Proportion of ownership interest
Cognica Limited	Great Britain	50%
Jackson Water Partnership	USA	70%

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.

20 Interests in associates

	2014 £m	2013 £m
At 1 April	**4.7**	4.6
Share of profits	**0.3**	0.2
Exchange adjustments	**(0.1)**	(0.1)
At 31 March	**4.9**	4.7
Group's share of		
Total assets	**23.6**	24.8
Total liabilities	**(18.7)**	(20.1)
	4.9	4.7
Turnover	**4.7**	4.7
Profit after tax	**0.2**	0.2

At 31 March 2014 and 2013 the associate company had no significant contingent liabilities to which the group was exposed. The group had no capital commitments in relation to its interests in the associate at 31 March 2014 or 2013.

The principal associate at 31 March 2014 was Servizio Idrico Integrato S.c.p.a. ('SII'), a company incorporated in Italy. The proportion of ownership interest held by the group was 25%.

The group has given certain guarantees in respect of the associate's borrowings. The guarantees are limited to €5.1 million (2013: €11.2 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

During the year the group has entered into agreements with the other investors in SII to re-finance that company. As part of these agreements the guarantees referred to above were reduced from €11.2 million to €5.1 million and trade receivable balances amounting to €21 million were converted to a shareholder's loan repayable over 15 years. The group's equity and loan investments in SII are fully provided against.

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21 Categories of financial assets

	2014 £m	2013 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	**39.5**	48.8
Interest rate swaps – not hedge accounted	**12.1**	21.0
Foreign exchange forward contracts – not hedge accounted	**0.1**	0.1
	51.7	69.9
Derivatives designated as hedging instruments		
Cross currency swaps – fair value hedges	**33.6**	60.3
Energy swaps – cash flow hedges	**–**	0.9
	33.6	61.2
Total derivative financial assets	**85.3**	131.1
Available for sale investments carried at fair value		
Unquoted shares	**0.1**	0.1
Loans and receivables (including cash and cash equivalents)		
Trade receivables	**195.6**	196.7
Short term deposits	**76.8**	355.7
Cash at bank in hand	**46.4**	47.9
Total loans and receivables	**318.8**	600.3
Total financial assets	**404.2**	731.5

	2014 £m	2013 £m
Disclosed in the balance sheet as:		
Non-current assets		
Derivative financial assets	**72.4**	130.1
Available for sale financial assets	**0.1**	0.1
	72.5	130.2
Current assets		
Derivative financial assets	**12.9**	1.0
Cash and cash equivalents	**123.2**	403.6
Trade receivables (note 23)	**195.6**	196.7
	331.7	601.3
	404.2	731.5

22 Inventory

	2014 £m	2013 £m
Inventory and work in progress	**27.2**	32.1

23 Trade and other receivables

	2014 £m	2013 £m
Trade receivables	**316.4**	334.7
Less provisions for impairment of receivables	**(120.8)**	(138.0)
Net trade receivables	**195.6**	196.7
Other amounts receivable	**27.9**	32.5
Prepayments and accrued income	**289.7**	276.8
	513.2	506.0

The carrying values of trade and other receivables are reasonable approximations of their fair values.

Prepayments and accrued income includes £24.8 million (2013: £26.8 million) in respect of amounts due from customers for contract work and £34.4 million (2013: £39.4 million) which is recoverable after more than one year.

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 83% of group turnover and 76% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and sewerage services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables and the credit quality of its customer base reflects the wealth and prosperity of all of the commercial businesses and domestic households within its region. None of the other business units are individually significant to the group.

Movements on the doubtful debts provision were as follows:

	2014 £m	2013 £m
At 1 April	**138.0**	125.2
Charge for bad and doubtful debts	**32.1**	33.1
Amounts written off during the year	**(25.7)**	(22.1)
Amounts recovered during the year	**0.2**	–
Reclassification	**(23.1)**	–
Exchange adjustments	**(0.7)**	1.8
At 31 March	**120.8**	138.0

The reclassification arose on the refinancing of the amounts receivable from the group's associate company, SII, which have now been classified as other debtors but remain fully provided.

Included in trade receivables are balances with a carrying amount of £168.3 million (2013: £176.4 million) which were past due at the reporting date but for which no specific provision has been made as the collective impairment recorded against such assets is considered to be sufficient allowance for the risk of non-collection of such balances.

The aged analysis of receivables that were past due at the reporting date but not individually impaired is as follows:

	2014 £m	2013 £m
Up to 90 days	**49.7**	49.4
91-365 days	**69.1**	77.8
1-2 years	**29.7**	30.9
2-3 years	**12.0**	11.3
More than 3 years	**7.8**	7.0
	168.3	176.4

Group financial statements Notes to the group financial statements

23 Trade and other receivables (continued)

Included in the allowance for doubtful debts are provisions amounting to £22.9 million (2013: £22.4 million) against specific trade receivables. The age of the impaired receivables was as follows:

	2014 £m	2013 £m
Up to 90 days	**0.6**	3.7
91-365 days	**3.3**	3.9
1-2 years	**7.6**	3.9
2-3 years	**5.3**	12.2
More than 3 years	**7.3**	3.4
	24.1	27.1

24 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	**46.4**	47.9
Short term deposits	**76.8**	355.7
	123.2	403.6

Of the £76.8 million (2013: £355.7 million) of short term bank deposits, £43.8 million (2013: £26.1 million) is held as security deposits for insurance obligations and is not available for use by the group. In addition, £7.4 million (2013: £6.1 million) is held for use by the Ministry of Defence and is not available for use by the group.

25 Borrowings

	2014 £m	2013 £m
Bank overdrafts	**–**	0.4
Bank loans	**594.9**	758.7
Other loans	**3,826.0**	3,840.9
Finance leases	**201.2**	201.6
	4,622.1	4,801.6
Presented in the balance sheet as:		
Current liabilities	**206.1**	170.3
Non-current liabilities	**4,416.0**	4,631.3
	4,622.1	4,801.6

Group financial statements Notes to the group financial statements

26 Finance leases

Obligations under finance leases are as follows:

	2014 £m	2013 £m
Gross obligations under finance leases	**260.5**	265.1
Less future finance charges	**(59.3)**	(63.5)
Present value of lease obligations	**201.2**	201.6

A maturity analysis of gross obligations under finance leases is included in the undiscounted amounts payable analysis presented in note 37. Net obligations under finance leases fall due as follows:

	2014 £m	2013 £m
Within 1 year	**21.3**	0.5
1–2 years	**38.6**	21.2
2–5 years	**30.5**	66.5
After more than 5 years	**110.8**	113.4
Included in non-current liabilities	**179.9**	201.1
	201.2	201.6

The remaining terms of finance leases ranged from 3 to 19 years at 31 March 2014. Interest terms are set at the inception of the leases. Leases with capital outstanding of £201.2 million (2013: £201.6 million) bear fixed interest at a weighted average rate of 5.36% (2013: 5.36%). The lease obligations are secured against the related assets.

There were no contingent rents, escalation clauses or material renewal or purchase options. The terms of the finance leases do not impose restriction on dividend payments, additional debt or further leasing.

Group financial statements Notes to the group financial statements

27 Categories of financial liabilities

	2014 £m	2013 £m
Fair value through profit and loss		
Cross currency swaps – not hedge accounted	21.7	8.4
Interest rate swaps – not hedge accounted	158.9	171.8
Foreign exchange forward contracts – not hedge accounted	0.3	0.2
	180.9	180.4
Derivatives designated as hedging instruments		
Interest rate swaps – cash flow hedges	47.2	128.0
Energy swaps – cash flow hedges	2.9	1.8
	50.1	129.8
Total derivative financial liabilities	231.0	310.2
Other financial liabilities		
Borrowings (note 25)	4,622.1	4,801.6
Trade payables (note 28)	31.8	30.7
Total other financial liabilities	4,653.9	4,832.3
Total financial liabilities	4,884.9	5,142.5

Disclosed in the balance sheet as:		
Non-current liabilities		
Derivative financial liabilities	206.2	309.6
Borrowings	4,416.0	4,631.3
Trade payables	–	2.0
	4,622.2	4,942.9
Current liabilities		
Derivative financial liabilities	24.8	0.6
Borrowings	206.1	170.3
Trade payables	31.8	28.7
	262.7	199.6
	4,884.9	5,142.5

28 Trade and other payables

	2014 £m	2013 £m
Current liabilities		
Trade payables	31.8	28.7
Social security and other taxes	6.3	7.0
Other payables	22.9	25.7
Deferred income	9.2	9.2
Accruals	342.5	328.4
	412.7	399.0
Non-current liabilities		
Trade payables	–	2.0
Other payables	–	0.4
Deferred income	482.7	437.2
Accruals	9.7	13.8
	492.4	453.4

The directors consider that the carrying values of trade payables is not materially different from their fair values.

Accruals includes nil (2013: nil) in respect of amounts due to customers for contract work.

