

# Chairman's letter

Andrew Duff



## UK Corporate Governance Code Compliance Statement

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

For the whole of the financial year ended 31 March 2015, Severn Trent was compliant with the Governance Code, except 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.

## Dear shareholder

I am pleased to introduce the Governance Report for 2015 on behalf of your board. My role, together with the board, is to ensure that Severn Trent operates to the highest standards of corporate governance to effectively and efficiently deliver the group's strategic objectives and to meet its obligations to the company's stakeholders. Ultimately, good governance requires that the board has access to timely, relevant and robust information, so it can run the business effectively and promote the long term success of the company in the best interest of all stakeholders.

The Annual Report remains the principal means of reporting to our shareholders on the board's governance policies and therefore I welcome this opportunity to set out how the main and supporting principles of good corporate governance, as set out in the UK Corporate Governance Code (Governance Code), have been applied in practice.

During the year the Severn Trent Charter of Expectations was introduced to ensure best practice corporate governance throughout the business in line with the group's culture, values and behaviour. In turn, we have also overseen a review of our Code of Conduct, 'Doing the right thing – the Severn Trent way', across our businesses and reviewed our supporting group policies and our behaviours model. Further details of these can be found on our website ([www.severntrent.com](http://www.severntrent.com)).

This report marks the end of the first year of Liv Garfield as Chief Executive Officer. The board has continued to support her approach to the business with key strategic changes to both the board and Executive Committee taking place in the past 12 months, which are outlined in this report.

The planned retirement from the board of two long serving directors during the year gave us the opportunity to think carefully about the composition and size of our board going forward. We decided that a smaller board would enable us to be more nimble in a changing, more competitive regulatory environment. We have therefore reduced the board from eleven directors to eight.

Richard Davey stepped down as a non-executive director, having served nine years and was succeeded by Martin Lamb as Senior Independent Director and by Philip Remnant as Chairman of the Remuneration Committee. After almost ten years in post, Michael McKeon retired as Chief Financial Officer and was succeeded by James Bowling.

Dr Tony Ballance, Martin Kane and Andy Smith retired from the board, but have remained key members of the Executive Committee.

The board would like to thank Richard, Michael, Tony, Martin and Andy for their commitment, service and contribution over many years.

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

**Andrew Duff**  
Chairman

## Board of directors

# STRONG LEADERSHIP

**Committee membership key**

- Audit Committee
- ▲ Corporate Responsibility Committee
- ❖ Executive Committee
- Nominations Committee
- ★ Remuneration Committee
- ◆ Treasury Committee

### 1. Martin Lamb BSc MBA (55) ●★■ Senior Independent Non-executive Director Appointed to the board on 29 February 2008

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

#### External appointments

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

### 2. John Coghlan BCom, ACA (57) ●■◆ Independent Non-executive director Appointed to the board on 23 May 2014 Chairman of the Treasury Committee

John is a chartered accountant and is a valuable addition to the board's existing skill set. He became Chairman of the Audit Committee following the AGM on 16 July 2014 and Chairman of the Treasury Committee in April 2015. John brings to the board extensive financial expertise. Currently John is also Chairman of Inchcape Shipping Services and a non-executive director and Chairman of the Remuneration Committee of Lavendon Group plc. Previously, he was a director of Exel Plc for 11 years to 2006, where he was Deputy Chief Executive and Group Finance Director. Since 2006, John has been a non-executive director of various publicly-quoted and private equity-owned companies.

#### External appointments

- 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. James Bowling BA, ACA (46) ◆❖ Chief Financial Officer Appointed to the board on 1 April 2015

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

### 4. Andrew Duff BSc FEI (56) ▲●★ Non-executive Chairman Appointed to the board on 10 May 2010 and Chairman on 20 July 2010 Chairman of the Nominations Committee

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

#### External appointments

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





**5. Olivia Garfield** BA (Hons) (39) ▲❖  
**Chief Executive Officer**  
**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, she was Chief Executive Officer of Openreach, part of the BT Group, where she spearheaded and oversaw the commercial rollout 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. On 28 February 2015, Liv retired from the board of Tesco Plc as non-executive director. In October 2014, Liv stepped down as a member of the Nominations Committee of Severn Trent.

**6. Dr Angela Strank** BSc PhD (62) ▲●★  
**Independent Non-executive director**  
**Appointed to the board on 24 January 2014**

Angela brings a wealth of strategic, technical and commercial experience to the board. Angela is Head of Technology, Downstream at BP Group, effective 1 June 2015. She is also BP's Chief Scientist. She has held various other senior leadership roles at BP since joining in 1982, most recently including Vice President and Head of the Chief Executive's Office. In 2010 Angela was the winner of the UK First Woman's Award in Science and Technology in recognition of pioneering UK women in business and industry. Her track record and experience in strategy, operations, technology and transformational change are a complementary addition to the board's skill set.

**External appointments**

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

**7. The Hon. Philip Remnant** CBE ACA MA (60) ■●★◆  
**Independent Non-executive director**  
**Appointed to the board on 31 March 2014**  
**Chairman of the Remuneration Committee**

Philip is a senior investment banker and brings substantial advisory and regulatory experience to the board. A chartered accountant, he is Senior Independent Director of Prudential Plc, Deputy Chairman of the Takeover Panel, Senior Independent Director of UK Financial Investments Limited and Chairman of City of London Investment Trust plc. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010. 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

**8. Gordon Fryett** (61) ▲●  
**Independent Non-executive director**  
**Appointed to the board on 1 July 2009**  
**Chairman of the Corporate Responsibility Committee**

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

**External appointments**

- Alumnus of INSEAD
- Non-executive director of W & J Linney Limited

# Executive Committee



The Chief Executive Officer during the year under review was Liv Garfield who succeeded Tony Wray on 11 April 2014. Michael McKeon stepped down as Chief Financial Officer of Severn Trent Plc on 1 April 2015 and was replaced by James Bowling with effect from the same date. Michael has committed to provide support to the company until the end of May 2015 to assist James and Liv in the implementation of strategic projects.

Members of the Executive Committee oversee the development and execution of the Severn Trent strategy and have accountability for achieving business results. They 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, Digital Strategy, Customer Experience Programme and the integrated delivery of our year end results and Ofwat Annual Regulatory Returns.

During the year, to ensure we are best placed to deliver for our customers, shareholders and our people through our five year business plan, we announced a number of changes to the composition of the Executive Committee. The new executive team will allow us to ensure we continue to put the customer at the heart of what we do, investing responsibly for sustainable growth, whilst driving operational excellence and continuous innovation.

As a result of these changes, a new Wholesale Operations function, combining the formerly separate water and waste teams has been established and, as announced on 13 April 2015, will be led by Emma FitzGerald.

A new Chief Engineering function has been established, led by Martin Kane, previously CEO of Severn Trent Services. The new team encompasses engineering design standards, quality assurance, R&D and innovation for the group and all health and safety aspects of operations.

In addition, two new Executive Committee roles have been established. The first is that of the Chief Customer Officer, which incorporates Customer Care, Transformation and Information Services, ensuring we deliver even better customer service whilst bringing our digital strategy to life. Sarah Bentley has joined us from Accenture, where she held the position of Managing Director of their digital business. Sarah brings a wealth of experience of digital transformation and extensive contact centre experience as CEO of Datapoint and Senior Vice President of eLoyalty.

Finally, Helen Miles has been appointed as Group Commercial Director and holds responsibility for Procurement, Transport, Supply Chain and Contract Management. Helen was previously CFO of UK HomeServe and CFO of Openreach. We are excited about the energy, intellect, drive and commercial intuition that Helen brings to the new team.

A new Business Services team is led by Andy Smith, who will manage the non-regulated parts of our business and growth in a competitive world. These changes build on strong foundations and will enable the business to become more operationally effective, more competitive in non-regulated retail markets, more customer focused, deliver further shareholder value and deliver a great service for our customers.

The terms of reference of the Executive Committee are available on the company's website ([www.severntrent.com](http://www.severntrent.com)) or from the Company Secretary. The details of the roles is detailed within the Charter of Expectations which is also available on the company's website.

## 1. Dr Tony Ballance BSc (Hons) MA (Econ) PhD (50) Director, Strategy and Regulation

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

### External appointments

– Member of Water UK Council

## 2. Sarah Bentley BSc (Hons) (43) Chief Customer Officer

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

**Committee membership key**

- Audit Committee
- ▲ Corporate Responsibility Committee
- ❖ Executive Committee
- Nominations Committee
- ★ Remuneration Committee
- ◆ Treasury Committee



**3. Emma FitzGerald MA, DPhil Oxon, MBA (48)**

**Managing Director Wholesale Operations**

We are delighted that Emma will be joining Severn Trent on 1 July 2015. Emma is currently CEO of Gas Distribution at National Grid where she has been accountable for providing affordable energy, safely and reliably to 11 million customers through 132,000 km of gas distribution pipelines, leading 9000 employees and contractors. She is also a Non-executive Director of Alent Plc. Prior to joining National Grid, she pursued a 20 year career with Royal Dutch Shell where she held a variety of technical, strategic and general management positions based in Asia and Europe including Vice President Global Retail Network and Managing Director of Shell China/Hong Kong Lubricants based in Beijing.

**External appointments**

- Non-executive director of Alent plc
- Trustee, Windsor Leadership
- Member of International Leadership Advisory Panel, Prime Ministers office, Singapore Government

**4. Evelyn Dickey BSc (Hons) (52)**

**Director of Human Resources**

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

**External appointments**

- Non-executive director of Nuclear Decommissioning Authority

**5. Olivia Garfield BA (Hons) (39)**

**Chief Executive**

Please see full biography on page 49.

**6. Martin Kane BSc CEng CEnv MICE MIWEM FIW (62)**

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.

In July 2014, Martin was appointed Chief Engineer of Severn Trent Plc, covering engineering design standards, quality assurance, R&D and innovation for the group and all health and safety aspects of operations.

**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

**7. Bronagh Kennedy BA (Hons) (51)**

**Group General Counsel and Company Secretary**

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

**8. James Bowling BA, ACA (46)**

**Chief Financial Officer**

Please see full biography on page 48.

**9. Helen Miles CIMA (44)**

**Group Commercial Director**

Helen joined Severn Trent in November 2014 and brings with her a breadth of experience having worked within regulated businesses and sectors across telecoms, leisure and banking. As a member of the UK senior management team, Helen was instrumental in delivering HomeServe's future growth plans and ensuring a sustainable, customer focused business. Helen was previously Chief Financial Officer for Openreach, part of BT Group plc. Prior to BT Group, Helen worked for Bass Taverns, Barclays Bank, Compass Group and HSBC.

**10. Andy Smith BTech (Hons) (54)**

**Managing Director, Business Services**

Andy brings a broad range of executive and operational expertise gained from diverse sectors to the Executive Committee. 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.

**External appointments**

- Non-executive director of Diploma Plc

# 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. These arrangements are reviewed annually, with the last review undertaken in March 2015.

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 to ensure that the highest standards of corporate governance were applied at the regulated subsidiary level and to promulgate greater visibility and supervision of Severn Trent Water Limited by the Plc board. Severn Trent Water Limited will therefore be voluntarily complying with the 2012 UK Corporate Governance Code (the Governance Code) to ensure these high standards also apply to it.

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 the 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 Business Services are monitored and controlled to ensure that our obligations under competition law and regulatory requirements are complied with in respect of all transactions between them, or with third parties.

This Corporate Governance report describes the manner in which the company has applied the principles set out in the Governance Code during the year. The Governance Code sets out five key principles: Leadership, Effectiveness, Accountability, Remuneration and Relations with shareholders. This report demonstrates how the company has applied best practice corporate governance in these key areas.

## Leadership

### Charter of Expectations

During the year the Severn Trent Charter of Expectations has been adopted to promote and implement best practice corporate governance. The Charter sets out the role profiles and expectations of all key positions on the group's boards (together referred to as the 'board'), and board committees, and also reflects the board's responsibility for setting the tone for the group's culture, values and behaviour.

It is envisaged that having such expectations clearly documented will assist in the assessment of the effectiveness of the board and its committees, and that of individual directors.

The Charter of Expectations is published and available on our website ([www.severntrent.com](http://www.severntrent.com)) so that there is complete transparency of the standards we set ourselves for all of our stakeholders.

The performance of the board and board committees and of each director will be measured against these expectations.

### Board membership

2014/15 saw a number of changes to the board's composition due to carefully managed succession planning and evaluation of its required skills and capabilities. As a consequence, it was announced that the board would be reduced from eleven to eight directors, with effect from 23 January 2015.

Richard Davey stepped down as non-executive director, having served nine years and was succeeded as Senior Independent Director by Martin Lamb who has been on the board for six years and by The Hon. Philip Remnant as Chairman of the Remuneration Committee. Michael McKeon ceased to be a director and Chief Financial Officer on 1 April 2015 having served almost ten years. Michael was succeeded by James Bowling effective the same date.

Dr. Tony Ballance, Martin Kane and Andy Smith retired from the board, but remained members of the Severn Trent Executive Committee and retained their executive responsibilities in their areas of remit.

The board would like to thank Richard, Michael, Tony, Martin and Andy for their service.

These changes will support the effectiveness of the board with an appropriate balance of innovation, experience, independence and challenge to ensure effective decision making.

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 48 and 49.

In accordance with the Governance Code, all the directors will retire at this year's Annual General Meeting (AGM) and submit themselves for election or re-election by the shareholders.

Details of our policy on diversity in the boardroom are provided in the Nominations Committee report on pages 61 and 62.

## 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, regulators and other stakeholders, by being open in its communications and consistently delivering on its commitments.

The company announces its results on a half yearly basis and also provides quarterly trading updates to the market.

The Chief Executive has established a Disclosure Committee, chaired by the Chief Financial Officer, to oversee the company's compliance with its disclosure obligations and to consider the materiality, accuracy, reliability and timeliness of information disclosed. The committee also 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.

## 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 management and processes of the board are maintained in line with the Code of Conduct and the Charter of Expectations.

Agendas for board meetings are agreed by the Chairman in consultation with the Chief Executive, the Chief Financial Officer and Company Secretary, although any director may request that an item be added to the agenda. The Chairman demonstrates effective and ethical leadership for the company, and has authority to act and speak for the board between its meetings, including engaging with the Chief Executive, and providing support and advice where appropriate. He reports to the board and committee Chairmen on decisions and actions taken between meetings of the board and ensures effective working relations with open lines of communication with other group executive committee members. He also meets with the non-executive directors without the executive directors present, to consider the performance of the executive directors, to maintain the necessary depth and breadth of knowledge and skills to ensure the effectiveness of the board as a team.

The Chairman maintains effective communication with shareholders and other stakeholders by meeting with them in person to ensure the board maintains an understanding of the views of major investors and other key stakeholders, whilst promoting highest standards of corporate governance.

## Senior Independent Non-executive Director

Martin Lamb replaced Richard Davey as your Senior Independent Non-executive Director with effect from 23 January 2015. Martin is a member of the Audit, Remuneration and Nominations Committees. The board has agreed that Martin will act as Chairman of the board in the event that the Chairman is unable to do so for any reason. The Senior Independent Director supports the Chairman in the delivery of his objectives and ensures that the views of all major shareholders and stakeholders are conveyed to the directors, to help develop an understanding of any key issues and concerns. He is available to all shareholders should they have any concerns, if the normal channels of Chairman, Chief Executive or Chief Financial Officer have failed to resolve them or for which such contact is inappropriate.

The Senior Independent Director meets with non-executive directors, without the Chairman present, at least annually, and taking into account the views of the executive directors, leads the non-executive directors in the ongoing monitoring and evaluation of the performance of the Chairman, including communicating the results of such.

Together with the Nominations Committee, he takes responsibility for ensuring that an orderly succession planning process is in place, in relation to both the role of the Chairman and the board in general.

## 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, including mergers and acquisitions, general finance, corporate strategy, customer care, property, environmental and technology matters, engineering, regulation, general management, transformational change, science, regulatory compliance 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.

As part of the board effectiveness review, the 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.

## Governance report continued

### Formal schedule of matters reserved for the board

The processes in place regarding the board's tasks and activities and the matters specifically reserved for the board's decision making, the role of and the authority delegated to the Chief Executive, the accountability of the Chief Executive for that authority, and guidance on managing the relationship between the board and the Chief Executive are documented. In addition to these processes, we have adopted the Severn Trent Charter of Expectations to ensure best practice corporate governance throughout the business.

These processes are reviewed annually.

The board has reserved the following for its own consideration:

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

### Chief Executive

Responsibility has been delegated to the Chief Executive to develop and implement the group's strategy and overall commercial objectives. The non-executive directors, led by the Chairman, appraise the Chief Executive's performance annually. Liv Garfield is empowered to take all decisions and actions that further the company's strategy and policies and which in her judgement are reasonable, having regard to the limits which apply to her role as Chief Executive, as set out in the company's Group Authorisation Arrangements (GAA). She will ensure a continual dialogue with the Chairman on the strategic issues facing the group including forthcoming complex, contentious or sensitive issues which may affect the group, of which the Chairman might not be aware. The Chief Executive is required to promote and conduct the affairs of the group with the highest standards of integrity, probity and corporate governance.

### Executive directors

The executive directors support the Chief Executive in effectively leading Severn Trent towards the achievement of its strategic objectives and implement the strategy decisions taken by the board. 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 an outstanding customer experience, the best value service and environmental leadership. This year saw our number of executive directors reduce from five to two, with Tony Ballance, Martin Kane and Andy Smith stepping down, allowing for a slimmer board structure.

### 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 is an effective flow of information 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.

### Independent advice

Directors have access to independent professional advice at the company's expense on any matter relating to their responsibilities.

### Terms and conditions of appointment

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

## Effectiveness

### Board meetings

There are regularly 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 and Executive Committees held since the previous board meeting and performance reports, are circulated approximately a week in advance of each meeting.

There is a documented 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 he or she may require the Company Secretary to minute that concern.



During the year, seven board meetings were held, with the attendance figures of these meetings detailed below.

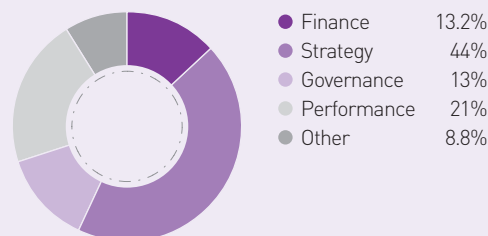
Director	Meetings attended
Andrew Duff	7/7
Tony Ballance	6/6
John Coghlan*	7/7
Richard Davey	6/6
Gordon Fryett	7/7
Liv Garfield	7/7
Martin Kane	6/6
Martin Lamb	7/7
Michael McKeon	7/7
Baroness Noakes**	6/7
Andy Smith	6/6
Dr Angela Strank	7/7

\* John Coghlan was appointed at the May 2014 board meeting.

\*\* Apologies were given by Baroness Noakes at the July board meeting. Baroness Noakes retired following the July 2014 meeting.

The above figures take into account board changes detailed in this Annual Report and Accounts.

**Board activities by % 2014/15**



**Board committee meetings 2014/15**

There were three committee meetings of the board convened throughout the year to consider such matters as Severn Trent Plc's preliminary and interim results and interim management statements.

The chart opposite shows how the board has spent its time at scheduled board meetings. The board's agenda is normally structured as follows:

- Standing Items – regular reports from the Chief Executive and Chief Financial Officer on the operational and financial performance of the business, regulatory matters and external affairs and from the Company Secretary on governance issues.
- Non Standing Items – Strategic Discussion Topics and ad hoc matters requiring approval, discussion or noting by the board.

The board monitors the performance of Severn Trent Water Limited and Severn Trent Business Services at every meeting and receives monthly updates on performance against the KPIs and ODIs stated on pages 10 and 11 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 and reviews conflicts and other arising disclosure requirements bi-annually.

As part of its annual work plan, the board reviewed and approved all financial results announcements, the Annual Report and Accounts, the PR14 Five Year Plan and dividend payments and all changes to the composition of the board and its committees.

**Board Strategy Day and Preparation for PR14**

In addition to formal meetings, the board attended a full day strategy session in November 2014, where the board and Executive Committee together considered the areas of future value creation across the Severn Trent group. Key areas of discussions included the delivery model for AMP6, developments following recent legislative changes in the Water Act 2014 and how the company should respond, innovation and external matters impacting the company and its strategic options for future growth.

**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 in line with their terms of reference. The effectiveness of each of the committees has been reviewed during the year as part of the externally facilitated board review. The terms of reference of each committee have also been updated to take account of best practice as part of their annual review.

The terms of reference of the Audit, Remuneration and Nominations Committees comply with the provisions of the Governance Code, except as reported on page 47, and are available for inspection, together with the terms of reference of the Corporate Responsibility Committee, on our website ([www.severntrent.com](http://www.severntrent.com)) or may be obtained on request from the Company Secretary.

Reports from the Chairs of these committees are set out on pages 61 to 65 and 69 to 85 of this report.

**Treasury Committee**

In March 2015 the board approved the establishment of a new permanent committee of the board, the Treasury Committee, to provide oversight of treasury activities in implementing the policies and the funding and treasury risk management plan approved by the board, including inter alia: the measurement and management of interest rate, funding, counterparty credit, liquidity and operational risks; funding proposals; relationship with rating agencies; debt investor relations; bank relationship management and treasury internal controls. The committee will review and approve the Group Treasury Policy Statements, at least annually, and present an annual report to the board in relation to its activities.

## Governance report continued

### Training and development

#### 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 and directors' roles and responsibilities and legal and regulatory duties.

Meetings are arranged with members of the executive management team and with external advisors 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 James Bowling, prior to him joining the board on 1 April 2015, and John Coghlan following his appointment to the board on 23 May 2014.

#### Directors' resource library

An online directors' resource library and Continuing Professional Development (CPD) repository has been created for use by the directors, which is subject to periodic reviews and updates where appropriate. 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.

#### Continuing Professional Development

All directors receive 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 advisors. CPD requirements were considered, through individual review meetings between the Chairman and each director, as part of the board effectiveness review in 2014/15 and remain an integral part of the development of our directors.

### Board Effectiveness Review

The effectiveness of the board is reviewed annually and an independent externally facilitated review of the effectiveness of the board is conducted every three years. The board therefore conducted an externally facilitated board effectiveness evaluation this year, the last having taken place in November 2011.

In September 2014 a range of potential providers were identified and it was agreed that the evaluation exercise should be facilitated by Manchester Square Partners (MSP). MSP has no other connection with the company.

MSP provided a questionnaire to explore the board's approach to:-

- Strategy
- Challenges and risks
- Values and culture
- Role of the board, board dynamics and engagement
- Structure of the board, its composition and succession planning
- Governance and leadership

This was supplemented by a review of historic board papers and individual face-to-face interviews with all board directors, the former Senior Independent Director, Richard Davey and the Company Secretary.

The Chairman also discussed the contribution of directors with each of them in person and the Senior Independent Director conducted an evaluation of the Chairman with the assistance of the non-executive directors.

The subsequent report prepared by MSP was discussed by the Nominations Committee in its consideration of the re-election of directors and it was also the subject of a presentation to the board.

**Code of Conduct principles**

**Working relationships:**

- Keeping everyone healthy and safe
- Supporting employees' rights and diversity

**Personal and business integrity**

- Maintaining ethical and honest behaviour
- Staying free from bribery and corruption
- Keeping our communications open and responsible
- Delivering excellent customer service

**Our place in the world**

- Working within the community
- Protecting our environment
- Standing up for what's right
- In all our hands

'Doing the right thing – the Severn Trent way' details the principles we work by. You can view our Code of Conduct by visiting:

<http://www.severntrent.com/about-us/corporate-governance/code-of-conduct>

The report concluded that:-

- There was a strong level of consistency on the key purpose, role and focus areas for the board, which was hard working, fully committed and engaged.
- There was a real openness and quality of debate at board meetings.
- Board structures and processes were efficient, effective and thorough. Committees were well chaired, operating well and had good linkage to the board.

Areas for further focus were:-

- Allocation of agenda time to agreed key strategic priorities.
- Mentoring, talent management and succession planning below Executive Committee level.
- Enhance KPIs to reflect risks and operational performance against new AMP6 Regulatory Requirements.

**Accountability**

**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, investors 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 or what they do. 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 made available and all teams have been encouraged to discuss it through regular communication exercises.

We have also continued to roll out our Code of Conduct into our supply chain, as explained in the Corporate Responsibility report on pages 66 to 68.

**Policies**

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

**Independence**

The board considers each of the non-executive directors, seeking re-election at the forthcoming Annual General Meeting (AGM), to be independent in character and judgement.

**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.

**Conflicts of interest**

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. An annual review of conflicts is carried out with a simultaneous review of the Severn Trent Gifts and Hospitality Register, 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.

Strategic report

Governance

Group financial statements

Company financial statements

Other information

## Governance report continued

At the beginning of every board meeting there is a standing agenda item 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.

During the 2014/15 financial year, the Nominations Committee discussed the proposed management of the situational conflict created by Martin Lamb's Chairmanship of Evoqua Water Technologies. Given the benefits of Martin Lamb's valuable contribution to the board as a recently retired Chief Executive and the relative insignificance of the Business Services Water Purification business ('WP') in the context of the group as a whole, the committee considered that it could recommend authorisation of the conflict and the proposed means of management by the board, provided such was made transparent and kept under regular review to ensure that the board's effectiveness was not compromised. The management of the conflict through redaction of papers and his absence from discussions on WP specific matters was also adopted by the Audit Committee in relation to his membership of such, in March 2015.

With the disposal of the Water Purification business, which was announced on 13 May 2015, this will no longer be necessary.

### Relations with shareholders

#### Retail shareholder engagement strategy

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

The Annual Report and Accounts is the principal means of communicating with shareholders. The group has adopted e-communications as an alternative method of sending company information. In March 2015 shareholders were re-consulted as to their preferred method of receiving company communications. Following the consultation 54,417 shareholders (88%) receive confirmation that the Annual Report is available to view online, whilst 7,494 (21%) continue to receive a hard copy.

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

#### Institutional shareholders and analysts

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

- Monthly update of the key shareholder engagement activities carried out by the Executive Committee and the Investor Relations team;
- A monthly report, provided by Makinson Cowell, of our shareholder register, outlining the significant buyers and sellers of Severn Trent shares; and
- Regular summaries of sector research notes, allowing shareholders to understand the key opinions being communicated to investors by analysts.

Presentations are made to shareholders and analysts following the release of the interim and year end results. The Chief Executive and Chief Financial Officer regularly meet shareholders during the year. The Chairman and Martin Lamb, the Senior Independent Non-executive Director, have also met with shareholders separately from executive directors in March 2015. All major shareholders were offered a meeting and those who requested one were accommodated. The Chairman and Martin Lamb were available to meet shareholders at their request throughout the year. The board receives written feedback from Makinson Cowell following meetings with institutional shareholders and monitors shareholder activity on a quarterly basis at its meetings.



The culture of the organisation is one that is willing to listen and to engage – they are available if you need them. ■■

Feedback from an institutional investor

### Communication with institutional shareholders and the market

We are committed to serving the needs of our institutional investors and have an extensive programme of events designed to give them access to key senior management and our Investor Relations team. The following table summarises some of the main events of our engagement programme during 2014/15. The events were usually attended by the Chief Executive, the Chief Financial Officer and the Investor Relations team and comprised roadshows in the regions where our key investors are situated, such as the UK, Europe and North America, as well as various conferences to meet with a wide range of institutional investors. In addition to these events, the Chief Executive, the Chief Financial Officer and the Investor Relations team also attended numerous ad hoc meetings with key investors over the course of the year.

#### Events in 2014/15

May/June	London Roadshow
June	Bank of America Merrill Lynch Utilities Conference
June	Brean Capital Global Resources and Infrastructure Conference
June	Germany/Switzerland Roadshow
June	North American Roadshow
July	Private Client Roadshow – London
July	Edinburgh Roadshow
September	Morgan Stanley Power & Utility Summit
September	Private Client Roadshow – London
September	Credit Suisse UK Utility Reverse Roadshow
November	London Roadshow
February	Dividend Roadshow
March	North American Roadshow
March	Capital Markets Day

Our conversations with investors during 2014/15 have inevitably focused largely on Ofwat’s PR14 review process and the associated implications of such for Severn Trent. Key concerns for investors included the changes to the weighted average cost of capital, the introduction of Totex and ODIs, opportunities around our capital structure and discussions with Ofwat regarding our proposed investment in the Elan Valley Aqueduct. Other key areas of interest for investors have been the Water Bill and the upcoming changes to the regulatory framework, including water trading and the potential for future mergers, as well as the appointment of the new Chief Executive, Liv Garfield, and her plans for the business.