Group financial statements Notes to the group financial statements

29 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 obligation £m	Tax losses £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2012	930.9	(74.2)	(6.4)	(59.6)	10.8	801.5
Charge to income (restated)	(0.4)	(10.0)	6.4	0.1	34.6	30.7
Credit to income arising from rate change	(39.0)	1.4	–	1.2	(0.3)	(36.7)
Credit to equity (restated)	–	(7.5)	–	(5.6)	–	(13.1)
Charge to equity arising from rate change	–	2.1	–	1.2	0.1	3.4
At 1 April 2013	891.5	(88.2)	–	(62.7)	45.2	785.8
Reclassification	52.6	–	–	–	(52.6)	–
Charge to income	(60.7)	6.3	–	12.2	7.5	(34.7)
Credit to income arising from rate change	(123.1)	3.8	–	3.8	0.7	(114.8)
Credit to equity	–	0.8	–	4.6	–	5.4
Charge to equity arising from rate change	–	7.7	–	4.3	0.3	12.3
At 31 March 2014	**760.3**	**(69.6)**	**–**	**(37.8)**	**1.1**	**654.0**

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:

	2014 £m	2013 £m
Deferred tax asset	**(121.7)**	(169.1)
Deferred tax liability	**775.7**	954.9
	654.0	785.8

30 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The group operates a number of defined benefit pension schemes in the UK, covering the majority of UK employees. The defined benefit pension schemes are funded to cover future salary and pension increases and 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 10 years of employment.

The UK defined benefit pension schemes and the date of their last formal actuarial valuation are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension scheme (STPS)*	31 March 2013
Severn Trent Mirror Image Pension Scheme	31 March 2013

* The STPS is by far the largest of the group's UK defined benefit schemes.

The defined benefit pension schemes will close to future accrual on 31 March 2015. A new defined contribution pension scheme has been established and members of the defined benefit pension schemes will then become members of the new defined contribution pension scheme.

Group financial statements Notes to the group financial statements

30 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the group's obligations under defined benefit pension schemes

	2014 £m	2013 £m
Fair value of scheme assets		
Equities	**870.6**	877.2
Gilts	**270.5**	274.6
Corporate bonds	**388.8**	360.9
Property	**148.4**	147.8
Hedge funds	**56.9**	55.8
Cash	**88.4**	8.0
Total fair value of assets	**1,823.6**	1,724.3
Present value of the defined benefit obligations – funded schemes	**(2,162.5)**	(2,098.7)
	(338.9)	(374.4)
Present value of the defined benefit obligations – unfunded schemes	**(9.4)**	(9.3)
Liability recognised in the balance sheet	**(348.3)**	(383.7)

The equities, gilts, corporate bonds and hedge funds have quoted prices in active markets.

Movements in the fair value of the scheme assets were as follows:

	2014 £m	2013 Restated £m
Fair value at 1 April	**1,724.3**	1,557.2
Interest income on scheme assets	**76.0**	75.8
Contributions from the sponsoring companies	**73.0**	43.5
Contributions from scheme members	**5.1**	5.1
Return on plan assets (excluding amounts included in finance income)	**24.9**	116.3
Scheme administration costs	**(3.0)**	(2.6)
Benefits paid	**(76.7)**	(71.0)
Fair value at 31 March	**1,823.6**	1,724.3

Movements in the present value of the defined benefit obligations were as follows:

	2014 £m	2013 £m
Present value at 1 April	**2,108.0**	1,903.0
Service cost	**22.4**	22.8
Past service cost	**0.1**	0.4
Interest cost	**91.7**	92.2
Contributions from scheme members	**5.1**	5.1
Actuarial (gains)/losses arising from changes in demographic assumptions	**(15.7)**	155.5
Actuarial losses arising from changes in financial assumptions	**37.0**	1.0
Actuarial gains arising from experience adjustments	**–**	(1.0)
Benefits paid	**(76.7)**	(71.0)
Present value at 31 March	**2,171.9**	2,108.0

30 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

Of which:

	2014 £m	2013 £m
Amounts relating to funded schemes	**2,162.5**	2,098.7
Amounts relating to unfunded schemes	**9.4**	9.3
Present value at 31 March	**2,171.9**	2,108.0

The group has an obligation to pay pensions to a number of former employees whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £9.4 million (2013: £9.3 million) is included as an unfunded scheme within the retirement benefit obligation.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2014 £m	2013 Restated £m
Amounts charged to operating costs		
Current service cost	**(22.4)**	(22.8)
Scheme administration costs	**(3.0)**	(2.6)
Past service cost	**(0.1)**	(0.4)
	(25.5)	(25.8)
Amounts charged to finance costs		
Interest cost	**(91.7)**	(92.2)
Amounts credited to finance income		
Interest income on scheme assets	**76.0**	75.8
Total amount charged to the income statement	**(41.2)**	(42.2)

The actual return on scheme assets was a gain of £97.2 million (2013: gain of £189.5 million).

Actuarial gains and losses have been reported in the statement of comprehensive income. The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income since the adoption of IFRS is a net loss of £315.7 million (2013 (restated): net loss of £319.3 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.

Group financial statements Notes to the group financial statements

30 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(v) Actuarial assumptions

The major assumptions used in the valuation of the STPS (also the approximate weighted average of assumptions used for the valuations of all group schemes) were as follows:

	2014 %	2013 %
Price inflation	**3.3**	3.2
Salary increases	**3.0**	3.0
Pension increases in payment	**3.3**	3.2
Pension increases in deferment	**3.3**	3.2
Discount rate	**4.4**	4.4

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts. The discount rate is set by reference to AA rated sterling 18 year corporate bonds.

The company has adopted IAS 19 Employee Benefits Revised and therefore expected return on assets assumptions are no longer needed. The discount rate is applied to the net deficit to determine the net finance cost.

The mortality assumptions are based on those used in the triennial valuation of the STPS as at 31 March 2013.

The mortality assumptions adopted at the year end and the life expectancies at age 65 implied by the assumptions are as follows:

	2014	2013
Mortality table used		
– men	**'SAPS' S1NMA_L**	'SAPS' S1NMA_L
– women	**S1NFA_L**	S1NFA_L
Mortality table compared with standard table		
– men	**116%**	116%
– women	**92%**	92%
Future improvement per annum	**1.0%**	1.0%
Remaining life expectancy for members currently aged 65 (years)		
– men	**21.3**	21.5
– women	**24.4**	24.6
Remaining life expectancy at age 65 for members currently aged 45 (years)		
– men	**22.6**	22.7
– women	**26.0**	26.2

The calculation of the scheme liabilities is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation and mortality. The following table summarises the estimated impact on scheme liabilities from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £38 million
Price inflation	Increase/decrease by 0.1%	Decrease/increase by £35 million
Mortality	Increase in life expectancy by 1 year	Increase by £55 million

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

30 Retirement benefit schemes (continued)

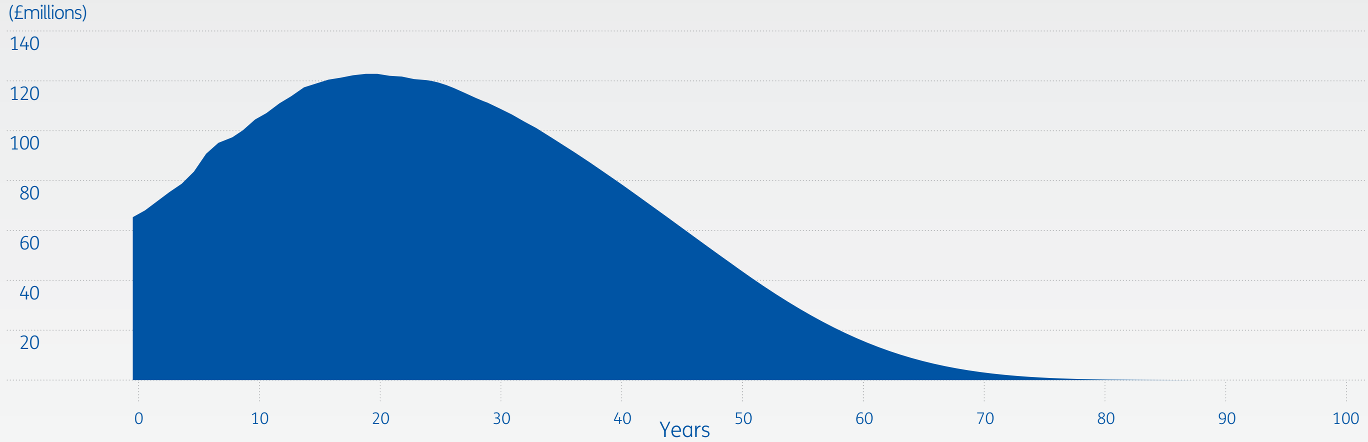
a) Defined benefit pension schemes (continued)

(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 18 years (2013: 18 years). The expected cash flows payable from the scheme are presented in the graph below.

Expected benefit payments



Following the completion of the triennial valuation of both schemes, future lump sum deficit contributions have been agreed with the trustees. In respect of the shortfall, a cash contribution of £40 million was made in the current year, a further £35 million contribution will be made in the year to 31 March 2015, £15 million will be paid in the year to 31 March 2016 followed by £12 million per annum to 31 March 2025. An annual contribution of £8.2 million will also be made through an asset backing funding arrangement for at least 13 years from 31 March 2014.

b) Defined contribution pension schemes

The group also operates defined contribution arrangements for certain of its UK and overseas employees.

The Severn Trent Personal Pension scheme was opened in April 2012. This will be replaced by the ST Group Personal Pension scheme from 1 April 2015 and all members of other pension schemes will be transferred. The scheme has been open since 1 April 2012 and new employees were automatically enrolled from this date. All employees who were not previously in a Severn Trent pension scheme were automatically enrolled into the ST Group Personal Pension scheme from 1 April 2013.

The total cost charged to operating costs of £9.8 million (2013: £6.6 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes. As at 31 March 2014 and 2013, all contributions all due in respect of the current reporting period had been paid over to the schemes.

31 Provisions

	Restructuring £m	Insurance £m	Onerous contracts £m	Terminated operations and disposals £m	Other £m	Total £m
At 1 April 2013	2.2	25.1	2.4	4.6	7.4	41.7
Charged/(released) to income statement	3.9	4.8	0.4	2.4	(0.5)	11.0
Utilisation of provision	(2.3)	(6.8)	(0.8)	(1.9)	(2.0)	(13.8)
Unwinding of discount	–	–	0.1	–	0.1	0.2
Reclassifications	–	–	–	1.3	(1.3)	–
Exchange differences	(0.1)	–	–	–	(0.4)	(0.5)
At 31 March 2014	**3.7**	**23.1**	**2.1**	**6.4**	**3.3**	**38.6**

	2014 £m	2013 £m
Included in		
Current liabilities	**12.1**	11.1
Non-current liabilities	**26.5**	30.6
	38.6	41.7

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes. The associated outflows are estimated to arise over the next 12 months from the balance sheet date.

Derwent Insurance Limited, a captive insurance company, is a wholly owned subsidiary of the group. Provisions for claims are made as set out in note 2. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

The onerous contract provision relates to specific contractual liabilities either assumed with businesses acquired or arising in existing group businesses, where estimated future costs are not expected to be recovered in revenues. The associated outflows are estimated to occur over a period of 10 years from the balance sheet date.

Provisions relating to terminated operations and disposals include amounts that it is probable will be paid in respect of claims arising from services performed by these businesses and the indemnities described in note 41 b).

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period of up to six years from the balance sheet date.

32 Share capital

	2014 £m	2013 £m
Total issued and fully paid share capital		
238,942,647 ordinary shares of 97¹⁷⁄₁₉p (2013: 238,365,734)	**233.9**	233.3

Changes in share capital were as follows:

	Number	**£m**
Ordinary shares of 97¹⁷⁄₁₉p		
At 1 April 2012	237,608,111	232.6
Shares issued under the Employee Sharesave Scheme	757,623	0.7
At 1 April 2013	238,365,734	233.3
Shares issued under the Employee Sharesave Scheme	576,913	0.6
At 31 March 2014	**238,942,647**	**233.9**

33 Share premium

	2014 £m	2013 £m
At 1 April	**89.7**	83.8
Share premium arising on issue of shares for Employee Sharesave Scheme	**4.5**	5.9
At 31 March	**94.2**	89.7

34 Other reserves

	Capital redemption reserve £m	Infrastructure reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2012	156.1	314.2	24.0	(94.1)	400.2
Total comprehensive loss for the year	–	–	4.9	(18.6)	(13.7)
Transfer to retained earnings	–	(314.2)	–	–	(314.2)
At 1 April 2013	156.1	–	28.9	(112.7)	72.3
Total comprehensive income for the year	–	–	(8.7)	18.6	9.9
At 31 March 2014	**156.1**	**–**	**20.2**	**(94.1)**	**82.2**

The capital redemption reserve arose on the redemption of B shares.

The infrastructure reserve arose in the prior year on the group's transition to IFRS from restating Severn Trent Water Limited's infrastructure assets to fair value as deemed cost. In the prior year Severn Trent Water Limited adopted the new accounting standard FRS 101, which uses the recognition and measurement criteria of IFRS. The infrastructure reserve was therefore recognised in Severn Trent Water Limited. During the prior year Severn Trent Water Limited used its infrastructure reserve to issue bonus shares, which were subsequently cancelled. These transactions resulted in a transfer from the infrastructure reserve to retained earnings in the financial statements.

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 and energy swaps taken directly to equity under the hedge accounting provisions of IAS 39 and the transition rules of IFRS 1.

35 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 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 does not have a specific gearing target but seeks to maintain gearing at a level consistent with its capital management objectives described above.

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.

During the year the group repaid an index-linked £169 million bank loan. No significant new debt was raised in the year.

At 31 March the group's equity and debt capital comprised the following:

	2014 £m	2013 £m
Cash and short term deposits	**123.2**	403.6
Bank overdrafts	**–**	(0.4)
Bank loans	**(594.9)**	(758.7)
Other loans	**(3,826.0)**	(3,840.9)
Obligations under finance leases	**(201.2)**	(201.6)
Cross currency swaps	**51.4**	100.7
Net debt	**(4,447.5)**	(4,297.3)
Equity attributable to the owners of the company	**(1,077.6)**	(833.2)
Total capital	**(5,525.1)**	(5,130.5)

36 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 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:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table describes the valuation technique that the group applies for each class of financial instrument which is measured at fair value on a recurring basis:

		Fair value as at 31 March		
	Fair value hierarchy	**2014 £m**	2013 £m	**Valuation techniques and key inputs**
Cross currency swaps	Level 2			Discounted cash flow
Assets		**73.1**	109.1	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 credit risk. The currency cash flows are translated at the spot rate.
Liabilities		**21.7**	8.4	
Interest rate swaps	Level 2			Discounted cash flow
Assets		**12.1**	21.0	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 credit risk.
Liabilities		**206.1**	299.8	
Energy swaps	Level 2			Discounted cash flow
Assets		**–**	0.9	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 credit risk.
Liabilities		**2.9**	1.8	
Foreign currency forward contracts	Level 2			Discounted cash flow
Assets		**0.1**	0.1	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 credit risk.
Liabilities		**0.3**	0.2	

36 Fair values of financial instruments (continued)

b) Comparison of fair value of financial instruments with their carrying amounts

The directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, trade receivables and trade payables approximate their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2014		2013		
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value Restated £m	Fair value As previously stated £m
Floating rate debt					
Bank loans	**300.0**	**293.0**	300.0	288.2	288.2
Currency bonds	**215.6**	**217.4**	243.1	257.8	256.6
	515.6	**510.4**	543.1	546.0	544.8
Fixed rate debt					
Bank loans	**189.7**	**201.1**	191.0	210.8	210.8
Sterling bonds	**1,902.9**	**2,108.1**	1,900.8	2,238.3	2,299.6
Currency bonds	**571.5**	**627.3**	590.6	665.0	649.4
Other loans	**1.7**	**1.7**	1.7	1.7	1.7
Finance leases	**201.2**	**197.7**	201.6	208.2	208.2
	2,867.0	**3,135.9**	2,885.7	3,324.0	3,369.7
Index-linked debt					
Bank loans	**105.2**	**114.7**	267.7	282.6	282.6
Sterling bonds	**1,134.3**	**1,213.3**	1,103.5	1,230.5	1,376.7
	1,239.5	**1,328.0**	1,371.2	1,513.1	1,659.3
Non-interest bearing					
Other loans	**–**	**–**	1.2	1.2	1.2
Total	**4,622.1**	**4,974.3**	4,801.2	5,384.3	5,575.0

Following the adoption of IFRS 13 'Fair Value measurement' the group has reviewed and amended its methodology for calculating the fair values of certain debt instruments. The methods used and the changes from previous methods are summarised below. The impact on the fair values disclosed in the previous year's financial statements is shown in the table above.

Fixed rate sterling and currency bonds are valued using market prices. Previously these bonds were valued by discounted cash flow models using discount rates derived from observations of credit spreads on a sample of the group's listed bonds.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds.

Fair values of the other debt instruments are also calculated using discounted cash flow models.

37 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. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the group's exposure to changes in market interest rates. Further details are set out in sections a) (i) and e) (ii) below.

Cross currency swaps are held to mitigate the group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) below.

Energy swaps are held to mitigate the groups exposure to changes in electricity prices. Further details are provided in section e) (ii) below.

Severn Trent Water, the group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by RPI. In order to mitigate the risks to cash flow and earnings arising from fluctuations in RPI, the group holds debt instruments where the principal repayable and interest cost is linked to RPI.

a) Market risk

The group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the group has taken to manage them are described below.

(i) Interest rate risk

The group's income and its operating cash flows are substantially independent of changes in market interest rates. The group's interest rate risk arises from long term borrowings.

Borrowings issued at variable rates expose the group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the group to the risk of interest costs above the market rate when interest rates decrease.

The group's policy is to maintain 45% to 90% of its interest bearing liabilities in fixed rate instruments. 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 in the reconciliation of interest bearing liabilities to net debt. At 31 March 2014 75% of the group's interest bearing liabilities was at fixed rates (2013: 68%).

The group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates and 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 to beyond 2030.

The cost of some of the group's debt is linked to changes in the Retail Price Index (RPI). This index-linked debt provides an economic hedge for Severn Trent Water's revenues and Regulatory Capital Value that are also linked to RPI under its regulatory regime.

The following tables show analyses of the group's interest bearing financial liabilities by type of interest. Debt raised in foreign currencies has been included at the 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.

37 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The group uses interest rate swaps to mitigate its exposure to fluctuations in interest rates. The net principal amount of these swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the group's interest rate swaps on the amount of liabilities bearing fixed interest.