During the year, the Investor Relations section of the Severn Trent Plc website was updated. The aim of this was to improve navigation around the different areas, make it more intuitive and easier for investors to find the information they were looking for, as well as providing additional content.

### Capital Markets Day

A key event in our timetable this year was our Capital Markets Day, held on 17 March 2015. This followed the receipt of our Final Determination on 12 December 2014, which set out Severn Trent Water Limited’s allowed returns, expenditure and performance commitments for the next five year period from 2015–2020 (AMP 6) and the subsequent announcement of our dividend policy. The purpose of the day was to set out our strategy for the next five years and outline the plans being put in place to enable us to meet the requirements set out in our Final Determination. On the day, 70 of our key investors and analysts travelled to Severn Trent Centre in Coventry. The day’s agenda included presentations from key management personnel, covering financials, operational performance, regulatory reform and our customer focus, as well as demonstrations of some of the key initiatives being implemented, such as the roll out of new digital devices to employees in the field. The day concluded with site tours of two strategically important sites, Minworth Sewage Treatment Works and our recently opened food waste digestion plant in Coleshill.

## Governance report continued

### Members of the Water Forum

Members of the Water Forum comprise those with a statutory remit or key interest in the water industry.

The Water Forum is made up of nine organisations who represent our customers or have a stake in what we do. Membership is currently under review.

#### Organisation

CBI West Midlands

Natural England

National Farmers Union

Citizens Advice Bureau – Coventry

East Midlands Councils

Environment Agency

Drinking Water Inspectorate

Scottish and Southern Energy

Consumer Council for Water

### Customer engagement

As PR14 reached its concluding stages this year, we continued to engage with the Severn Trent Water Forum. The Forum is a multistakeholder group, independently chaired by Professor Bernard Crump of Consumer Council for Water, established to challenge the development of Severn Trent Water Limited's business plan for 2015–2020 to ensure that it takes into account our customers' priorities. Members of the Forum comprise those with a statutory remit or key interest in the water industry. The Forum is made up of nine organisations who represent our customers or have a stake in what we do.

The Forum met six times over the course of the year and discussed a range of issues including: our proposals to improve the resilience of water supplies to Birmingham; the development of an expanded range of support for customers who are struggling to pay; and our proposals to improve river water quality in our region.

The Forum submitted two reports to Ofwat during the year setting out its independent views of these and other issues. Both reports are available at [severntrent.com/waterforum](http://severntrent.com/waterforum).

Following Severn Trent Water Limited's acceptance on 28 January 2015 of the Ofwat Final Determination, the role and membership of the Forum during AMP6 is under review.

### Voice of the Customer programme

We take seriously the voice of every individual customer. We have launched a new SMS text survey so that all customers that contact us are sent a survey by text for them to rate how we performed. This may relate to a call to our contact centre or an incident in the field. By listening to what our customers say about the service we provide, we are able to give real time insights to our agents in the contact centre and also to our colleagues in the field. We then call back every customer who scores us 1, 2 or 3 out of 5 for our service (1 being low, 5 being high). By doing this we can seek to understand the reason for the score, the situation that the customer is experiencing and resolve it for them. Our resolutions team who conduct these calls also look at the root cause and make sustainable changes to our business.

### Looking ahead to 2015/16

Looking forward to 2015/16, we expect to see our extensive programme of investor events continuing. The early part of the year will be dominated by the start of the new regulatory period, with investors keen to understand how well our plans and strategy are being implemented as well as how well we are performing under the revised regulatory regime. The departure of our former Chief Financial Officer, Michael McKeon, and the appointment of James Bowling on 1 April 2015 to replace him, will also be of key interest to our investors. Our programme of roadshows is expected to be maintained, and we intend to continue to visit our key investors in Europe and North America, as well as those in the UK.

### Annual General Meeting

The Annual General Meeting (AGM) of the company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Wednesday 15 July 2015.

Presentations are made on the group's activities and performance during the year prior to the formal business of the meeting. The Chairs 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 questions they ask. Shareholders often also meet informally with directors and senior management before and after 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 2015 AGM will be made available on our website after the meeting.

### VIEW ONLINE



#### Our online Annual Report and Accounts

Easier, greener and only a click away.

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

[www.severntrent.com/AR2015](http://www.severntrent.com/AR2015)

# Nominations Committee

**Andrew Duff**



**Andrew Duff**

Chairman of the  
Nominations Committee

This report provides details of the role of the Nominations Committee and the work it has undertaken during the year. The main purpose of the committee is to assist the board by keeping the composition of the board under proactive 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 matters that may arise. The full terms of reference for the committee can be found on our website ([www.severntrent.com](http://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;
- a strategic mindset, an awareness of market leadership and outstanding monitoring skills;
- a preparedness to question, challenge and openly assess; and
- an independent point of view.

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 interest, 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, the effectiveness of the board and its committees 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 2014/15 were the non-executive directors of the board. Liv Garfield stepped down as a member as of October 2014, and Richard Davey retired as director as at 23 January 2015.

In accordance with the Governance Code, the succession planning and searches in respect of the appointments of Liv Garfield, effective 11 April 2014, and John Coghlan, effective 23 May 2014, during the year under review, were disclosed in the Nominations Committee Report in the Annual Report and Accounts for 2014.

The committee initiated a process to search for a new Chief Financial Officer following Michael McKeon's indication to the board of his desire to retire. Russell Reynolds was appointed as an advisor and was provided with a role specification and a detailed brief of the desired candidate profile. The committee considered a list of potential candidates and those shortlisted were interviewed by members of the board. Michael McKeon took no part in any meetings relating to his succession.

Following this process, the board accepted the committee's recommendation that James Bowling join the board as Chief Financial Officer with effect from 1 April 2015.

In accordance with the requirements of the Governance Code, all members of the board will seek election or re-election at the AGM on 15 July 2015. In April 2015, 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 confirmed that each director continues to perform well, on both 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, as detailed on page 50. The appointment of these new executive and non-executive directors brings a wealth of new skills and experience to the board and benefits from a significant investment of the committee in planning and executing the succession process.

## Diversity

Further to the publication of the Davies Report, 'Women on Boards', in February 2011 and its third annual progress report in March 2014, 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 has recently developed a Board Diversity Policy and recognises the importance of diversity in its broadest sense throughout its organisation, including that of the board. 25% of the board are now women, including the Chief Executive. Even more importantly, over 50% of the Executive Committee are now women. However, Severn Trent is committed to increasing diversity at all levels of the company in all respects and not just gender.

As stated above, the Nominations Committee reviews the board effectiveness and composition each year and, in particular, considers the balance of skills, experience and independence of the board. It also considers the benefits of all aspects of diversity, but without compromise as to the calibre of directors, when identifying candidates for appointment.

## Nominations Committee continued

### During the year the committee considered:

- Succession planning for the board and board committees
- The board's diversity policy
- Talent management
- Effectiveness of the board committees
- Re-election of directors for the AGM

### Attendance at scheduled committee meetings:

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

Director	Meetings attended
Andrew Duff	3/3
John Coghlan *	3/3
Richard Davey **	2/3
Gordon Fryett	3/3
Liv Garfield ***	2/2
Martin Lamb	3/3
Philip Remnant	3/3
Dr Angela Strank	3/3

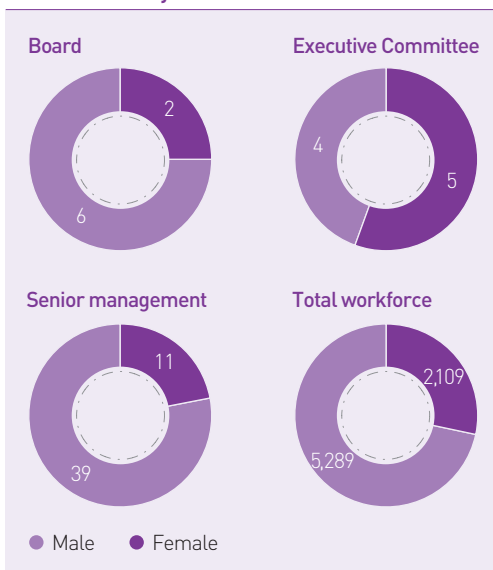
\* John Coghlan was appointed as a member of the Nominations Committee in May 2014.

\*\* Richard Davey retired as a director on 23 January 2015.

\*\*\* Liv Garfield stepped down as a member of the Nominations Committee in October 2014.

Baroness Noakes was unable to attend the meeting in July and sent her apologies. Subsequently, Baroness Noakes retired as a member of the Committee in July 2014.

### Gender diversity as at 31 March 2015



The selection of female candidates to join the board, will therefore be made based on merit and the individual's ability to contribute to the effectiveness of the board, which in turn will be dependent on the pool of female candidates available.

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 67.

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 2015 is set out opposite.

As at 31 March 2015, we had 2 female members on our board of 8 (representing 25%) and 5 female members out of 9 on the Executive Committee (representing 50%). As at the date of this report, there are 2 female members on our board of 8 (representing 25%) and 5 female members out of 9 on the Executive Committee (representing 55%).

### Andrew Duff

Chairman of the Nominations Committee



# Audit Committee

**John Coghlan**



**John Coghlan**

## 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](http://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.

### Composition of the Committee

The members of the committee during the year were John Coghlan as Chairman, Richard Davey and Philip Remnant, whose experience and backgrounds are set out on pages 48 and 49. Richard Davey stepped down on 23 January 2015 and Martin Lamb became a member on 23 January 2015.

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

### Activities of the Committee

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, Chief Financial Officer, 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 advisors.

### Key areas of focus in 2014/15

The committee reports to the subsequent meeting of the board on the committee's work. It met four times in 2014/15 and its work focused on the following key areas:

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

The committee's performance was included in the review of the Board Committee's effectiveness referred to on page 56.

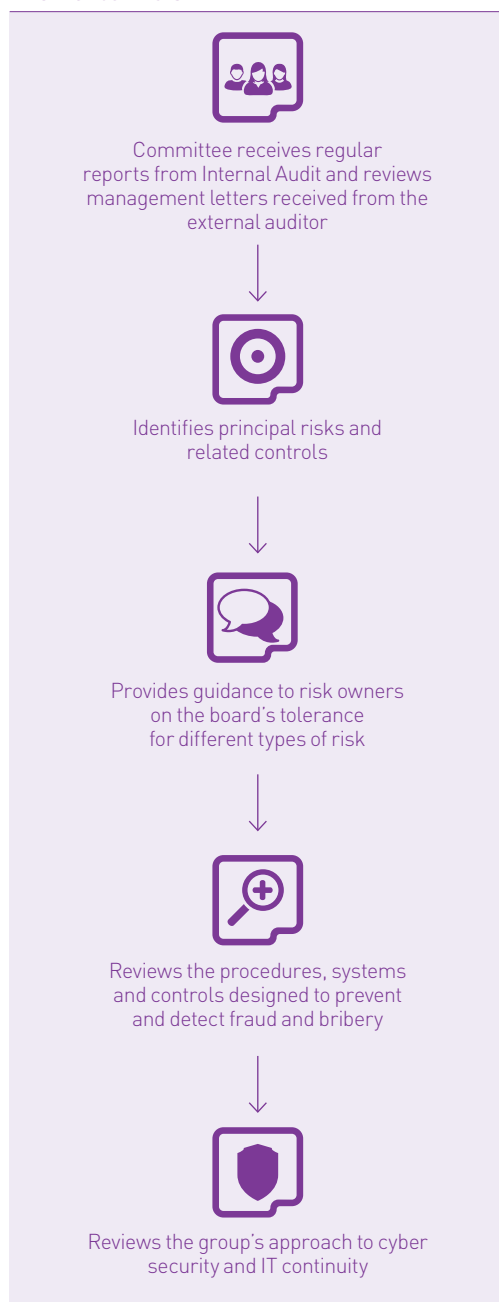
### Financial statements and accounting policies

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 106. The committee receives detailed reports from both the Chief Financial Officer and the external auditors 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 that the judgements made by management are robust and should be supported. The following areas were the most important ones for 2014/15:

- restructuring costs relating to the business as a whole;
- the outcome of the triennial valuation of the pension scheme, the deficit calculation and the consistent application of appropriate assumptions;
- the amount of the provisions held for tax liabilities and the calculation of current and deferred tax benefits in relation to changes in industrial buildings allowances;
- the proposed disclosure of material items of income or expenditure which met the criteria for classification as exceptional items; and
- the implications of and the proposed response to the new Financial Reporting Council reporting requirements on going concern and viability statements.

## Audit Committee continued

### Internal controls



The committee reviewed and challenged the evidence and assumptions underpinning the current 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 the proposed presentations to analysts and paid particular attention to the tone of the announcements and presentations to consider their consistency with the financial statements.

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

The Audit Committee reviewed the outcome of the process (established in 2014) to confirm that the report and accounts are 'fair, balanced and understandable'. As last year, the Disclosure Committee undertook a detailed review of the Annual Report and Accounts prior to making a recommendation that the board could make the fair, balanced and understandable statements contained in the Directors' responsibility statement on page 90. Deloitte LLP (Deloitte) reported to the committee on its review of the half-year interim results and on its audit of the year end financial statements.

#### Internal controls

The committee receives regular reports from Internal Audit in respect of its work on the internal control framework 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 log of incidents of fraud or bribery every six months, which includes the actions taken to investigate and respond to the incidents. There were no material incidents during the year.

The committee also reviewed the group's approach to cyber security and IT continuity.

Further details of our internal control framework can be found in the Directors' report on page 88.

#### Internal Audit

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

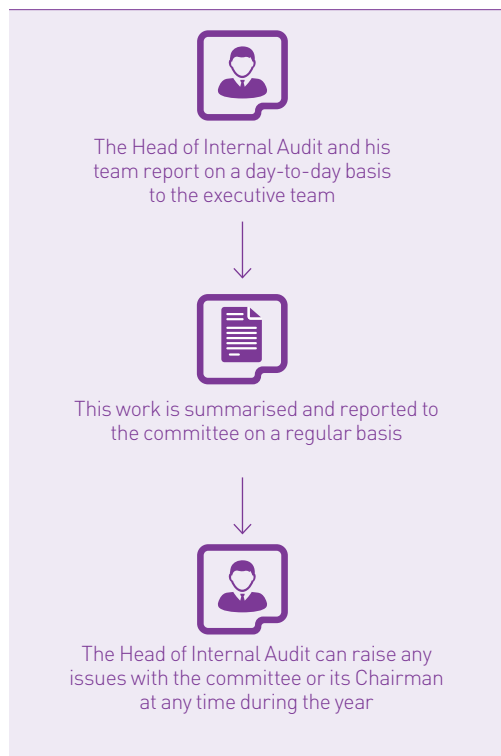
The effectiveness of the Internal Audit function, the audit plan and budget are reviewed at least annually by the committee.

#### 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.

**Internal Audit**



**Attendance at scheduled Committee meetings:**

During the year, there were 4 scheduled meetings of the Audit Committee. The attendance figures are detailed below for these meetings.

Director	Meetings attended
Philip Remnant	4/4
Baroness Noakes *	1/1
John Coghlan **	3/3
Martin Lamb ***	1/1
Richard Davey ****	3/3

\* Baroness Noakes retired as a member of the Audit Committee in July 2014.  
 \*\* John Coghlan was appointed as a member of the Audit Committee in May 2014.  
 \*\*\* Martin Lamb was appointed as a member of the Audit Committee on 28 January 2015.  
 \*\*\*\* Richard Davey retired as a member of the Audit Committee on 23 January 2015.

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, 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.

**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 their 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. 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 were appointed auditors of the company in 2005, pursuant to a competitive tender process and since 2005 the company has annually considered the need to re-tender the external audit service.

The company is committed to complying with the provisions in the Governance Code in respect to audit tendering along with the UK Competition and Markets Authority Order and the European Union rules on audit tenders. As a result, the committee will formally tender the external audit service during the 2015/16 financial year. There are no contractual obligations to restrict the committee's choice of external auditors.

The Audit Partner, currently Carl Hughes, is required to rotate after a maximum of five years, 2014/15 being his last financial year. The Audit Partner rotating in for the 2015/16 financial year is Kari Hale.

Details of the amounts paid to Deloitte for audit and non-audit services are provided in note 7 to the accounts on page 111.

**Severn Trent Water Limited**

The regulated activities carried out by Severn Trent Water Limited also require two annual reporting submissions to Ofwat which are reviewed by the committee: an annual submission on Severn Trent Water Limited's regulatory performance and 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 March 2015 the committee reviewed the process, timeline and assurance framework in place for the production and submission of the Annual Regulatory Compliance Statement and the 2015/16 Principal Statement 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 and provide assurance on those aspects. The committee receives reports from Atkins on their work as part of its review of the Annual Regulatory Returns.

# Corporate Responsibility Committee

**Gordon Fryett**



**Gordon Fryett**

Chairman of the Corporate Responsibility Committee

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

The committee reviews annually the adequacy of the company'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.

The terms of reference for the committee can be found on our website ([www.severntrent.com](http://www.severntrent.com)) and are also available from the Company Secretary.

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.

## 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 Business Services have an effective performance management system in place through core business Key Performance Indicators (KPIs) (see page 10 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.

## Key areas of focus 2014/15

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 allegations are reviewed at every meeting. Key areas of discussion and review during 2014/15 are set out below:

- the committee reviewed two papers outlining future societal, economic and environmental issues, and agreed to review the forward agendas for the committee to ensure that emerging risks were considered in more detail;
- a new approach to CR for Severn Trent was approved, comprising compliance in relation to the performance of core essential activity, and excellence in two identified areas of ambition for the company – making our region's rivers healthier and improving water efficiency, each having measurable targets. The new framework for our CR was launched in April 2015;
- the committee received an update on initiatives to promote diversity at Severn Trent. It was noted that Severn Trent compared relatively well against industry benchmarks and that further initiatives were under way to ensure the progression of females through management positions;
- the committee received two reports from Internal Audit with respect to their findings on Health, Safety and Environment. The committee noted that a good framework was in place for occupational health and managing contractors; and
- the committee discussed updates on working in the community protecting our environment, water quality, employee satisfaction in Severn Trent Business Services and managing our supply chain responsibly.

**Attendance at scheduled committee meetings:**

During the year there were 4 scheduled meetings of the Corporate Responsibility Committee. The attendance figures are detailed below for these meetings.

Director	Meetings attended
Gordon Fryett	4/4
Andrew Duff	4/4
Liv Garfield	4/4
Dr Angela Strank	4/4

**CR activities**

We are committed to CR and see it as an integral part of our business.

**Human rights**

We have a responsibility to understand our potential impacts on human rights and to mitigate or eliminate these impacts. 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 Limited and Severn Trent Business 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 cooperation 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 Business 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 which specialises in handling concerns at work. The service is available internationally and Safecall provides a translation service, allowing any employee, wherever they are in the world, to access it.

**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 which define our approach to a diverse and inclusive environment.

**Diversity**

To ensure our workforce reflects the diversity of the customers and communities we serve, we have put considerable focus on monitoring our performance against a range of diversity measures and benchmarks. We drive actions out of the analysis of the data and have built a plan to enable us to become a more diverse and inclusive workplace. Our diversity and inclusion plan is supported by our flexible working policies which promote part time working, job shares, flexible hours and core working hours, with our technology enabling working from home when necessary.

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. Throughout 2014/15, 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 and more diverse range in our community.

## Corporate Responsibility Committee continued

We continue to take part in diversity initiatives such as the 30% Club and Project 28-40, so we can contribute to the debate and benefit from others' experience, and received a rating of Silver this year in the Business in the Community gender and race benchmark survey (improving from Bronze last year).

Our gender diversity metrics as at 31 March 2015 are set out in the Nominations Committee report on page 62.

### **Prevention of child labour and forced labour**

We will not condone the use of child labour and forced labour under any circumstances. The highest risk for Severn Trent is through our supply chain, therefore we work with our suppliers to ensure they operate to the same standards we set ourselves.

Our Code of Conduct has been built into the procurement tender process as part of the pre-qualification questionnaire template in Severn Trent Water. During 2014/15, 169 new suppliers have been required to confirm adherence to our Code of Conduct. In addition, 20 retrospective assurance checks on existing suppliers have been carried out.

### **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 Limited and all employees of Severn Trent Business Services are required to undertake an online training module and examination to ensure awareness of and compliance with this policy. The Audit Committee carries out an annual review of our systems and controls to detect and prevent bribery and corruption.

# Remuneration Committee

**Philip Remnant**



**Philip Remnant**

Chairman of the Remuneration Committee

The committee determines, on behalf of the board, the company's policy on the remuneration of executive directors, other members of the Executive Committee and the Chairman of the board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The policy framework for remunerating all senior executive managers is consistent with the approach taken for executive directors.

## *Dear shareholder*

Welcome to my first Remuneration Committee report. I am delighted to report that in 2014/15 we again delivered on our commitments with significant value for our shareholders and our customers; improved operational performance, the lowest combined water and sewerage bills in the land and higher returns through the growing dividend. This performance has been reflected in the payments under our incentive plans.

### **Remuneration for the year under review**

The annual bonus payments to executive directors for the financial year to 31 March 2015 were between 46.4% and 75.3% of base salary, reflecting a good year of operational performance with particularly strong improved performance on our quality of interaction with our customers and our impact on the environment.

During the year, awards under the Share Matching Plan (SMP) vested at 66.2% of the maximum based on total shareholder return performance over the three years to 19 May 2014. The Long Term Incentive Plan (LTIP) awards based on RoRCV performance over the three years to 31 March 2015 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 79 and 80.

### **Key policy developments for 2015/16**

No changes are proposed to the overall structure or quantum of the remuneration arrangements. However, the Remuneration Committee has had to review the performance measures used in the annual bonus and LTIP to reflect the new regulatory framework under AMP6 (which spans the five year period from 1 April 2015 to 31 March 2020). The committee has consulted with the company's major shareholders and institutional investor bodies prior to making these changes.

Annual bonuses for 2014/15 were based on performance against the Severn Trent Water balanced scorecard, business unit objectives and personal performance. The scorecard Key Performance Indicators (KPIs) no longer reflect the main indicators of performance as we move into AMP6, especially with the introduction of Outcome Delivery Incentives (ODIs). ODIs are quantifiable, transparent operational targets set for us by and monitored by Ofwat covering aspects such as water quality, leakage, asset stewardship, supply, flooding, customer experience and environmental performance. Severn Trent Water is rewarded by Ofwat if it exceeds the ODI targets and suffers financial penalties for missing them. Bonuses for the Chief Executive and Chief Financial Officer for 2015/16 onwards will be based 50% on profit before interest and tax (PBIT) of Severn Trent Water, 40% on business unit performance (including performance against ODIs, performance of Severn Trent Services and health and safety performance) and 10% on personal performance. PBIT has been chosen as a measure as it is an indicator of overall financial performance and reflects efficiencies, revenue and other key levers in the business plan. We believe that the new structure for the bonus provides a stronger link between our financial and operational performance and the rewards earned by executives.

## Remuneration Committee continued

Since 2011, awards under the LTIP have been subject to a performance condition which measured Severn Trent Water Limited's Return on Regulatory Capital Value (RoRCV) relative to the Final Determination set by Ofwat. RoRCV was considered a key financial measure of performance under the AMP5 framework. Under AMP6 and the new regulatory incentive structures for water companies, Return on Regulatory Equity (RORE) has replaced RoRCV as Ofwat's key financial metric and is a key measure for investors in the new regulatory environment. RORE is calculated as profit after tax (plus net incentives earned in the year) divided by the average equity element of our regulatory capital value and measures how efficiently we can deliver returns to shareholders. Unlike RoRCV, RORE is aligned with the key drivers of performance in AMP6 and reflects how well we perform against our operational and capital expenditure targets, our financing performance and achievement against the ODI framework. To align the incentive structure with the new reporting framework, LTIP awards from 2015 onwards will be based on RORE outperformance relative to Ofwat's Final Determination. The performance targets for the awards to be granted in 2015 require average RORE over the three year performance period to equal the Final Determination (5.65%) for 25% of the award to vest, increasing on a straight line basis to 100% vesting for outperforming the Final Determination by 1.29 times (7.29%). The committee considers the targets to be demanding and the stretch target requires the company significantly to outperform the Final Determination, delivering substantial returns to shareholders.

### Finance Director changes

During the course of the year, the committee considered the retirement of the current Chief Financial Officer, Michael McKeon, and the recruitment arrangements for his successor, James Bowling as Chief Financial Officer. Full details of their respective leaving and joining arrangements are set out in the Annual Report on remuneration on page 85.

### Structure of the report

The changes to the performance measures used in the annual bonus and LTIP require us to resubmit our Policy Report for shareholder approval. The Policy Report reflects the remuneration policy approved by shareholders last year, updated to reflect the new board structure and the proposed changes to the performance measures noted above. The Policy Report will be subject to a binding vote at the forthcoming AGM and, once approved, it is intended that the policy will apply until the 2018 AGM (when it will be subject to reapproval by shareholders as required under the regulations). This letter and the Annual Report on remuneration will be subject to an advisory vote at the AGM.

I hope that you are supportive of our proposals and will approve both resolutions at the AGM.

### Philip Remnant

Chairman of the Remuneration Committee



### Policy report

This section of the Remuneration Committee Report, setting out the new remuneration policy for the directors of Severn Trent Plc, is subject to approval by shareholders at the AGM on 15 July 2015 and will take effect, subject to approval, from this date. Once approved by shareholders, this policy will replace the current policy which was approved by shareholders at the 2014 AGM. In most respects the new policy is similar to the existing policy, albeit updated to reflect the new board structure and the change in performance metrics for the annual bonus and long term incentive awards (which require shareholder approval). There are no other substantial changes to our policy.

### 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 long term and the external market.

The committee addresses the need to balance risk and reward. The committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The committee believes that the incentive schemes are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the executives so that the long term performance of the business is not compromised by the pursuit of short term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall company performance.

### 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.	<p>Base salaries for individual directors are reviewed annually by the committee and normally take effect from 1 July.</p> <p>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.</p> <p>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.</p>	<p>Details of the current salary levels for the directors are set out in the Annual Report on remuneration on page 76.</p> <p>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.</p>

### Linkage to all employee pay

The committee reviews changes in remuneration arrangements in the workforce generally. It ensures that executive director salary increases are normally aligned to the increases for the rest of the workforce. Furthermore, the annual bonus operates on a broadly similar basis with the bonus schemes operated throughout Severn Trent Water Limited and all UK employees may participate in the HMRC tax-advantaged Save As You Earn (SAYE) scheme. The company has not directly consulted with employees on the topic of executive remuneration; however, the committee does consider the general base salary increase, remuneration arrangements and employment conditions for the broader employee group when determining the remuneration policy for executive directors.

### Shareholder views

The committee engages proactively with the company’s major shareholders and takes their views into account. The committee reviews any feedback received from shareholders as a result of the AGM process and throughout the rest of the year, and takes into consideration the latest views of investor bodies and their representatives, including the Investment Association, the National Association of Pension Funds and proxy advice agencies such as Institutional Shareholder Services. When any significant changes are made to the remuneration policy, the Remuneration Committee Chairman discusses these with major shareholders in advance and may offer meetings for more detailed discussion.