2014	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Total £m**
Bank loans	(300.0)	(189.7)	(105.2)	(594.9)
Other loans	(205.7)	(2,440.6)	(1,134.3)	(3,780.6)
Finance leases	–	(201.2)	–	(201.2)
	(505.7)	(2,831.5)	(1,239.5)	(4,576.7)
Impact of interest rate swaps not matched against specific debt instruments	591.4	(591.4)	–	–
Interest bearing financial liabilities	**85.7**	**(3,422.9)**	**(1,239.5)**	**(4,576.7)**
Proportion of interest bearing financial liabilities that are fixed		**75%**		
Weighted average interest rate of fixed rate debt		**5.68%**		
Weighted average period for which interest is fixed (years)		**10.7**		

2013	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdrafts	(0.4)	–	–	(0.4)
Bank loans	(300.0)	(191.0)	(267.7)	(758.7)
Other loans	(206.4)	(2,438.2)	(1,103.5)	(3,748.1)
Finance leases	–	(201.6)	–	(201.6)
	(506.8)	(2,830.8)	(1,371.2)	(4,708.8)
Impact of interest rate swaps not matched against specific debt instruments	364.9	(364.9)	–	–
Interest bearing financial liabilities	(141.9)	(3,195.7)	(1,371.2)	(4,708.8)
Proportion of interest bearing financial liabilities that are fixed		68%		
Weighted average interest rate of fixed rate debt		5.59%		
Weighted average period for which interest is fixed (years)		11.3		

A reconciliation of net debt to amounts included in interest bearing financial liabilities is set out below:

	2014 £m	2013 £m
Interest bearing financial liabilities	**4,576.7**	4,708.8
Interest free debt	**–**	1.2
Exchange on currency debt	**18.6**	42.8
Fair value hedge accounting adjustments	**26.8**	48.8
Cross currency swaps included in net debt at fair value	**(51.4)**	(100.7)
Cash and cash equivalents	**(123.2)**	(403.6)
Net debt (note 40)	**4,447.5**	4,297.3

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37 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate swaps not hedge accounted

The group has a number of interest rate swaps which are not accounted for as cash flow hedges. Economically these swaps act to fix the interest cost of debt within the group which is denominated as floating rate, but they do not achieve hedge accounting under the criteria of IAS 39. This has led to a credit of £66.7 million charge (2013: charge of £30.8 million) in the income statement.

Contracts where the group pays fixed rate interest are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2014 %**	2013 %	**2014 £m**	2013 £m	**2014 £m**	2013 £m
1–2 years	**6.32**	–	**225.0**	–	**(18.2)**	–
2–5 years	**–**	6.32	**–**	225.0	**–**	(31.7)
5–10 years	**4.98**	–	**225.0**	–	**(42.4)**	–
10–20 years	**5.37**	5.37	**216.4**	214.9	**(63.0)**	(90.6)
20–30 years	**5.10**	5.10	**125.0**	125.0	**(35.3)**	(49.5)
	5.44	5.59	**791.4**	564.9	**(158.9)**	(171.8)

Contracts where the group receives fixed interest are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2014 %**	2013 %	**2014 £m**	2013 £m	**2014 £m**	2013 £m
1–2 years	**5.18**	–	**200.0**	–	**12.1**	–
2–5 years	**–**	5.18	**–**	200.0	**–**	21.0
	5.18	5.18	**200.0**	200.0	**12.1**	21.0

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:

	2014		2013	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**73.3**	**(83.7)**	62.7	(74.3)
Cash flow	**(1.6)**	**1.6**	(2.0)	2.0
Equity	**97.8**	**(111.0)**	112.7	(130.5)

37 Risks arising from financial instruments (continued)

a) Market risk (continued)

(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.

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 – principally yen and euro. In order to mitigate the group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR. The terms of the receivable leg of the swap closely match the terms of the underlying debt hence the swaps are expected to be effective hedges.

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.

2014	**Euro €m**	**US Dollar $m**	**Japanese Yen ¥Bn**	**Czech Krona CZKm**
Borrowings by currency	(722.9)	(52.7)	(24.5)	(620.0)
Cross currency swaps – hedge accounted	19.9	50.0	14.5	620.0
Cross currency swaps – not hedge accounted	700.0	–	10.0	–
Net currency exposure	**(3.0)**	**(2.7)**	**–**	**–**

2013	Euro €m	US Dollar $m	Japanese Yen ¥Bn	Czech Krona CZKm
Borrowings by currency	(721.6)	(50.0)	(24.5)	(620.0)
Cross currency swaps – hedge accounted	19.9	50.0	14.5	620.0
Cross currency swaps – not hedge accounted	700.0	–	10.0	–
Net currency exposure	(1.7)	–	–	–

37 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 23.

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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
AAA	**20.0**	20.0	**1.2**	1.3
Double A range	**100.0**	150.0	**24.2**	82.0
Single A range	**600.0**	625.0	**51.4**	272.4
	720.0	795.0	**76.8**	355.7

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
Rating	**2014 £m**	2013 £m
Double A range	**16.7**	29.7
Single A range	**68.6**	101.4
	85.3	131.1

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:

	2014 £m	2013 £m
2–5 years	**500.0**	500.0

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37 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.

2014 **Undiscounted amounts payable:**	**Floating rate** **£m**	**Fixed rate** **£m**	**Index linked** **£m**	**Trade payables** **£m**	**Payments on financial liabilities** **£m**
Within 1 year	(142.6)	(220.2)	(23.8)	(31.8)	(418.4)
1–2 years	(54.8)	(721.3)	(24.4)	–	(800.5)
2–5 years	(316.5)	(737.3)	(77.4)		(1,131.2)
5–10 years	(26.3)	(877.1)	(373.3)		(1,276.7)
10–15 years	(43.5)	(788.0)	(424.6)		(1,256.2)
15–20 years	(16.8)	(558.3)	(124.0)		(699.0)
20–25 years	–	(60.9)	(151.2)		(212.1)
25–30 years	–	(286.6)	(183.6)		(470.1)
30–35 years	–	–	(222.4)		(222.4)
35–40 years	–	–	(740.6)		(740.6)
40–45 years	–	–	(3,573.5)		(3,573.5)
45–50 years	–	–	(33.7)		(33.7)
50–55 years	–	–	(545.5)		(545.5)
Total	**(600.4)**	**(4,249.7)**	**(6,498.1)**	**(31.8)**	**(11,380.0)**

Undiscounted amounts receivable:	**Trade receivables** **£m**	**Cash and short term deposits** **£m**	**Receipts from financial assets** **£m**
Within 1 year	195.6	123.2	**318.8**

2013 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(10.5)	(144.3)	(194.5)	(30.7)	(380.0)
1–2 years	(167.9)	(217.3)	(23.3)	–	(408.5)
2–5 years	(367.7)	(1,421.0)	(72.8)	–	(1,861.5)
5–10 years	(20.9)	(581.1)	(362.3)	–	(964.3)
10–15 years	(69.7)	(1,179.6)	(186.7)	–	(1,436.0)
15–20 years	–	(539.1)	(346.9)	–	(886.0)
20–25 years	–	(60.9)	(139.7)	–	(200.7)
25–30 years	–	(298.8)	(169.8)	–	(468.6)
30–35 years	–	–	(206.4)	–	(206.4)
35–40 years	–	–	(717.7)	–	(717.7)
40–45 years	–	–	(2,597.7)	–	(2,597.7)
45–50 years	–	–	(949.9)	–	(949.9)
50–55 years	–	–	(536.9)	–	(536.9)
Total	(636.8)	(4,442.0)	(6,504.8)	(30.7)	(11,614.3)

37 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

(ii) Cash flows from non-derivative financial instruments (continued)

Undiscounted amounts receivable:	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	196.7	403.6	600.3

Index-linked debt includes loans with maturities of up to 53 years. The principal is revalued at fixed intervals and is linked to movements in the Retail Price Index. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

	Derivative liabilities		**Derivative assets**				
					Cross currency swaps		
2014 **Undiscounted amounts (payable)/receivable:**	**Interest rate swaps £m**	**Energy swaps £m**	**Interest rate swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	(40.6)	(3.0)	8.5	–	169.0	(179.4)	(45.5)
1–2 years	(38.4)	–	3.5	–	664.2	(613.4)	15.9
2–5 years	(67.0)	–	–	–	3.1	(1.7)	(65.6)
5–10 years	(63.3)	–	–	–	5.5	(4.0)	(61.8)
10–15 years	(28.4)	–	–	–	21.5	(14.3)	(21.2)
15–20 years	(18.2)	–	–	–	16.8	(8.7)	(10.1)
20–25 years	(0.7)	–	–	–	–	–	(0.7)
	(256.6)	**(3.0)**	**12.0**	**–**	**880.1**	**(821.5)**	**(189.0)**

	Derivative liabilities		Derivative assets				
					Cross currency swaps		
2013 Undiscounted amounts (payable)/receivable:	Interest rate swaps £m	Energy swaps £m	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(36.3)	(0.3)	8.6	1.0	37.3	(36.2)	(25.9)
1–2 years	(41.2)	(1.5)	8.6	–	125.4	(98.3)	(7.0)
2–5 years	(110.9)	–	4.1	–	683.5	(600.2)	(23.5)
5–10 years	(97.6)	–	–	–	5.6	(3.2)	(95.2)
10–15 years	(35.8)	–	–	–	40.7	(23.7)	(18.8)
15–20 years	(20.1)	–	–	–	–	–	(20.1)
20–25 years	(2.2)	–	–	–	–	–	(2.2)
	(344.1)	(1.8)	21.3	1.0	892.5	(761.6)	(192.7)

37 Risks arising from financial instruments (continued)

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 Regulated Capital Value, or accounting for defined benefit pension schemes.

	2014		2013	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(9.5)**	**9.5**	(10.4)	10.4
Equity	**(9.5)**	**9.5**	(10.4)	10.4

e) 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.

(i) Fair value hedges

The group raises debt denominated in currencies other than sterling – principally yen and euro. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the group's exposure to exchange rate fluctuations. The terms of the receivable leg of the swap closely match the terms of the underlying debt, hence 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	
	2014 £m	2013 £m	**2014 £m**	2013 £m
US dollar	**27.0**	27.0	**4.7**	8.7
Euro	**11.4**	11.4	**8.4**	9.3
Yen	**14.7**	71.4	**15.9**	35.3
Czech krona	**71.4**	14.7	**4.6**	7.0
	124.5	124.5	**33.6**	60.3

(ii) Cash flow hedges

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. The group also entered into a number of interest rate contracts with future start dates during the AMP5 regulatory period. Such contracts enable the group to mitigate the risk of changing interest rates on debt which is highly probable to be issued over the AMP5 period to fund Severn Trent Water's capital programme and have been accounted for as cash flow hedges. The fair value of interest rate swaps at the balance sheet date is determined by discounting the future cash flows using the yield curve prevailing at the balance sheet date and the credit risk inherent in the contract.

The interest rate swaps primarily settle net on a biannual basis. The floating rate on the interest rate swaps is six months LIBOR.

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37 Risks arising from financial instruments (continued)

e) Hedge accounting (continued)

(ii) Cash flow hedges (continued)

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	**2014 %**	2013 %	**2014 £m**	2013 £m	**2014 £m**	2013 £m
10–20 years	**5.14**	5.07	**(264.7)**	(491.0)	**47.2**	128.0

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 2015.

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	**2014 £/MWh**	2013 £/MWh	**2014 MWh**	2013 MWh	**2014 £m**	2013 £m
Less than 1 year	**62.9**	53.3	**174,720**	550,368	**(2.9)**	0.6
1-2 years	**–**	62.9	**–**	174,720	**–**	(1.5)
	62.9	55.6	**174,720**	725,088	**(2.9)**	(0.9)

38 Share based payments

The group operates a number of share based remuneration schemes for employees. During the period, the group recognised total expenses of £6.2 million (2013: £6.8 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £18.12 (2013: £16.49).

At 31 March 2014, there were no options exercisable (2013: 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 made on different bases to Severn Trent Plc and Severn Trent Water employees (the LTIP) and to Severn Trent Services employees (the Services LTIP).

(i) Awards outstanding

Awards made under the LTIP

These awards are subject to Severn Trent Water's achievement of Return on Regulated Capital Value in excess of the level included in the Severn Trent Water AMP5 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2013: 100%).

Awards made under the Services LTIP

These 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 2012 Services LTIP non-market conditions will be 25% (2013: 2012 Services LTIP 75%) and the 2013 Services LTIP will be 75%.

38 Share based payments (continued)

a) Long Term Incentive Plans (LTIPs) (continued)

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards	
	LTIP	Services LTIP
Outstanding at 1 April 2012	383,487	94,944
Granted during the year	99,886	28,599
Vested during the year	(46,025)	–
Lapsed during the year	(116,324)	(33,671)
Outstanding at 1 April 2013	321,024	89,872
Granted during the year	88,996	38,902
Vested during the year	(67,302)	–
Lapsed during the year	(66,586)	(37,512)
Outstanding at 31 March 2014	**276,132**	**91,262**

Details of LTIP and Services LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal date of vesting	2014	2013
July 2008	2013	**–**	31,145
July 2010	2013	**–**	125,568
July 2011	2014	**127,777**	129,209
July 2012	2015	**115,809**	124,974
July 2013	2016	**123,808**	–
		367,394	410,896

Details of the basis of the LTIP schemes are set out in the remuneration report on pages 69 and 70.

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.

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 2012	3,084,486	950p
Granted during the year	601,415	1,241p
Forfeited during the year	(41,494)	1,005p
Cancelled during the year	(44,590)	1,094p
Exercised during the year	(757,623)	883p
Lapsed during the year	(7,708)	1,028p
Outstanding at 1 April 2013	2,834,486	1,027p
Granted during the year	660,391	1,331p
Forfeited during the year	(32,527)	1,151p
Cancelled during the year	(58,850)	1,184p
Exercised during the year	(576,913)	874p
Lapsed during the year	(25,713)	1,077p
Outstanding at 31 March 2014	**2,800,874**	**1,125p**

38 Share based payments (continued)

b) Employee Sharesave Scheme (continued)

Sharesave options outstanding at 31 March were as follows:

			Number of share options	
Date of grant	Normal date of exercise	Option price	2014	2013
January 2006	2013	823p	–	20,468
January 2007	2014	1,172p	**11,273**	11,392
January 2008	2013	1,221p	–	74,976
January 2009	2014	862p	**496,233**	511,960
January 2010	2015	808p	**308,501**	774,028
January 2011	2014 or 2016	1,137p	**293,633**	315,258
January 2012	2015 or 2017	1,177p	**481,830**	525,534
January 2013	2016 or 2018	1,241p	**551,862**	600,870
January 2014	2017 or 2019	1,331p	**657,542**	–
			2,800,874	2,834,486

c) Share Incentive Plan (SIP)

Under the SIP the board may grant share awards to employees of group companies. During the year the board has announced that it will make awards under the SIP based on performance against Severn Trent Water's targets for its Key Performance Indicators. Eligible employees will be entitled to shares to a maximum value of £750. It is expected that these awards will be made in August 2014. SIP shares vest with the employee on the date of grant.

d) Share Matching Plan (SMP)

Under the Share Matching Plan 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 one deferred share and are subject to a three year vesting period. During the year matching shares were awarded at a ratio of 0.5:1.

Matching shares are subject to total shareholder return over three years measured relative to the companies ranked 51-150 by market capitalisation in the FTSE Index (excluding investment trusts).

The number of shares subject to an award will increase to reflect dividends paid through the performance period on the basis of such notional dividends being reinvested at the then prevailing share price. Awards will normally vest as soon as the Remuneration Committee determines that the performance conditions have been met provided that the participant remains in employment at the end of the performance period.

Details of changes in the number of awards during the year are set out below:

	Number of awards
Outstanding at 1 April 2012	41,450
Granted during the year	18,024
Cancelled during the year	(2,091)
Outstanding at 1 April 2013	57,383
Granted during the year	33,803
Cancelled during the year	(4,569)
Vested during the year	(16,179)
Outstanding at 31 March 2014	**70,438**

38 Share based payments (continued)

d) Share Matching Plan (SMP) (continued)

Details of share matching awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	Normal date of vesting	2014	2013
May 2010	June 2013	–	20,748
May 2011	May 2014	**18,611**	18,611
May 2012	May 2015	**18,024**	18,024
May 2013	May 2016	**33,803**	–
		70,438	57,383

e) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the methods, principal assumptions and data set out below:

	2014				2013			
	LTIP	SAYE 3 year scheme	SAYE 5 year scheme	SMP	LTIP	SAYE 3 year scheme	SAYE 5 year scheme	SMP
Method used	**Black Scholes**	**Black Scholes**	**Black Scholes**	**Monte Carlo**	Black Scholes	Black Scholes	Black Scholes	Monte Carlo
Share price at grant date	**1,696p**	**1,694p**	**1,694p**	**1,785p**	1,749p	1,605p	1,605p	1,701p
Option life (years)	**3**	**3.5**	**5.5**	**3**	3	3.5	5.5	3
Vesting period (years)	**3**	**3**	**5**	**3**	3	3	5	3
Expected volatility	**18.2%**	**18.2%**	**18.2%**	**18.2%**	18.2%	18.2%	18.2%	18.2%
Expected dividend yield	**4.7%**	**4.7%**	**4.7%**	**n/a**	4.3%	4.7%	4.7%	n/a
Risk free rate	**n/a**	**0.87%**	**1.83%**	**0.60%**	n/a	0.46%	0.96%	0.32%
Fair value per share	**1,471p**	**280p**	**278p**	**888p**	1,536p	257p	239p	1,143p

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.

The comparator group for the Share Matching Plan is the companies ranked 51-150 in the FTSE Index.

For the Share Matching Plan, dividends paid on the shares during the vesting period are accumulated and released subject to the achievement of the performance condition, in the same manner as the underlying shares. As a result a dividend yield assumption is not required.

39 Acquisitions and disposals

In July 2012 the group acquired the trade and assets of Chlorine Engineers' CECHLO business (CEC) for cash consideration of £1.3 million. This transaction was accounted for by the purchase method of accounting.

On 22 June 2012 the group completed the sale of its meter installation, repair and replacement business to Enterprise Plc. On 4 February 2012 the group disposed of Severn Trent Analytical Services to ALS Limited.

40 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2014 £m	2013 £m
Profit before interest and tax	**472.4**	489.6
Depreciation of property, plant and equipment	**270.0**	264.6
Amortisation of intangible assets	**29.3**	30.5
Exceptional impairment	**29.5**	8.2
Pension service cost	**22.5**	23.2
Defined benefit pension scheme administration costs	**3.0**	2.6
Pension contributions	**(73.0)**	(43.5)
Share based payments charge	**6.2**	6.8
Profit on sale of property, plant and equipment and intangible assets	**(8.6)**	(10.4)
Loss on disposal of businesses	**–**	1.5
Deferred income movement	**(9.5)**	(9.3)
Provisions charged to the income statement	**11.0**	11.6
Utilisation of provisions for liabilities and charges	**(13.8)**	(14.3)
Operating cash flows before movements in working capital	**739.0**	761.1
Decrease in inventory	**4.4**	1.9
Increase in amounts receivable	**(17.2)**	(29.4)
Increase/(decrease) in amounts payable	**4.0**	(2.4)
Cash generated from operations	**730.2**	731.2
Tax received/(paid)	**27.2**	(72.5)
Net cash generated from operating activities	**757.4**	658.7

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2013: nil). Assets transferred from developers were £24.7 million (2013: £23.0 million).

c) Exceptional cash flows

The following cash flows arose from items classified as exceptional in the income statement:

	2014 £m	2013 £m
Restructuring costs	**(4.3)**	(4.4)
Disposal of fixed assets	**9.4**	15.1
Settlement of customer contractual disputes	**(1.9)**	(0.6)
Obligations arising from disposal of businesses	**(1.6)**	–
Professional fees relating to LongRiver proposal	**(18.7)**	–
	(17.1)	10.1

Group financial statements Notes to the group financial statements

40 Cash flow statement (continued)

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	As at 1 April 2013 £m	Cash flow £m	Fair value adjustments £m	RPI uplift on index-linked debt £m	Foreign exchange £m	Other non-cash movements £m	**As at 31 March 2014 £m**
Cash and cash equivalents	403.6	(278.6)	–	–	(1.8)	–	**123.2**
Bank overdrafts	(0.4)	0.4	–	–	–	–	**–**
Net cash and cash equivalents	403.2	(278.2)	–	–	(1.8)	–	**123.2**
Bank loans	(758.7)	169.9	–	(6.1)	–	–	**(594.9)**
Other loans	(3,840.9)	1.9	21.9	(30.8)	24.2	(2.3)	**(3,826.0)**
Finance leases	(201.6)	0.4	–	–	–	–	**(201.2)**
Cross currency swaps	100.7	–	(48.6)	–	–	(0.7)	**51.4**
Net debt	(4,297.3)	(106.0)	(26.7)	(36.9)	22.4	(3.0)	**(4,447.5)**

41 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability is expected to arise in respect of either bonds or guarantees.