## Remuneration Committee continued

Element	Purpose and link to strategy	Operation (including performance metrics)	Maximum opportunity
Benefits	To provide competitive benefits in the market to enable the recruitment and retention of directors.	A car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. Relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	The value of benefits is based on the cost to the company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically.
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.
Annual bonus	To encourage improved financial and operational performance and align the interests of directors with shareholders through the partial deferral of payment in shares.	<p>Bonuses are based on financial, operational and personal performance. No more than 20% of the bonus will relate to personal contribution for any executive.</p> <p>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).</p> <p>A clawback mechanism applies to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.</p>	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.	<p>Awards are granted annually and are subject to a three year performance condition which requires the company's return on regulatory equity (RORE) to outperform the target set out in Ofwat's Final Determination. A sliding scale of targets is set. Different targets and/or performance measures may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time.</p> <p>The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting.</p> <p>The award may be structured as a conditional share award (awards may also be settled in cash in certain circumstances).</p> <p>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, gross negligence, fraud or gross misconduct.</p>	<p>Maximum limit is 150% of base salary (with 200% being used in exceptional circumstances). The grant level for 2015/16 is 125% for the Chief Executive and 80% of base salary for other executive directors.</p> <p>Up to 25% of an award may vest for threshold performance.</p>
All Employee Share Plans	To encourage widespread employee share ownership to enable employees to share in the success of the business, and to align their interests with those of shareholders.	The executive directors are able to participate in HMRC tax advantaged all employee share plans on the same terms as other eligible employees.	The maximum limits under the plans are as set by HMRC.

## Further details on the variable pay policy

### Annual bonus

The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set for us under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead.

Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. Further details on the performance measures and weightings to be used for the forthcoming year are set out in the Annual Report on Remuneration on page 85.

### Long-term incentives (LTIP)

For LTIP awards granted in 2015, RORE will be used to assess performance. Using RORE to assess long term performance reflects the focus of Ofwat in AMP6 and is consistent with our aim to deliver efficient returns to shareholders. RORE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value and it is verified and published as part of the Annual Regulatory Performance Report. The committee believes that the use of RORE provides a strong alignment between the long term financial and operational performance of the group and the reward delivered to management.

LTIP awards granted in 2013 and 2014 are subject to a performance condition relating to return on regulatory capital value (RoRCV). RoRCV is calculated as current cost operating profit less tax paid divided by our average regulatory capital value. Details of the performance targets applying to the 2013 and 2014 awards are set out in the Annual Report on Remuneration on page 82.

The committee reserves the discretionary power to adjust the formulaic outcome of the LTIP performance conditions to ensure that the vesting result is reflective of the underlying financial and operational performance of the company over the performance period. The use of this discretion is expected to be exceptional and the committee would consult with its major shareholders before making any upwards adjustment. In relation to the awards granted in 2013, there is a cap and collar limiting the extent to which this discretion can be applied (if the vesting result indicated by the performance condition is greater than 50% the committee may reduce the vesting to a number not less than 50%; and if it is 0% it may increase it to any figure not greater than 50%). This cap and collar approach does not apply to awards granted from 2014 onwards.

In addition, for any awards to vest, the committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the group. If the committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%).

### Legacy Share Matching Plan

Until 2013, awards were also made under a Share Matching Plan (SMP). Under the SMP, the executive directors could receive up to 0.5 matching shares for each share deferred under the annual bonus plan (the maximum award level was therefore 30% of salary). The matching awards were subject to achievement of a relative total shareholder return performance condition and a financial underpin. At the time of release, participants also receive the value of the dividends which would have been paid on vested shares over the performance period. The outstanding awards will be allowed to pay out under the approved policy, subject to achievement of the performance conditions on which they were granted. Liv Garfield and James Bowling do not hold any outstanding awards under this legacy plan.

### Remuneration Committee discretion

The committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers (see policy on terminations), retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the committee to determine that it would be appropriate to do so. In exercising such discretions, the committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the company's approved remuneration policy.

### External directorships

Executive directors are permitted to take on external non-executive directorships, though normally only one other 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

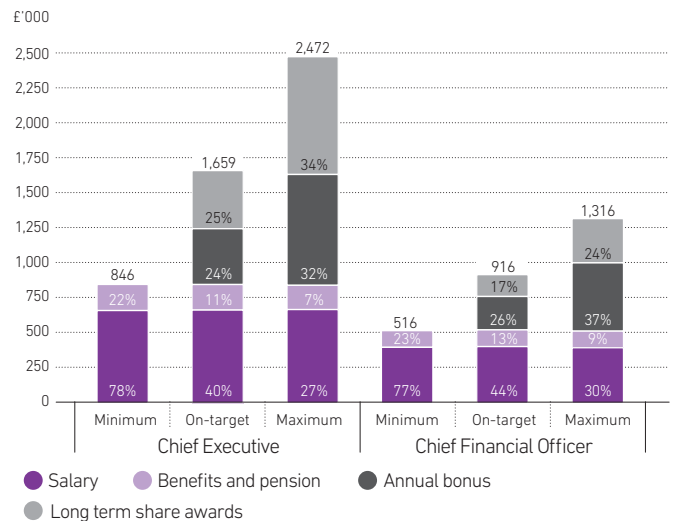
The company operates shareholding guidelines under which executive directors are expected to build and maintain a shareholding in the company. The Chief Executive is expected to build and maintain a holding of shares to the value of 200% of salary, and other executive directors 125% of salary. Executive directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding guidelines have been met.

## Remuneration Committee continued

### Reward scenarios

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

Minimum pay is fixed pay only (i.e. salary + benefits + pension). On target pay includes fixed pay, a 60% of salary bonus and 50% vesting of the LTIP awards (with grant levels of 125% of salary for the Chief Executive and 80% of salary for the Chief Financial Officer). 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 2015. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2015 (estimated value used in the case of James Bowling). The executive directors are also permitted to participate in HMRC tax advantaged all employee share plans, 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	Payments for loss of office comprise a maximum of 12 months salary and benefits only.
Mitigation	Any termination payment will not be made automatically but will be subject to both phasing and mitigation (including offset against any earnings from new employment).
Change of control	There are no specific contractual payments or benefits which would be triggered in the event of a change in control of the company. Outstanding incentive awards would vest in line with the treatment set out below for a good leaver except that the performance and vesting period will end on the date of 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.
Long Term Incentive Awards	The default treatment is that all 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 (as set out below). The committee also has the discretion to determine that the awards for a good leaver should vest early (e.g. on cessation of employment) subject to performance with time pro rating (as set out below).  For the outstanding awards under the legacy 2005 LTIP (awards granted in 2013 and prior), the time pro rating is calculated by rounding up to the nearest full year unless otherwise specified. Time pro rating under the 2014 LTIP (awards granted since 2014) and under the legacy Share Matching Plan is rounded up to the nearest month. In exceptional circumstances the committee may time pro rate the 2005 LTIP, 2014 LTIP and SMP awards to a lesser extent or not at all. For the Recruitment Awards granted on appointment to Liv Garfield and to be granted to James Bowling, no time pro rata reduction will be applied in a good leaver situation. This is in recognition of the fact that the expected value of the forfeited awards was significantly higher in both cases (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 the legacy Share Incentive Plan (SIP) would vest in accordance with the terms of the plans as approved by HMRC.

### Approach to recruitment and promotion

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

Annual bonuses and long term incentives will be awarded in line with the maximum limits outlined in the policy on page 72.

Participation in the bonus plan will normally be prorated 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 any performance conditions. Awards would typically be made under the terms of the LTIP or under the exemptions permitted under the Listing Rules. Non performance related payments unrelated to the forfeiture of awards, i.e. 'golden hellos', will not be made.

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

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

### Chairman and non-executive directors

The remuneration policy for non-executive directors, other than the Chairman, is determined by the 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. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.  The fees for the non-executive directors and Chairman are set taking into account the time commitment of the role and market rates in comparable companies. The fees are normally reviewed annually (but not necessarily increased).	Details of the current fee levels for the directors are set out in the Remuneration Committee Report.  The fee levels are set subject to the maximum limits set out in the Articles of Association.

Non-executive directors normally serve terms of three years. They do not have service contracts. Instead, they are engaged by letters of appointment which are terminable by either party with no notice period and no compensation in the event of such termination, other than accrued fees and expenses. All of the directors are subject to appointment or reappointment at the 2015 AGM.

### Annual Report on remuneration

This part of the report will be subject to an advisory vote at the AGM. The information on pages 75 to 84 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 2015, 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 2014/15

Richard Davey	5/5
Andrew Duff	6/6
Martin Lamb	6/6
Philip Remnant	6/6
Dr Angela Strank	6/6

On 20 October 2014 it was announced that Richard Davey, non-executive director, Senior Independent Director and chairman of the Remuneration Committee would be retiring on 23 January 2015, having served nine years on the board. Philip Remnant succeeded him in the role of chairman of the Remuneration Committee with effect from 23 January 2015.

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 by invitation the Head of Reward and Pensions 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 was appointed in 2011. The total fees paid to NBS during the year for services to the committee were £190,525 excluding VAT (2014: £209,089). NBS also provided advice during the year to the company on the implementation of its share plans and other technical matters. NBS is a signatory to the Remuneration Consultants Group Code of Conduct and reports directly to the Chair of the committee. The committee reviews the appointment of its advisors annually and is satisfied that the advice it receives is objective and independent.

## Remuneration Committee continued

### Directors' emoluments

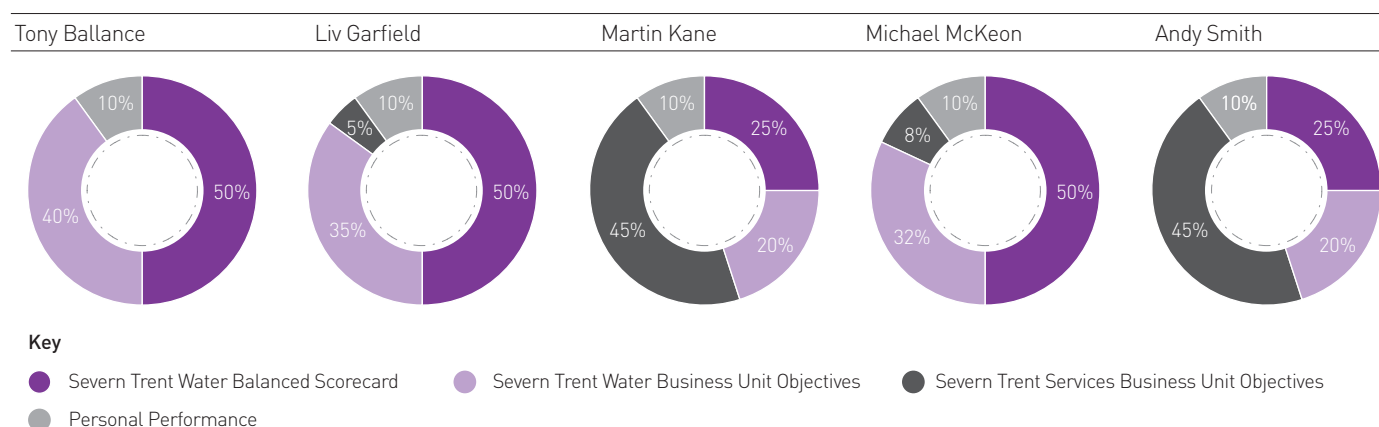
£'000	Year ending 31 March 2015							Year ending 31 March 2014						
	Base salary and fees	Benefits in kind <sup>(i)</sup>	Pension <sup>(ii)</sup>	Annual bonus <sup>(iii)</sup>	Long term incentives <sup>(iv)</sup>	Other <sup>(v)</sup>	Total	Base salary and fees	Benefits in kind	Pension	Annual bonus	Long term incentives <sup>(v)</sup>	Other	Total
<b>Non-executive directors</b>														
Dr Bernard Bulkin <sup>(vi)</sup>	-	-	-	-	-	-	-	47.3	-	-	-	-	0.1	47.4
John Coghlan <sup>(vii)</sup>	54.6	-	-	-	-	0.1	54.7	-	-	-	-	-	-	-
Richard Davey <sup>(viii)</sup>	62.2	-	-	-	-	0.4	62.6	75.0	-	-	-	-	0.2	75.2
Andrew Duff (Chairman)	257.0	-	-	-	-	-	257.0	250.0	-	-	-	-	-	250.0
Gordon Fryett	64.4	-	-	-	-	-	64.4	53.3	-	-	-	-	-	53.3
Martin Lamb	53.2	-	-	-	-	-	53.2	50.0	-	-	-	-	-	50.0
Baroness Noakes <sup>(ix)</sup>	19.5	-	-	-	-	-	19.5	65.0	-	-	-	-	0.3	65.3
Philip Remnant <sup>(x)</sup>	54.3	-	-	-	-	0.2	54.5	0.2	-	-	-	-	-	0.2
Dr Angela Strank	51.4	-	-	-	-	0.1	51.5	9.4	-	-	-	-	-	9.4
<b>Executive directors</b>														
Tony Ballance <sup>(x)</sup>	207.3	16.5	76.6	100.7	147.0	0.3	548.4	202.1	16.6	74.6	162.0	161.7	6.3	623.3
Liv Garfield <sup>(xii)</sup>	610.0	16.6	203.1	405.5	850.0	12.5	2,097.7	-	-	-	-	-	-	-
Martin Kane <sup>(x)</sup>	261.5	53.1	78.6	198.8	179.5	36.2	807.7	255.5	145.8	76.6	126.5	181.8	5.0	791.2
Michael McKeon	475.4	16.3	190.5	276.2	322.0	22.3	1,302.7	463.1	16.5	185.6	344.8	367.1	0.5	1,377.6
Andy Smith <sup>(x)</sup>	278.7	16.5	112.1	177.9	190.6	0.3	776.1	262.9	16.5	149.9	210.5	216.0	9.7	865.5
Tony Wray <sup>(xi)</sup>	19.6	0.7	7.8	-	518.8	1.6	548.5	561.2	16.5	228.6	452.4	547.9	11.9	1,818.5
<b>Total</b>	<b>2,469.1</b>	<b>119.7</b>	<b>668.7</b>	<b>1,159.1</b>	<b>2,207.9</b>	<b>74.0</b>	<b>6,698.5</b>	<b>2,295.0</b>	<b>211.9</b>	<b>715.3</b>	<b>1,296.2</b>	<b>1,474.5</b>	<b>34.0</b>	<b>6,026.9</b>