The group has during the current year given certain modified and lower guarantees in respect of the borrowings of its associate, Servizio Idrico Integrato S.c.p.a. The guarantees are now limited to €5.1 million (2013: €11.2 million). The group does not expect any liabilities that are not provided for in these financial statements to arise from these arrangements.

b) Disposal of subsidiaries

The group has given certain guarantees and indemnities in relation to disposals of businesses.

On 1 April 2010 the Commercial Court in Belgium rendered judgment in favour of the group in relation to a claim from Veolia Propreté S.A. ('Veolia') arising from the sale of Biffa Belgium to Veolia in 2006. The judgment declared all of Veolia's claims to be unfounded. Veolia's appeal against this decision was rejected by the Court in a judgment delivered on 16 April 2014.

The group is not aware of any other liability that is likely to result from these guarantees and indemnities that has not been provided for in these financial statements.

42 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 2014 the amounts receivable were £24.8 million (2013: £26.8 million).

There have been no significant changes to the arrangement during the year.

43 Financial and other commitments

a) Investment expenditure commitments

	2014 £m	2013 £m
Contracted for but not provided in the financial statements	**158.5**	224.9

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 sewerage services.

b) Leasing commitments

At the balance sheet date the group had outstanding commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows:

	2014 £m	2013 £m
Within 1 year	**3.4**	4.7
1–5 years	**7.2**	10.9
After more than 5 years	**5.9**	7.0
	16.5	22.6

Operating lease payments represent rentals payable by the group for certain of its office properties, plant and equipment.

44 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 48.24 pence per share. Further details of this are shown in note 14.

45 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. Transactions between the group and its associates and joint ventures are disclosed below.

a) Trading transactions

	Sale of services		Amounts due from related parties	
	2014 £m	2013 £m	**2014 £m**	2013 £m
SII	**5.8**	6.9	**17.1**	16.4

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 30.

b) 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 67 to 74.

	2014 £m	2013 £m
Short term employee benefits	**6.3**	6.0
Post employment benefits	**0.4**	0.1
Share based payments	**1.4**	1.0
	8.1	7.1

Group financial statements Notes to the group financial statements

46 Subsidiary undertakings

Principal subsidiary undertakings

Details of the principal operating subsidiaries as at 28 May 2014 are given below. A complete list of subsidiary undertakings is available on request to the company and will be filed with the next Annual Return.

Country of incorporation and main operation is Great Britain and registration is in England and Wales unless otherwise stated. All subsidiary undertakings are wholly owned unless otherwise indicated. All shareholdings are in ordinary shares.

All subsidiary undertakings have been included in the consolidation.

Name	Country of incorporation	Principal activity	Proportion of ownership interest
Derwent Insurance Limited	Gibraltar	Provision of insurance services to other group companies	100%
Severn Trent Services UK Limited	Great Britain	Operation of water and sewerage infrastructure	100%
Severn Trent Services Defence Limited	Great Britain	Provision of water and sewerage services to MoD	100%
Severn Trent Environmental Services Inc.	USA	Operation of water and sewerage infrastructure	100%
Severn Trent Select Limited	Great Britain	Provision of licensed water and sewerage services	100%
Severn Trent Services Limited	Great Britain	Distribution of water purification products	100%
Severn Trent Water Limited	Great Britain	Provision of regulated water and sewerage services	100%
Severn Trent Water Purification Inc.	USA	Manufacture and distribution of water purification products	100%

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2014 under section 479C of Companies Act 2006 and therefore auditors have not been appointed for these entities:

	Company number
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 Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Property Solutions Limited	8181033
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services Purification Limited	2409826
Severn Trent Systems Limited	2394552
Severn Trent Utility Services Limited	4125386
Severn Trent Wind Power Limited	7742177

Company statement of comprehensive income

For the year ended 31 March 2014

	2014 £m	2013 Restated £m
Profit/(loss) for the year	**310.7**	(6.8)
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Deferred tax arising on change of rate	**(0.5)**	(0.2)
	(0.5)	(0.2)
Items that may be reclassified to the income statement:		
Amounts on cash flow hedges transferred to the income statement in the year	**2.7**	2.5
Deferred tax on transfers to income statement	**(0.5)**	(0.6)
	2.2	1.9
Other comprehensive income for the year	**1.7**	1.7
Total comprehensive income/(loss) for the year	**312.4**	(5.1)

Company balance sheet

At 31 March 2014

	Note	2014 £m	2013 £m
Non-current assets			
Intangible fixed assets		**0.2**	0.2
Tangible fixed assets	3	**0.4**	0.6
Investments in subsidiaries	4	**3,762.7**	3,641.6
Derivative financial instruments		**2.6**	15.8
		3,765.9	3,658.2
Current assets			
Debtors	5	**25.0**	42.6
Derivative financial instruments		**3.6**	0.1
Cash at bank and in hand		**25.9**	3.0
		54.5	45.7
Creditors: amounts falling due within one year	6	**(217.1)**	(185.7)
Net current liabilities		**(162.6)**	(140.0)
Total assets less current liabilities		**3,603.3**	3,518.2
Creditors: amounts falling due after more than one year	7	**(113.8)**	(163.8)
Net assets		**3,489.5**	3,354.4
Capital and reserves			
Called up share capital	9	**233.9**	233.3
Share premium account	10	**94.2**	89.7
Other reserves	11	**156.5**	154.4
Retained earnings		**3,004.9**	2,877.0
Total capital and reserves		**3,489.5**	3,354.4

Signed on behalf of the board who approved the accounts on 28 May 2014.

Andrew Duff
Chairman

Michael McKeon
Finance Director

Company number: 02366619

Company statement of changes in equity

For the year ended 31 March 2014

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2012	232.6	83.8	152.4	3,200.0	3,668.8
Loss for the period	–	–	–	(6.8)	(6.8)
Amounts on cash flow hedges transferred to the income statement	–	–	2.6	–	2.6
Deferred tax on transfers to the income statement	–	–	(0.6)	–	(0.6)
Deferred tax arising from rate change	–	–	–	(0.2)	(0.2)
Total comprehensive loss for the period	–	–	2.0	(7.0)	(5.0)
Share options and LTIPs					
– proceeds from shares issued	0.7	5.9	–	–	6.6
– value of employees' services	–	–	–	6.0	6.0
Dividends paid	–	–	–	(322.0)	(322.0)
At 31 March 2013	233.3	89.7	154.4	2,877.0	3,354.4
Profit for the period	–	–	–	310.7	310.7
Amounts on cash flow hedges transferred to the income statement	–	–	2.6	–	2.6
Deferred tax on transfers to the income statement	–	–	(0.5)	–	(0.5)
Deferred tax arising from rate change	–	–	–	(0.5)	(0.5)
Total comprehensive income for the period	–	–	2.1	310.2	312.3
Share options and LTIPs					
– proceeds from shares issued	0.6	4.5	–	–	5.1
– value of employees' services	–	–	–	3.0	3.0
Dividends paid	–	–	–	(185.3)	(185.3)
At 31 March 2014	**233.9**	**94.2**	**156.5**	**3,004.9**	**3,489.5**

In previous years £1,221.2 million of the company's retained profit arose as a result of group restructuring exercises, and is not considered likely to be distributable.

Notes to the company financial statements

For the year ended 31 March 2014

1 Accounting policies

a) Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value, and in accordance with applicable United Kingdom Accounting Standards and comply with the requirements of the United Kingdom Companies Act 2006 ('the Act'). The principal accounting policies, which have been applied consistently in the current and preceding year are set out below.

b) Basis of preparation

The company has elected to adopt early the new accounting framework issued by the Financial Reporting Council.
The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100). Accordingly, in the year ended 31 March 2014, the company has adopted FRS 101 'Reduced Disclosure Framework' and has ceased to apply all UK Accounting Standards issued prior to FRS 100. Therefore the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as these are Companies Act 2006 accounts.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the group financial statements.

As permitted by section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for this company. The profit for the year is disclosed in the statement of comprehensive income.

Severn Trent Plc is a partner in Severn Trent Limited Partnership ('the partnership'), which is registered in Scotland. As the partnership is included in the Severn Trent Plc consolidated accounts, the 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.

c) First time adoption of FRS 101

The company's date of transition to FRS 101 is 1 April 2012 and all comparative information in the financial statements has been restated to reflect the company's adoption of FRS 101, except where otherwise required or permitted by paragraphs 6 to 33 of International Financial Reporting Standard 1 – 'First Time Adoption of International Financial Reporting Standards' (IFRS 1). Details of this transition are given in note 18.

The group adopted IFRS for the first time in its consolidated financial statements in the year ended 31 March 2006.
In accordance with IFRS 1, the company has measured its assets and liabilities at the carrying amounts that would be included in the consolidated financial statements of the group.

d) Intangible fixed assets

Intangible assets acquired separately are capitalised at cost and are capitalised at fair value at the date of acquisition. Following initial recognition, the historical cost model is applied to intangible assets.

Intangible assets are amortised on a straight line basis over their estimated useful economic lives as follows:

	Years
Software	3–10

Amortisation charged on assets with finite lives is taken to the income statement through operating costs.

Intangible assets are reviewed for impairment where indicators of impairment exist.

e) Tangible fixed assets and depreciation

Tangible fixed assets are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated on a straight line basis over their estimated economic lives, which are principally as follows:

	Years
Buildings	60
Office fixtures and equipment	3–20

f) Impairment of fixed assets and investments

If the recoverable amount of a fixed asset or investment 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 company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is defined as 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 the current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the estimated cost of capital of the asset or cash-generating unit.

Impairments are recognised immediately in the profit and loss account.

1 Accounting policies (continued)

g) Financial instruments

i) *Financial assets*

Financial assets are classified into the following categories:

- at fair value through profit or loss;
- held to maturity investments;
- available for sale financial assets;
- loans and receivables; and
- derivatives designated as hedging instruments.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is so designated or if it is classified as 'held for trading'. Derivative financial assets that are not designated and effective as hedging instruments are required to be classified as 'held for trading' by IAS 39. However, the group's Treasury Policy, described in the Financial review on page 36, is that the group does not hold or issue derivative financial instruments for trading. Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement being recognised in the profit and loss account. Fair value is determined using the methodology described in note 36 to the group's financial statements.

Held to maturity investments

Where the company has the ability and intent to hold an investment to maturity the financial asset is classified as held to maturity. Such financial assets are measured at amortised cost using the effective interest rate method, with any gains or losses being recognised in the profit and loss account.

Available for sale financial assets

After initial recognition at cost (being the fair value of the consideration paid), investments which are classified as available for sale are measured at fair value, with gains or losses recognised in equity. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in equity is taken to the profit and loss account. Where there is no active market in the investments and the fair value cannot be measured reliably, the investments are held at cost.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans and receivables. Such assets are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest rate method unless there is objective evidence that an asset is impaired, when it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense.

Derivatives designated as hedging instruments

The fair value of derivative financial assets that are designated as hedging instruments is determined using the methodology included in note 36 of the group financial statements. Hedge accounting is described below.

ii) *Financial liabilities*

Financial liabilities are classified as either:

- at fair value through profit or loss; or
- other financial liabilities; or
- derivatives designated as hedging instruments.

Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is so designated or if it is classified as 'held for trading'. Derivative financial liabilities that are not designated and effective as hedging instruments are required to be classified as 'held for trading' by IAS 39. However, the group's Treasury Policy, described in the Financial review on page 36, is that the group does not hold or issue derivative financial instruments for trading. Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement being recognised in the profit and loss account. Fair value is determined using the methodology described in note 36 in the group financial statements.

Other financial liabilities

Other financial liabilities, including borrowings, are initially recognised at fair value less transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Derivatives designated as hedging instruments

The fair value of derivative financial liabilities that are designated as hedging instruments is determined using the methodology included in note 36 of the group financial statements. Hedge accounting is described below.

iii) *Hedge accounting*

The company 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. Such derivative instruments are recognised and measured in accordance with the accounting policies described above.

At the inception of the hedge relationship the company documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking hedge transactions; and
- whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows (as appropriate) of the hedged item.

The company continues to test and document the effectiveness of the hedge on an ongoing basis.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in the profit and loss account.

1 Accounting policies (continued)

g) Financial instruments (continued)

iii) Hedge accounting (continued)

When hedge accounting is discontinued the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit and loss account from that date.

Derivatives designated as cash flow hedges

The fair value of derivative financial liabilities that are designated as hedging instruments is determined using the methodology included in note 36 of the group financial statements. Hedge accounting is described below.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion in the profit and loss account. The gains or losses deferred in equity in this way are recycled through the profit and loss account in the same period in which the hedged underlying transaction or firm commitment is recognised in the profit and loss account.

When hedge accounting is discontinued any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs, or transferred to the profit and loss account if the forecast transaction is no longer expected to occur.

Hedges of net investments in foreign operations

Where forward currency contracts and foreign currency borrowings are used to hedge net investments in foreign currency denominated operations, to the extent that they are designated and effective as net investment hedges, they are matched in equity against changes in value of the related assets. Any ineffectiveness is taken to the profit and loss account.

(iv) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with gains and losses reported in the profit and loss account.

h) Investments

Investments in subsidiary undertakings are held 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 gains or losses recognised in profit and loss or equity respectively. When an available for sale investment is disposed of or impaired, the gain or loss previously recognised in reserves is taken to the profit and loss account.

i) Share based payments

The company 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 a pricing model, excluding the impact of any non-market conditions. The number of awards 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 based condition.

Where the company grants awards to employees of subsidiary companies, the 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.

j) Retirement benefits

The company participates in the Severn Trent group's defined benefit pension scheme. As there is no contractual agreement, or stated policy, for charging the net defined benefit cost to the participating group companies, the company recognises a charge in the profit and loss account equal to the contributions payable in the year. The net defined benefit cost is recognised by the sponsoring employer, Severn Trent Water Limited.

The company also participates in the Severn Trent group's defined contribution pension scheme. Contributions are charged to the profit and loss account in the year in which they fall due.

k) Taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit and loss account because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full, using the liability method, on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent that it is probable that sufficient taxable profits will be available in the future to utilise it. 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 that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Company financial statements Notes to the company financial statements

2 Intangible fixed assets

	Total £m
Cost	
At 1 April 2013	0.8
Additions	0.1
At 31 March 2014	**0.9**
Amortisation	
At 1 April 2013	(0.6)
At 31 March 2014	**(0.6)**
Net book value	
At 31 March 2014	**0.3**
At 31 March 2013	0.2

All intangibles assets are purchased software.

3 Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Total £m
Cost			
As at 31 March 2013 and 31 March 2014	**0.1**	**0.6**	**0.7**
Depreciation			
As at 1 April 2013	–	(0.1)	(0.1)
Charge for the year	–	(0.2)	(0.2)
As at 31 March 2014	**–**	**(0.3)**	**(0.3)**
Net book value			
As at 31 March 2014	**0.1**	**0.3**	**0.4**
As at 31 March 2013	0.1	0.5	0.6

4 Investments

	Subsidiary undertakings		
	Shares £m	Loans £m	Total £m
As at 1 April 2013	3,310.5	331.1	3,641.6
Additions/loans advanced	3.1	118.0	121.1
As at 31 March 2014	**3,313.6**	**449.1**	**3,762.7**

Details of principal subsidiaries of the company are given in note 46 of the group financial statements.

Company financial statements Notes to the company financial statements

5 Debtors

	2014 £m	2013 £m
Amounts owed by group undertakings	**19.2**	4.5
Deferred tax	**4.9**	8.2
Corporation tax recoverable	**–**	29.5
Other debtors	**0.3**	–
Prepayments and accrued income	**0.6**	0.4
	25.0	42.6

An analysis of the movements in the major deferred tax liabilities and assets recognised by the company is set out below:

	Accelerated tax depreciation £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2012	0.2	9.2	0.6	10.0
Charge to profit and loss account	(0.1)	(0.9)	0.2	(0.8)
Charge to profit and loss account arising from rate change	–	(0.2)	–	(0.2)
Charge to other comprehensive income	–	(0.6)	–	(0.6)
Charge to other comprehensive income arising from rate change	–	(0.2)	–	(0.2)
At 1 April 2013	0.1	7.3	0.8	8.2
Charge to profit and loss account	–	(2.2)	0.5	(1.7)
Charge to profit and loss account arising from rate change	–	(0.5)	(0.1)	(0.6)
Charge to other comprehensive income	–	(0.5)	–	(0.5)
Charge to other comprehensive income arising from rate change	–	(0.5)	–	(0.5)
At 31 March 2014	**0.1**	**3.6**	**1.2**	**4.9**

6 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Bank overdrafts	**4.0**	19.6
Other loans	**26.4**	–
Borrowings (note 8)	**30.4**	19.6
Derivative financial instruments	**0.2**	0.2
Trade creditors	**0.4**	0.6
Amounts due to group undertakings	**146.2**	155.2
Other creditors	**10.1**	6.0
Taxation and social security	**28.7**	–
Accrued expenses	**1.1**	4.1
	217.1	185.7

7 Creditors: amounts falling due after more than one year

	2014 £m	2013 £m
Borrowings – other loans (note 8)	**95.5**	129.1
Amounts due to group undertakings	**–**	3.0
Derivative financial instruments	**18.3**	31.7
	113.8	163.8

Company financial statements Notes to the company financial statements

8 Borrowings

	2014 £m	2013 £m
Borrowings due within 1 year	**30.4**	19.6
Borrowings due after more than 1 year		
Between 1-2 years	**17.8**	32.3
Between 2-5 years	**–**	21.6
After more than 5 years	**77.7**	75.2
Total borrowings due after 1 year	**95.5**	129.1
	125.9	148.7

Borrowings repayable after more than five years comprises the company's RPI linked retail bonds issued in July 2012. The bonds carry a coupon of 1.3% on the principal amount which is uplifted by RPI. The bonds are repayable in July 2022.