#### 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 accommodation costs, UK and US private medical insurance, vehicle costs, air fares, tax advice, flexible benefits, US disturbance allowance and utility costs. He also received compensation for UK tax suffered on US benefits of £36,931 (2014: £49,434). These arrangements ceased on 30 September 2014.
- (ii) Liv Garfield is a member of the defined contribution scheme. The figure shown includes £40,000 paid into the scheme by the company via salary sacrifice; the remainder has been paid as an annual cash supplement in lieu of a pension. Tony Ballance is also 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 2015 figure is comprised of:
- The vesting of the 2012 LTIP award, or in the case of Liv Garfield the second tranche of her recruitment award. The performance period for these awards ended on 31 March 2015 and the awards vest on 1 April and are due to be released following the end of the close period. The value of the shares has been estimated by using the average share price for the period from 1 January 2015 to 31 March 2015 of £20.62.
  - The vesting of the 2011 SMP award. The performance period for this award ended on 19 May 2014. The awards vested on 20 May 2014 and shares were released on 2 June 2014 at a share price of £19.73.
- The 2014 figure is comprised of:
- The vesting of the 2011 LTIP award. The performance period for this award ended on 31 March 2014. The awards vested on 1 April 2014 and shares were released on 5 June 2014 at a share price of £19.6433. This value has been updated to reflect the actual share price on vesting (a share price of £17.71 was used in determining the figure in the prior year accounts).
  - The vesting of the 2010 SMP plus the value of dividends earned on these shares including those due in the previous year paid during 2014/15.
- (v) For non-executive directors, this figure relates to taxable expenses relating to travel. 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) Appointed to the board on 23 May 2014.
- (viii) Retired from the board on 23 January 2015.
- (ix) Retired from the board on 16 July 2014.
- (x) Tony Ballance, Martin Kane and Andy Smith stood down from the board with effect from 23 January 2015 but remain on the Severn Trent Executive Committee. The figures shown in the table above relate to amounts received for the full financial year for ease of comparison. The equivalent figures relating purely to qualifying services (i.e. whilst serving as a board director) would be 81.6% of the figure for salary, benefits, pension and bonus being 298 days out of 365 and 95.5% of the value shown for long term incentives being 100% of the SMP figure and 94.4% of the LTIP figure.
- (xi) Retired from the board on 11 April 2014. Tony Wray was treated as a good leaver under the company's longterm incentive plans and the figures relate to the vesting of his 2012 LTIP and 2011 SMP awards.
- (xii) Liv Garfield joined Severn Trent Plc on 31 March 2014 and subsequently joined the board on 11 April 2014. The first tranche of Liv Garfield's recruitment award (41,222 shares) vested on 5 June 2014. The value of the shares on vesting was £809,736. The value of this award has not been included in the table above since it was based on performance to 31 March 2014 (i.e. prior to joining the board).

### Annual bonus outturn for 2014/15

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



During the year, Andy Smith moved from being responsible for Water Services to take on a new role as Managing Director, Business Services (which encompasses the Severn Trent Services business, a new role for Retail for non-household Water Services organisation and renewable energy). Martin Kane moved from CEO of Severn Trent Services to take on a new role of Chief Engineer covering engineering design standards, quality assurance, R&D and innovation for the group, and all health and safety aspects of our operations. Their business unit objectives were therefore split between objectives relating to Severn Trent Water Limited and Severn Trent Services, reflecting their changes in role during the year.

#### a) Severn Trent Water – Balanced Scorecard

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 KPIs used to determine the annual bonus were:

Key Performance Indicators			Target	Stretch	Outturn	Points
<b>Employee</b>						
• Providing a safe working environment	KPI 1	Lost time incidents per 100,000 hrs worked	0.19	0.15	0.21	85
• Developing a confident and productive workforce	KPI 2	Employee motivation	82%	84%	79%	0
<b>Customer</b>						
• Quality interaction with the customer	KPI 4	Service Incentive Mechanism – Qualitative	3rd	1st	2nd <sup>i</sup>	115
	KPI 5	Service Incentive Mechanism – Quantitative	127	104	105.00	129
	KPI 7	Serviceability – Waste	58	52	53.52	122
	KPI 8	Serviceability – Water	167	152	270	0
<b>Financial</b>						
• Asset base enhancement • Management of cost base	KPI 9	Capital Expenditure (net) versus final determination – % outperformance	0%	2%	0.0%	100
	KPI 11	Operating Expenditure versus final determination – % outperformance	0.5%	0.8%	0.5%	100
<b>Environment</b>						
• Minimising environmental impact	KPI 12	Pollution incidents (cat 1, 2 and 3)	405	377	368	140
	KPI 16	Leakage MI/d – Post MLE	448	442	441	135
					Total	926

i. For KPI4 the Ofwat introduced new methodology (an Ofwat pilot) to determine the outturn for Wave 4. The Wave 4 result placed STW in 2nd place against the other WASCs. The bonus payout is based on us coming 2nd and is equivalent to achieving 115 points which the mid point between target and stretch.

Each KPI has 100 target points, 130 stretch points and extra points can be earned for above stretch performance. No points can be earned for below a threshold level of performance. For executive directors to be awarded the maximum bonus available, they are required to achieve 1,300 aggregate points. During the year, two of the 10 KPIs exceeded the stretch level of performance, with KPI 12 generating a score of 140 points and KPI 16 generating a score of 135. The aggregate score was 926 points. The resulting bonus awarded for the Severn Trent Water Limited portion of the annual bonus was 46.3% of the maximum, representing an improvement to operational performance but set against challenging targets.

## Remuneration Committee continued

### b) Severn Trent Water – business unit objectives

The business unit objectives used to determine the annual bonus were:

Measure/Objective	Applicable to:					Target	Stretch	Outturn	% Payable
	Ballance	Garfield	Kane	McKeon	Smith				
1 Percentage of customers registered for paperless bills	✓			✓		33%	40%	12.9%	9.8%
2 Speed of response in repairing leaks [% fixed with 24 hours]		✓	✓		✓	50%	55%	38%	23.7%
3 Amount of renewable energy produced from waste water renewable activities		✓		✓		30%	34%	28.4%	34.0%
4 Customer water quality complaints	✓	✓			✓	12,837	11,920	15,881	8.5%
5 Reduction of customer complaints waste water		✓				2,226	1,670	1,961	73.8%
6 Reduction written customer complaints		✓				14,877	13,910	9,978	100.0%
7 Sewer flooding incidents	✓	✓	✓			515	478	613.0	0.0%
8 Reduction in controllable operating expenditure (£m)	✓	✓	✓	✓	✓	25.0	40.0	25.5	51.7%
9 Number of properties interrupted for greater than 12 hours					✓	856	770	3,365	0.0%
10 Capital blocks net spend £m water (£m)				✓	✓	60.0	58.4	59.4	68.8%
11 Capital blocks net spend £m waste (£m)				✓		97.0	95.0	84.2	100.0%
12 Creating an investment fund to enable the ST green business plan (£m)					✓	20.0	22.5	13.4	8.8%

0% is payable for achieving the threshold level under each metric, increasing on a straight line basis to 50% for target performance and 100% for stretch performance. Each metric is evenly weighted. Achievement against the business unit targets is set out in the table above. The resulting bonus awarded for the Severn Trent Water business unit portion of the annual bonus were 17.5% of the maximum for Tony Ballance, 41.7% of the maximum for Liv Garfield, 48.8% of the maximum for Martin Kane, 26.1% of the maximum for Michael McKeon and 30.5% of the maximum for Andy Smith.

### c) Severn Trent Services – business unit objectives

Part of Martin Kane's and Andy Smith's bonuses related to the financial and non financial key performance indicators and business unit objectives of Severn Trent Services as follows:

	Weighting	% achieved – Martin Kane	% achieved – Andy Smith
Financial performance (PBIT and Turnover)	44.4%	29.5%	29.5%
Non financial objectives	11.2%	5.6%	5.4%
STS business unit objectives	44.4%	37.0%	29.8%
Total	100%	72.1%	64.7%

The financial targets related to achievement of PBIT of £14.8 million and turnover of £337.7 million as set out in the business plan for Severn Trent Services. The total bonus payable for Severn Trent Services performance was 72.1% of the maximum for Martin Kane and 64.7% for Andy Smith. In respect of Michael McKeon and Liv Garfield, whose performance was measured against the achievement of specific business restructuring targets for Severn Trent Services, it was determined that these were met and they were awarded 95% of the maximum bonus.

### d) Personal contribution

All directors had 10% of their bonus opportunity measured against personal objectives. The personal objectives varied by individual but covered PR14 and the AMP6 business plan, development of the retail business, talent and succession planning, and transition management. The objectives for the Chief Executive related to developing the company strategy, PR14, customer service, raising operational performance and talent management.



e) Overall achievement for 2014/15

Name	Severn Trent Water Balanced Scorecard	Severn Trent Water Business Unit Objectives	Severn Trent Services Business Unit Objectives	Personal Performance	Total Bonus (as % maximum)	Total Bonus (£)
Tony Ballance	23.2% (max. 50%)	7.0% (max. 40%)	–	8.5% (max. 10%)	38.7%	£100,691
Liv Garfield	23.2% (max. 50%)	14.6% (max. 35%)	4.7% (max. 5%)	9.5% (max. 10%)	52.0%	£405,483
Martin Kane	11.6% (max. 25%)	9.8% (max. 20%)	32.4% (max. 45%)	9.0% (max. 10%)	62.8%	£198,804
Michael McKeon	23.2% (max. 50%)	8.3% (max. 32%)	7.6% (max. 8%)	8.9% (max. 10%)	48.0%	£276,157
Andy Smith	11.6% (max. 25%)	6.1% (max. 20%)	29.1% (max. 45%)	5.7% (max. 10%)	52.5%	£177,872

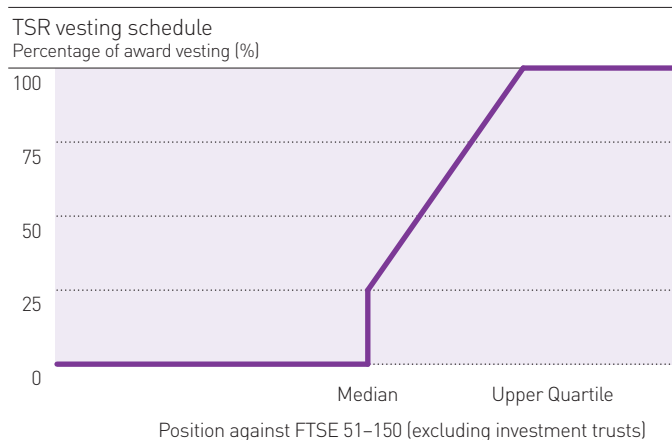
The maximum bonus opportunity for all Directors is 120% of salary. Bonuses are paid 50% in cash and 50% in shares (deferred for three years). The deferred shares will be granted in June 2015. The deferred shares are not subject to any further performance conditions. Michael McKeon will be retiring on 31 May 2015 and, as permitted under the rules of the annual bonus plan, his bonus will be paid solely in cash.

Long term incentive awards vesting in relation to performance in 2014/15

The 2011 SMP awards and the 2012 LTIP awards have vested or will vest based on performance during the year as follows:

a) 2011 SMP awards

The 2011 SMP awards were subject to a Total Shareholder Return (TSR) performance condition, measured relative to companies ranked 51–150 in the FTSE by market capitalisation (excluding investment trusts). The overall performance period was three years commencing on the date of grant (20 May 2011). However, the award was split into three tranches, each with a different measurement period for TSR as follows:



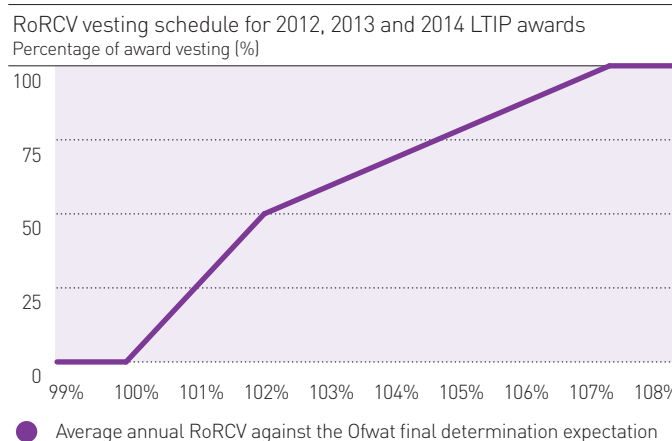
Tranche	Performance period	Weighting	Severn Trent TSR	Median TSR	Upper Quartile TSR	Vesting
1	18 months	20%	26.5%	3.6%	22.6%	100%
2	27 months	30%	42.6%	26.9%	55.6%	70.3%
3	36 months	50%	49.1%	40.9%	77.4%	50.3%
<b>Overall level of vesting</b>						<b>66.2%</b>

The committee was satisfied that the company’s TSR appropriately reflected the company’s underlying performance and the award vested at 66.2%.

b) 2012 LTIP awards

The 2012 LTIP awards were subject to an RoRCV performance condition, measured over three financial years to 31 March 2015. Average RoRCV is compared to the baseline figure set out in the Ofwat Final Determination. 0% of the award vests if average RoRCV equals that set in the Final Determination, increasing on a straight line basis to 50% vesting for 1.02 x the Final Determination and 100% vesting for 1.07 x Final Determination.

The committee has various discretions in relation to determining the final vesting outcome as set out in the policy report. The committee considered the level of RoRCV outperformance of the Ofwat Final Determination for the 2012 LTIP. This showed the average RoRCV over the three years ending in 2014/15 had outperformed the RoRCV Ofwat Final Determination by 1.14 times therefore resulting in 100% vesting.



## Remuneration Committee continued

### c) Liv Garfield recruitment award

The second tranche of Liv Garfield's recruitment award will vest in May 2015. It is subject to the same performance conditions as the 2012 LTIP awards and therefore will vest at 100%.