The company's borrowings are denominated in sterling, after taking account of cross currency swaps the company has entered into. There is no significant difference between the book value and the fair value of the company's borrowings. Fair values are based on the expected future cash flows discounted using zero coupon forward interest rates related to the expected timing of payments.

At the balance sheet date the company had committed undrawn borrowing facilities expiring as follows:

	2014 £m	2013 £m
Within 1 year	**–**	–
1-2 years	**–**	–
2-5 years	**200.0**	200.0
	200.0	200.0

This facility is shared with Severn Trent Water Limited.

9 Share capital

	2014 £m	2013 £m
Total issued and fully paid share capital		
238,942,647 ordinary shares of 97 17/19p (2013: 238,365,734)	**233.9**	233.3

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19p		
At 1 April 2013	238,365,734	233.3
Shares issued under the group's Employee Sharesave Scheme	576,913	0.6
At 31 March 2014	**238,942,647**	**233.9**

10 Share premium

	2014 £m	2013 £m
At 1 April	**89.7**	83.8
Share premium arising on issue of shares for Employee Sharesave Scheme	**4.5**	5.9
At 31 March	**94.2**	89.7

Company financial statements Notes to the company financial statements

11 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2012	156.1	(3.7)	152.4
Total comprehensive income for the year	–	2.0	2.0
At 1 April 2013	156.1	(1.7)	154.4
Total comprehensive income for the year	–	2.1	2.1
At 31 March 2014	**156.1**	**0.4**	**156.5**

The capital redemption reserve arose on the redemption of B 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.

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

The group operates group 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 cost of contributions to the group schemes amounts to £0.1 million (2013: £0.1 million). There were no amounts outstanding for contributions to the defined benefit schemes (2013: nil).

Information about the plans as a whole is disclosed in note 30 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.

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 2014, the company had contingent liabilities of £25.9 million (2013: £3.0 million).

16 Post balance sheet events

Following the year end the board of directors has proposed a final dividend of 48.24 pence per share.

17 Dividends

For details of the dividends paid in the years ended 31 March 2014 and 31 March 2013 see note 14 in the group financial statements.

Company financial statements Notes to the company financial statements

18. Transition to FRS 101

This is the first year that the company has presented its financial statements under FRS 101. The last financial statements prepared under the previous UK accounting framework were for the year ending 31 March 2013, therefore the date of transition was 1 April 2012.

Reconciliation of equity at 1 April 2012

	As previously reported £m	Effect of transition £m	Under FRS 101 £m
Fixed assets			
Intangible fixed assets	–	0.2	0.2
Tangible fixed assets	0.2	(0.2)	–
Investments	3,638.0	–	3,638.0
Derivative financial instruments	20.8	–	20.8
	3,659.0	–	3,659.0
Current assets			
Debtors	44.3	2.7	47.0
Derivative financial assets	6.7	–	6.7
Cash at bank and in hand	234.6	–	234.6
	285.6	2.7	288.3
Creditors: amounts falling due within one year	(181.0)	(0.6)	(181.6)
Net current liabilities	104.6	2.1	106.7
Total assets less current liabilities	3,763.6	2.1	3,765.7
Creditors: amounts falling due after more than one year	(96.9)	–	(96.9)
Net assets	3,666.7	2.1	3,668.8
Capital and reserves			
Share capital	232.6	–	232.6
Share premium	83.8	–	83.8
Other reserves	152.4	–	152.4
Retained earnings	3,197.9	2.1	3,200.0
Total shareholders' funds	3,666.7	2.1	3,668.8

Company financial statements Notes to the company financial statements

18. Transition to FRS 101 (continued)

Reconciliation of equity at 1 April 2013

	As previously reported £m	Effect of transition £m	Under FRS 101 £m
Fixed assets			
Intangible fixed assets	–	0.2	0.2
Tangible fixed assets	0.8	(0.2)	0.6
Investments	3,641.6	–	3,641.6
Derivative financial assets	15.8	–	15.8
	3,658.2	–	3,658.2
Current assets			
Debtors	40.5	2.1	42.6
Derivative financial assets	0.1	–	0.1
Cash at bank and in hand	3.0	–	3.0
	43.6	2.1	45.7
Creditors: amounts falling due within one year	(185.6)	(0.1)	(185.7)
Net current (liabilities)/assets	(142.0)	2.0	(140.0)
Total assets less current liabilities	3,516.2	2.0	3,518.2
Creditors: amounts falling due after more than one year	(163.8)	–	(163.8)
Net assets	3,352.4	2.0	3,354.4
Capital and reserves			
Share capital	233.3	–	233.3
Share premium	89.7	–	89.7
Other reserves	154.4	–	154.4
Retained reserves	2,875.0	2.0	2,877.0
Shareholders' funds	3,352.4	2.0	3,354.4

The company is included in the consolidated accounts of the Severn Trent group. The Severn Trent group adopted IFRS in its consolidated financial statements for the first time in the year ended 31 March 2006. In accordance with IFRS 1, the company has measured its assets and liabilities at the carrying amounts that would be included in the consolidated financial statements.

Five year summary

Continuing operations	2014 £m	2013 Restated[3] £m	2012 £m	2011 £m	2010 £m
Turnover	**1,856.7**	1,831.6	1,770.6	1,711.3	1,703.9
Profit before interest, tax and exceptional items	**516.8**	495.4	504.2	519.1	557.1
Net exceptional items before tax	**(44.4)**	(5.8)	(50.9)	(21.4)	(49.7)
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	**(247.9)**	(244.3)	(229.0)	(230.6)	(218.8)
Gains/(losses) on financial instruments	**58.0**	(45.3)	(67.7)	(14.2)	45.7
Results of associates and joint ventures	**0.2**	0.2	0.1	0.1	0.1
Profit on ordinary activities before taxation	**282.7**	200.2	156.7	253.0	334.4
Current taxation on profit on ordinary activities	**(56.5)**	(27.9)	(60.5)	(32.1)	(40.7)
Deferred taxation	**(21.5)**	8.2	78.2	53.6	(42.2)
Exceptional tax	**230.2**	38.4	–	–	–
Profit on ordinary activities after taxation	**434.9**	218.9	174.4	274.5	251.5
Profit for the year	**434.9**	218.9	174.4	274.5	252.5
Net assets employed					
Fixed assets	**7,123.8**	6,906.1	6,743.6	6,635.3	6,516.1
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(348.2)**	(273.8)	(341.3)	(320.4)	(317.2)
Derivative financial instruments[1]	**(197.1)**	(279.8)	(261.8)	(90.5)	(125.3)
Retirement benefit obligation	**(348.3)**	(383.7)	(345.8)	(292.1)	(354.9)
Provisions for liabilities and charges and deferred tax	**(692.6)**	(827.5)	(845.5)	(957.4)	(1,010.3)
	5,537.6	5,141.3	4,949.2	4,974.9	4,708.4
Financed by					
Called up share capital	**233.9**	233.3	232.6	232.2	231.6
Reserves	**843.7**	599.9	740.9	867.6	709.1
Total shareholders' funds	**1,077.6**	833.2	973.5	1,099.8	940.7
Non-controlling interests	**12.5**	10.8	7.9	6.3	6.3
Net debt[2]	**4,447.5**	4,297.3	3,967.8	3,868.8	3,761.4
	5,537.6	5,141.3	4,949.2	4,974.9	4,708.4
Statistics					
Earnings per share (continuing) – pence	**182.1**	95.7	72.5	115.2	105.6
Adjusted earnings per share – pence	**88.4**	98.9	88.9	105.6	122.8
Dividends per share (excluding special dividend) – pence	**80.4**	75.8	70.1	65.1	72.3
Dividend cover (before exceptional items and deferred tax)	**1.1**	1.3	1.3	1.6	1.7
Gearing	**80.3%**	83.6%	80.2%	77.8%	79.9%
Ordinary share price at 31 March – pence	**1,823.0**	1,712.0	1,544.0	1,446.0	1,195.0
Average number of employees					
– Severn Trent Water	**5,634**	5,458	5,162	5,237	5,686
– Other	**2,358**	2,763	2,889	3,045	3,102

1 Excludes instruments hedging foreign currency debt

2 Includes instruments hedging foreign currency debt

3 Restated for IAS 19R (see note 3)

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 Limited. 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: 0871 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0871 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: 0871 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 will 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 0845 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 from 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.

* Calls cost 8 pence per minute plus network extras. Lines are open from 8.30am to 5.30pm Monday to Friday.
** Lines are open Monday to Friday, 8:00am to 4:30pm for dealing, and until 6:00pm for enquiries.

- 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: The Bank of New York Mellon, PO Box 358516, Pittsburgh, PA 15252 – 8516, 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@bnymellon.com
Website: www.bnymellon.com/shareowner

Financial calendar

Ex dividend date – final dividend	18 June 2014
Record date to be eligible for the final dividend	20 June 2014
AGM	16 July 2014
Interim management statement – Q1 Year ending 31 March 2015	16 July 2014
Final dividend payment date	25 July 2014
Interim results announcement – Year ending 31 March 2015	25 November 2014
Ex dividend date – interim dividend	4 December 2014
Record date to be eligible for the interim dividend	5 December 2014
Interim dividend payment date	9 January 2015

All dates are indicative and may be subject to change.

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