### d) Summary of long term incentive awards vesting based on performance in 2014/15

Executive	Award type	Grant date	Number of shares granted	End of performance period	% vesting	Number of shares vesting	Value of resultant award <sup>(i)</sup>	Release/ vesting date
Tony Ballance	SMP	20/05/11	1,868	19/05/14	66.2%	1,236	£24,386	02/06/14
	LTIP	19/06/12	5,741	31/03/15	100%	5,741	£118,379	01/04/15
						<b>Total</b>	£142,765	
Liv Garfield	Recruitment	04/06/14	41,222	31/03/15	100%	41,222	£849,998	01/04/15
						<b>Total</b>	£849,998	
Martin Kane	SMP	20/05/11	2,131	19/05/14	66.2%	1,410	£27,819	02/06/14
	LTIP	19/06/12	7,119	31/03/15	100%	7,119	£146,794	01/04/15
						<b>Total</b>	£174,613	
Michael McKeon <sup>(ii)</sup>	SMP	20/05/11	3,938	19/05/14	66.2%	2,606	£51,416	02/06/14
	LTIP	19/06/12	12,684	31/03/15	100%	12,684	£261,544	01/04/15
						<b>Total</b>	£312,960	
Andy Smith	SMP	20/05/11	2,399	19/05/14	66.2%	1,588	£31,331	02/06/14
	LTIP	19/06/12	7,460	31/03/15	100%	7,460	£153,825	01/04/15
						<b>Total</b>	£185,156	
Tony Wray <sup>(iii)</sup>	SMP	20/05/11	4,542	19/05/14	64.3%	2,922	£57,651	02/06/14
	LTIP	19/06/12	21,875	31/03/15	100%	21,875	£451,062	01/04/15
<b>Total</b>							£508,713	

(i) For the SMP award this is based on the share price at release of £19.73. For the LTIP award this is based on the average share price over the final three months of the performance period (£20.62) as the awards will not be released until after the end of the close period.

(ii) Michael McKeon stepped down from the board on 1 April 2015 and will subsequently be retiring on 31 May 2015. As noted on page 85, he is being treated as a good leaver under the rules of the LTIP. His award will vest as normal. In accordance with the rules, there is no pro rata reduction since he served for the whole of the performance period.

(iii) Tony Wray retired from the board on 11 April 2014. As noted in last year's Annual Report, he is treated as a good leaver under the rules of the SMP and LTIP. The awards vested on the normal vesting date subject to performance and a time pro rata reduction. For the 2011 SMP award, time prorating was calculated to the nearest month. For the 2012 LTIP award, time prorating was calculated to the nearest year in accordance with the rules of the plan.

## Outstanding scheme interests, including share awards granted during the year

The table below sets out details of the executives' outstanding share awards as at 31 March 2015.

Executive	Award type	Maximum <sup>(i)</sup> number of shares	Percentage vesting at minimum performance	Exercise price (p)	End of performance period	Vesting/ <sup>(ii)</sup> exercise date	Awards granted during the year	
							Basis of award	Face value
Tony Ballance	2012 LTIP	5,741	0%	-	31/03/15	01/04/15	-	-
	2013 LTIP	5,855	0%	-	31/03/16	01/04/16	-	-
	2014 LTIP	8,817	0%	-	31/03/17	16/07/17	80% of salary	£169,040
	2012 SMP	1,721	5%	-	24/05/15	25/05/15	-	-
	2013 SMP	2,963	5%	-	12/06/16	13/06/16	-	-
	2012 ABS	3,442	-	-	-	28/06/15	-	-
	2013 ABS	5,926	-	-	-	26/06/16	-	-
	2014 ABS	4,179	-	-	-	30/06/17	Deferred bonus	£80,987
	2013 SAYE	725	-	1,241	-	May-16	-	-
	2014 SIP	24	-	-	-	-	-	-
	Total	39,393						
Liv Garfield	2014 LTIP	42,383	0%	-	31/03/17	16/07/17	125% of salary	£812,500
	Recruitment Award	41,222	0%	-	31/03/15	May-15	125% of salary	£812,500
	Recruitment Award	41,223	0%	-	31/03/16	May-16	125% of salary	£812,500
	2015 SAYE	1,136	-	1,584	-	May-18	-	-
	Total	125,964						
Martin Kane	2012 LTIP	7,119	0%	-	31/03/15	01/04/15	-	-
	2013 LTIP	7,119	0%	-	31/03/16	01/04/16	-	-
	2014 LTIP	10,720	0%	-	31/03/17	16/07/17	80% of salary	£205,520
	2012 SMP	2,162	5%	-	24/05/15	25/05/15	-	-
	2013 SMP	4,360	5%	-	12/06/16	13/06/16	-	-
	2012 ABS	4,324	-	-	-	28/06/15	-	-
	2013 ABS	8,721	-	-	-	26/06/16	-	-
	2014 ABS	3,265	-	-	-	30/06/17	Deferred bonus	£63,267
	2012 SAYE	152	-	1,177	-	May-15	-	-
	2013 SAYE	290	-	1,241	-	May-16	-	-
	2014 SAYE	270	-	1,331	-	May-17	-	-
	2015 SAYE	681	-	1,584	-	May-18	-	-
	2014 SIP	24	-	-	-	-	-	-
Total	49,207							
Michael McKeon	2012 LTIP	12,684	0%	-	31/03/15	01/04/15	-	-
	2013 LTIP	12,937	0%	-	31/03/16	01/04/16	-	-
	2014 LTIP	19,480	0%	-	31/03/17	16/07/17	80% of salary	£373,440
	2012 SMP	3,685	5%	-	24/05/15	25/05/15	-	-
	2013 SMP	6,757	5%	-	12/06/16	13/06/16	-	-
	2012 ABS	7,370	-	-	-	28/06/15	-	-
	2013 ABS	13,514	-	-	-	26/06/16	-	-
	2014 ABS	8,898	-	-	-	30/06/17	Deferred bonus	£172,417
	2014 SIP	24	-	-	-	-	-	-
	Total	85,349						
Andy Smith	2012 LTIP	7,460	0%	-	31/03/15	01/04/15	-	-
	2013 LTIP	7,610	0%	-	31/03/16	01/04/16	-	-
	2014 LTIP	11,459	0%	-	31/03/17	16/07/17	80% of salary	£219,680
	2012 SMP	2,234	5%	-	24/05/15	25/05/15	-	-
	2013 SMP	3,842	5%	-	12/06/16	13/06/16	-	-
	2012 ABS	4,468	-	-	-	28/06/15	-	-
	2013 ABS	7,684	-	-	-	26/06/16	-	-
	2014 ABS	5,431	-	-	-	16/07/17	Deferred bonus	£105,249
	2013 SAYE	725	-	1,241	-	May-16	-	-
	2015 SAYE	568	-	1,584	-	May-18	-	-
	2014 SIP	24	-	-	-	-	-	-
Total	51,505							
Tony Wray <sup>(iii)</sup>	2012 LTIP	21,875	0%	-	31/03/15	01/04/15	-	-
	2013 LTIP	8,057	0%	-	31/03/16	01/04/16	-	-
	2012 SMP	3,023	5%	-	24/05/15	25/05/15	-	-
	2013 SMP	2,298	5%	-	12/06/16	13/06/16	-	-
	Total	35,253						

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

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

(iii) Tony Wray's outstanding scheme interests have been adjusted to reflect a time pro rata reduction following his retirement on 11 April 2014.

## Remuneration Committee continued

### a) Long Term Incentive Plan awards

The LTIP awards are granted as conditional shares. The awards are subject to an RoRCV performance condition measured over three financial years. Average RoRCV is compared with the baseline figure set out in the Ofwat Final Determination. 0% of each award vests if average RoRCV equals that set in the Final Determination, increasing on a straight line basis to 50% vesting for 1.02 x Final Determination and 100% vesting for 1.07 x Final Determination.

Ofwat are no longer publishing a baseline RoRCV figure in AMP6. This impacts on the final year of the 2013 LTIP award and the final two years of the 2014 LTIP award. However, an equivalent baseline figure can be constructed using the component numbers set out in the Ofwat model. To ensure a like for like comparison between the baseline figure and how actual RoRCV will be calculated in those years, an adjustment has been made to increase the baseline figure to take into account the impact of expected income to be received under Pay As You Go (which dictates what portion of total expenditure is treated like operating expenditure, and directly passed through into customers' bills, and what is treated as capital expenditure and added to Severn Trent Water's asset base). This gives a baseline figure of 3.49% for 2015/16 and 3.6% for 2016/17.

As noted on page 79, the 2012 LTIP vested at 100% on 1 April 2015. However, as the company was in a close period, the release of awards will be made after this period ends.

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

### b) Share Matching Plan awards

For the outstanding legacy Share Matching Plan awards, 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 awards 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 2012 SMP awards will vest, subject to performance, on 25 May 2015. However, the current indication is that the 2012 SMP will not meet the TSR performance measure and as such no shares will vest.

### c) 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 deferred shares. The 2014 award relates to the deferral of the annual bonus for 2013/14. The award was granted on 30 June 2014. The share price used to calculate the number of shares granted was £19.38. The deferred shares relating to the annual bonus for 2014/15 will be granted in June 2015.

### d) Save As You Earn

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

### e) Share Incentive Plan

With the exception of Liv Garfield and Martin Kane, the executive directors received an award of free shares linked to the performance of Severn Trent Water Limited under the Share Incentive Plan (worth £474) during the year, on the same terms as other Severn Trent Water Limited employees.

### f) Liv Garfield's Recruitment Award

A one-off LTIP award was granted to Liv Garfield on 4 June 2014 as partial consideration for her significant unvested entitlements at her former employer. The award was 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. The tranches are subject to the same performance condition as the equivalent Severn Trent LTIP awards vesting in each of those years (i.e. the 2011, 2012 and 2013 awards). The first tranche of the Recruitment Award vested at 100% on 5 June 2014 with a value upon release of £809,736. The second tranche of the Recruitment Award vests at 100% in May 2015.

## Directors' pension provisions

Name	Service completed in year (including transferred in service credits)	Accrued pension at 31.03.15	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of accrued pension at 31.03.14	Transfer value of accrued pension at 31.03.15	Increase in transfer value net of directors' contributions	Increase in value net of directors' contributions
Martin Kane	35	£154,511	2,587	-1,515	2,828.7	2,711.5	-117.2	-0.8
Andy Smith	9	£41,226	-2,233	-3,406	804.7	802.4	-2.3	0.0
Tony Wray	6	£31,573	830	0	547.6	599.7	52.1	0.0

#### 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 2015 was as at September 2013 (2.7%) in line with statutory guidance for calculating the increase in value.

Andy Smith and Martin Kane have both elected to use the 'Scheme Pays' approach to meeting tax charges on pension savings above the annual allowance. The impact of this reduces the accrued pension and transfer value at 31 March 2015 by the following amounts:

Andy Smith – Pension: £2,233 p.a. (of which £1,581 p.a. is in respect of the year to 31 March 2014) Transfer value: £43,500; and

Martin Kane – Pension: £1,474 p.a. (all of which is in respect of the year to 31 March 2014) Transfer value: £26,000.

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 ceased to contribute to the Scheme from 31 March 2014, when they became deferred pensioners of the Scheme and stopped accruing pensionable service.

Martin Kane is a member of the Severn Trent Pension Scheme (WPS Section) but opted out of the scheme on 30 June 2007. While he no longer accrues additional years of service for pension purposes, consistent with the legislation, his 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 his appointment for the year ended 31 March 2015, he was paid fees of £27,750 (2014: £26,042).

Tony Wray was appointed as a non-executive director of Grainger plc on 24 October 2011 and in respect of the appointment (for the period 1 to 11 April 2014) he was paid fees of £1,492 (2014: £48,500).

Liv Garfield was appointed as a non-executive director of Tesco plc on 1 April 2013 and served until her resignation on 28 February 2015. She received fees in respect of her appointment (for the period 11 April 2014 to 28 February 2015) of £72,968.

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 of 200% salary for the Chief Executive and 125% of salary for other executive directors. Details of the current shareholdings of the directors and whether they have met the new shareholding guidelines are set out below.

Director	Interests in shares as at 31 March 2015					% shareholding guideline achieved*
	Beneficially owned	Outstanding scheme interests				
		LTIP and SMP	Deferred shares under the Annual Bonus	SAYE options	Total	
John Coghlan	400	–	–	–	400	–
Richard Davey <sup>1</sup>	588	–	–	–	588	–
Andrew Duff	8,184	–	–	–	8,184	–
Gordon Fryett	2,312	–	–	–	2,312	–
Martin Lamb	3,012	–	–	–	3,012	–
Baroness Noakes <sup>2</sup>	4,018	–	–	–	4,018	–
Philip Remnant	1,400	–	–	–	1,400	–
Dr Angela Strank	235	–	–	–	235	–
Tony Ballance <sup>3</sup>	22,566	25,097	13,547	725	39,369	278%
Liv Garfield	21,748	124,828	–	1,136	125,964	34%
Martin Kane <sup>3</sup>	32,051	31,480	16,310	1,393	49,183	314%
Michael McKeon	55,456	55,543	29,782	–	85,325	242%
Andy Smith <sup>3</sup>	31,815	35,004	17,583	1,293	53,880	296%
Tony Wray <sup>4</sup>	45,837	35,253	0	–	35,253	–

\* The share price used to calculate the percentage of the shareholding guideline achieved was £20.59 (as at 31 March 2015).

<sup>1</sup> Richard Davey retired from the board on 23 January 2015.

<sup>2</sup> Baroness Noakes retired from the board on 16 July 2014.

<sup>3</sup> Tony Ballance, Martin Kane and Andy Smith stepped down from the board on 23 January 2015.

<sup>4</sup> Tony Wray retired from the board on 11 April 2014; the outstanding scheme interests have been adjusted to reflect a time pro rata reduction.

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 to performance conditions. The executive directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding guidelines are met.

There has been no change in the directors' interests in the ordinary share capital of the company between 31 March and 21 May 2015.

## Remuneration Committee continued

### Percentage increase in the remuneration of the Chief Executive

	2015	2014	% Change
Chief Executive (£'000)			
– Salary <sup>1</sup>	650.0	561.2	15.8%
– Benefits	16.6	16.5	0.6%
– Bonus	405.5	452.4	(10.4%)
Average per employee (£'000)			
– Salary	28.8	28.5	1.1%
– Benefits <sup>2</sup>	0.5	0.4	25%
– Bonus <sup>3</sup>	1.2	1.3	(7.7%)

1 The salary figure for 2015 has been adjusted to include salary paid into the pension scheme as an employer pension contribution via salary sacrifice.

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

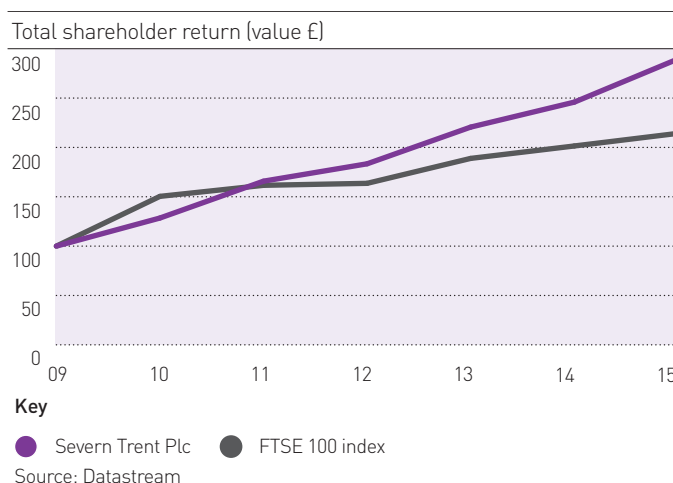
3 The figures are based on an estimate as the 2015 bonuses are not finalised before the date of publication.

The table above shows the movement in salary, benefits and annual bonus for the director occupying the role of Chief Executive between the current and previous financial year compared with that of the average employee. The Chief Executive figures for 2014 relate to the former Chief Executive, Tony Wray. The figures for 2015 relate to the current Chief Executive, Liv Garfield.

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 Limited 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, at 31 March 2015, of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index. The FTSE 100 was chosen as the comparator index because the company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.



### Total remuneration of the Chief Executive

	Year ending 31 March					
	2010	2011	2012	2013	2014	2015
Chief Executive	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	<b>Liv Garfield</b>
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	<b>2,097.7</b>
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	<b>52.0%</b>
LTIP vesting (% of maximum)	63.0%	0.0%	28.4%	57.5%	100%	<b>100%</b>
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.

	2015	2014	% Change
Staff costs (£'m)	369.5	351.9	5.0%
Dividends (£'m)	196.9	185.3	6.3%

### How the policy will be applied in 2015 onwards

#### Salary, benefits and pension

The base salary for the Chief Executive will increase by 2.1% on 1 July 2015 (from £650,000 to £663,650). This is lower than the average increase that will apply to the general UK workforce. As a new joiner to the company, James Bowling's salary will next be reviewed on 1 July 2016. The base salaries for the executive directors from 1 July 2015 are therefore as follows:

Liv Garfield	£663,650
James Bowling	£400,000

Benefits and pension provision will be applied in line with the policy set out in the table on pages 71 and 72.

## Annual bonus

The structure and operation of the annual bonus for the Chief Executive and Chief Financial Officer will be as outlined in the policy table. The performance measures will be Severn Trent Water profit before interest and tax (50%), business unit performance (40%) and personal performance (10%). The business unit performance relates to performance against Severn Trent Water Outcome Delivery Incentives (25%), Severn Trent Business Services profit before interest and tax (10%) and health and safety performance (5%). The Remuneration Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in next year's Remuneration report.

## Long Term Incentive Plan

LTIP awards for 2015 will be 125% of salary for the Chief Executive and 80% for the Chief Financial Officer, and will be made as soon as possible after the AGM (subject to approval of the Policy report). The awards will be based on return on regulatory equity (RORE) over the three year period to 31 March 2018. Our three year average RORE performance will be compared with the baseline RORE figure set by Ofwat in our Final Determination. 25% of the award will vest if average RORE matches the baseline figure of 5.65%, increasing on a straight line basis to full vesting for outperforming the baseline by 1.29 times (equivalent to 7.29%). The Remuneration Committee considers that the threshold target is demanding and more challenging than the RORCV target set for the previous AMP. It also considers that the upper target is very challenging and would require very significant ODI and financing outperformance, together with a very high level of efficiencies, and was set significantly ahead of analyst consensus.

## Retirement from the board of Michael McKeon

Michael McKeon will be retiring from the company on 31 May 2015. He will not receive any compensation for loss of office. As a retiree, Michael McKeon will be treated as a good leaver in relation to his outstanding incentive awards. Consistent with the policy on terminations, his bonus for 2014/15 will be paid in cash and his outstanding deferred share bonus awards will vest, 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 (where relevant). Any outstanding awards under the company's HMRC tax advantaged all employee share plans vest in accordance with their terms.

## Recruitment of James Bowling as Chief Financial Officer

The remuneration package granted to James Bowling on appointment is as follows:

- Salary of £400,000
- Pension contribution of 25% of salary
- Annual bonus potential of 120% of salary
- LTIP grant level of 80% of salary

The annual bonus and LTIP levels are in line with our policy. A one off LTIP award was necessary to secure his appointment, as partial consideration for his significant unvested entitlements at his previous employer. The award will be split into three equal tranches, the face value of each being £308,000 vesting in 2015, 2016 and 2017. It will be subject to the same performance conditions as the equivalent Severn Trent LTIP awards vesting in each of those years.

## Non-executive directors' fees

There have been no changes to the fee levels for the Chairman and non-executive directors during the year. The current fee levels are set out in the table below:

	Fees
Chairman's fee	£257,000
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 John Coghlan (22 May 2017), Andrew Duff (9 May 2016), Gordon Fryett (20 June 2015), Martin Lamb (1 March 2017), Philip Remnant (31 March 2017) and Dr Angela Strank (24 January 2017). However, all of the directors are subject to reappointment at the 2015 AGM.

## Statement of shareholding voting at AGM

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

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Report	138,974,226 (99.35%)	908,111 (0.65%)	719,294
Approve Directors' Remuneration Policy	136,960,503 (97.66%)	3,276,685 (2.34%)	362,862

## Philip Remnant

Chairman of the Remuneration Committee

21 May 2015

# Directors' report

The directors present their report, together with the audited group financial statements, for the year ended 31 March 2015. The Governance section set out on pages 52 to 60 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 2015 are shown in notes 19 and 45 to the financial statements on pages 119 and 145 to 146.

## Business review

The Strategic report on the inside front cover through to page 46 provides detailed information relating to the group, its business models and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2015.

Details of the principal risks and uncertainties facing the group are set out in the risk management section on pages 38 to 42.

## Directors and their interests

Biographies of the directors currently serving on the board are set out on pages 48 and 49. In addition, Michael McKeon and Richard Davey served as directors during the year ended 31 March 2015.

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 52.

Details of directors' service contracts are set out in the Directors' remuneration report on page 76. The interests of the directors in the shares of the company are shown on page 87 of that report. The board has a full documented process in place in respect of conflicts which is documented on page 57 and 58.

## 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, 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.

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 112.

Severn Trent believes a diverse and inclusive workforce is a key factor in being a successful business. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population. We endeavour to keep employees in the workforce if they become disabled, and make reasonable adjustments to their role as well as looking for redeployment opportunities elsewhere in the company if necessary. All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability.

The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit and healthy, including an employee assistance programme which is available to Severn Trent Water Limited 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 employees, the Severn Trent Sharesave Scheme, an HM Revenue and Customs approved SAYE plan, which is offered to UK employees on an annual basis.

## Research and development

Expenditure on research and development is set out in note 7 to the financial statements on page 111.

## 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 35 to the financial statements on pages 131 to 137. Further details on our treasury policy and management are set out in the Financial review on page 43.

## Post balance sheet events

Details of post balance sheet events are set out in note 43 to the group financial statements on page 145.

## Dividends

An interim dividend of 33.96 pence per ordinary share was paid on 9 January 2015. The directors recommend a final dividend of 50.94 pence per ordinary share to be paid on 24 July 2015 to shareholders on the register on 19 June 2015. This would bring the total dividend for 2014/15 to 84.90 pence per ordinary share (2014: 80.40 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

## Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 8 to the Company financial statements on page 152. 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 37 to the financial statements on pages 139 and 140. 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 53 and 54.

Under its Articles of Association, the directors have authority to allot ordinary shares, subject to the aggregate nominal amount limit set at the 2014 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 2015 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 <sup>1/16</sup> p each	Percentage of voting rights and issued share capital
Blackrock Inc	23,457,458	9.87%
Legal & General Group Plc	9,523,698	3.99%

As at 21 May 2015, the Company had been notified of the following holdings of voting rights in the ordinary share capital of the Company: Blackrock Inc 23,457,458 (9.87%); Legal & General Group Plc 9,523,698 (3.99%).

**Authority to purchase shares**

The Company was given authority at its AGM in 2014 to make market purchases of ordinary shares up to a maximum number of 23,949,741 ordinary shares. Similar authority will again be sought from shareholders at this year’s AGM. On 13 February 2015, the Company announced that it would commence a share repurchase programme. Following that announcement, during the year ended 31 March 2015 market purchases of 966,578 ordinary shares were made with all of these shares being cancelled following their purchase at an average price of 2,031 pence. Following the year end, a further 882,678 ordinary shares have been repurchased to 21 May 2015 at an average price of 2,139 pence. In total 1,018,092 ordinary shares have been cancelled with 733,946 ordinary shares being held in treasury at 21 May 2015 to satisfy future share based awards under long term incentives plan and no ordinary shares having been transferred from treasury to satisfy the exercise of share options.

The share repurchase was considered a low risk method of returning capital to shareholders, satisfying future share awards and moving gearing in Severn Trent Water Limited towards the 62.5% net debt/RCV notional level used by Ofwat in the price review PR14. The share repurchase has had minimal impact on EPS, with less than 0.5% of issued share capital cancelled during the year, increasing EPS by 0.1%.

**Contributions for political and charitable purposes**

Donations to charitable organisations during the year amounted to £157,648 (2014: £108,000). 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 2014 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries. Pursuant to those authorities, during the year ended 31 March 2015 the group incurred costs of £nil (2014: £nil). Those authorities will expire at the 2015 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.

**Supplier payment policy**

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code (PPC). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

**Report on greenhouse gas emissions**

This is the second 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 Limited, 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 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 250 GWh per annum, the equivalent of 28% of Severn Trent Water Limited’s electricity needs over the year.

During the last year, we began generating renewable electricity from food waste, increased generation from energy crops and wind power and began injecting renewable biogas from sewage directly into the national gas grid.

## Directors' report continued

In 2009 we set ourselves a target to generate the equivalent of 30% of Severn Trent Water's electricity needs by 2015. In February 2015 we met that target, generating the equivalent of 31% in the month, which rose to 33% in March. We continue to lead the UK water industry in renewable energy production. Our aim is to retain this leading position by generating the equivalent of 50% of our electricity needs by 2020.

Severn Trent Water has held the Carbon Trust Standard since 2009 in recognition of consistent emissions reductions and effective carbon management processes. Our Gross Greenhouse Gas (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 885 GWh of electricity, which is 17 GWh (2%) less than in 2009-10.

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](http://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 2014 we achieved 85%, compared to the average score of 77% across FTSE 350 companies.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e), for the period 1 April 2014 to 31 March 2015.

Our total net emissions have risen this year, due entirely to an 11% increase in the emissions intensity of grid electricity; a factor over which we have no control. On a like for like basis our emissions from the use of fuel and operation of our facilities and our total energy consumption decreased by 1% compared to last year.

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 (tonnes CO <sub>2</sub> e)	2014-15	2013-14
<b>Emissions from combustion of fuel and operation of facilities (Scope 1)</b>	<b>154,644</b>	169,844
<b>Emissions from electricity purchased for own use (Scope 2)</b>	<b>357,756</b>	330,697
<b>Total Annual Gross Operational Emissions</b>	<b>512,400</b>	500,523
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	(38,878)	(21,672)
<b>Total Annual Net Operational Emissions</b>	<b>473,522</b>	478,851
<b>Annual GHG intensity ratio (t CO<sub>2</sub>/unit)</b>	<b>269.7</b>	269.6
<b>Operational GHG emissions of Severn Trent per £m turnover</b>	<b>269.7</b>	269.6

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 9.11' (released April 2015). 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.

Our long term aim is to be carbon neutral and energy self sufficient, provided that 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 7% 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. 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.

### Internal controls

The board is responsible for the group's system of internal control and for reviewing its effectiveness. The board regularly reviews the effectiveness of the system of internal control, including risk management, financial, operational and compliance aspects, 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 controls on behalf of the board and keeps under review ways in which to enhance the control and assurance arrangements. The Audit Committee receives reports 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 its review of risk management during 2014/15, the board explicitly considered the target position for significant risks. The board considered whether target risk positions are appropriate and confirmed that suitable timescales are agreed for reaching these target positions.

During the course of its review of the system of internal control in 2014/15, the Audit Committee has not identified nor been advised of any significant failings or weaknesses which it has determined to be significant to the group.

The Internal Audit department provides objective assurance on risk management, governance and control matters. The external auditors (Deloitte) report 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 performed calculations 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 has been in place for the year to 31 March 2015 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. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as auditors. The Audit Committee will also be responsible for determining the audit fee on behalf of the board.

**Disclosures required under Listing Rule 9.8.4R**

The information required to be disclosed by Listing Rule 9.8.4R can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	112
(4)	Details of long term incentive schemes	79
(8)	Section 7 in relation to any major subsidiary undertakings	145
(2), (5), (6), (7), (9)–(14)		Not applicable

**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](http://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 Limited and Severn Trent Services are set out in the Strategic report, from the inside front cover to page 35. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 43 to 46. 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 43 to 46 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 35 to the group financial statements.

The group's principal operating subsidiary, Severn Trent Water Limited, 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 15 years and the effective average interest cost during the year was 5.6%. The group is in a strong liquidity position and had £176.7 million in cash and liquid reserves and £745 million of undrawn committed bank facilities at 31 March 2015, which are expected to be sufficient to fund its investment and cash flow needs at least until July 2016 in the normal course of business.

Severn Trent Water Limited operates in an industry that is currently subject to economic regulation rather than market competition, although Ofwat have signalled an intention to introduce more competition in their 2020 water purification sector. 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.

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 15 July 2015. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on our website ([www.severntrent.com](http://www.severntrent.com)).

By order of the board

**Bronagh Kennedy**

Group General Counsel and Company Secretary

21 May 2015

# Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the group 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.

## 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;
- the Strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 21 May 2015 and is signed on its behalf by:

**Andrew Duff**  
Chairman

**James Bowling**  
Chief Financial Officer

21 May 2015