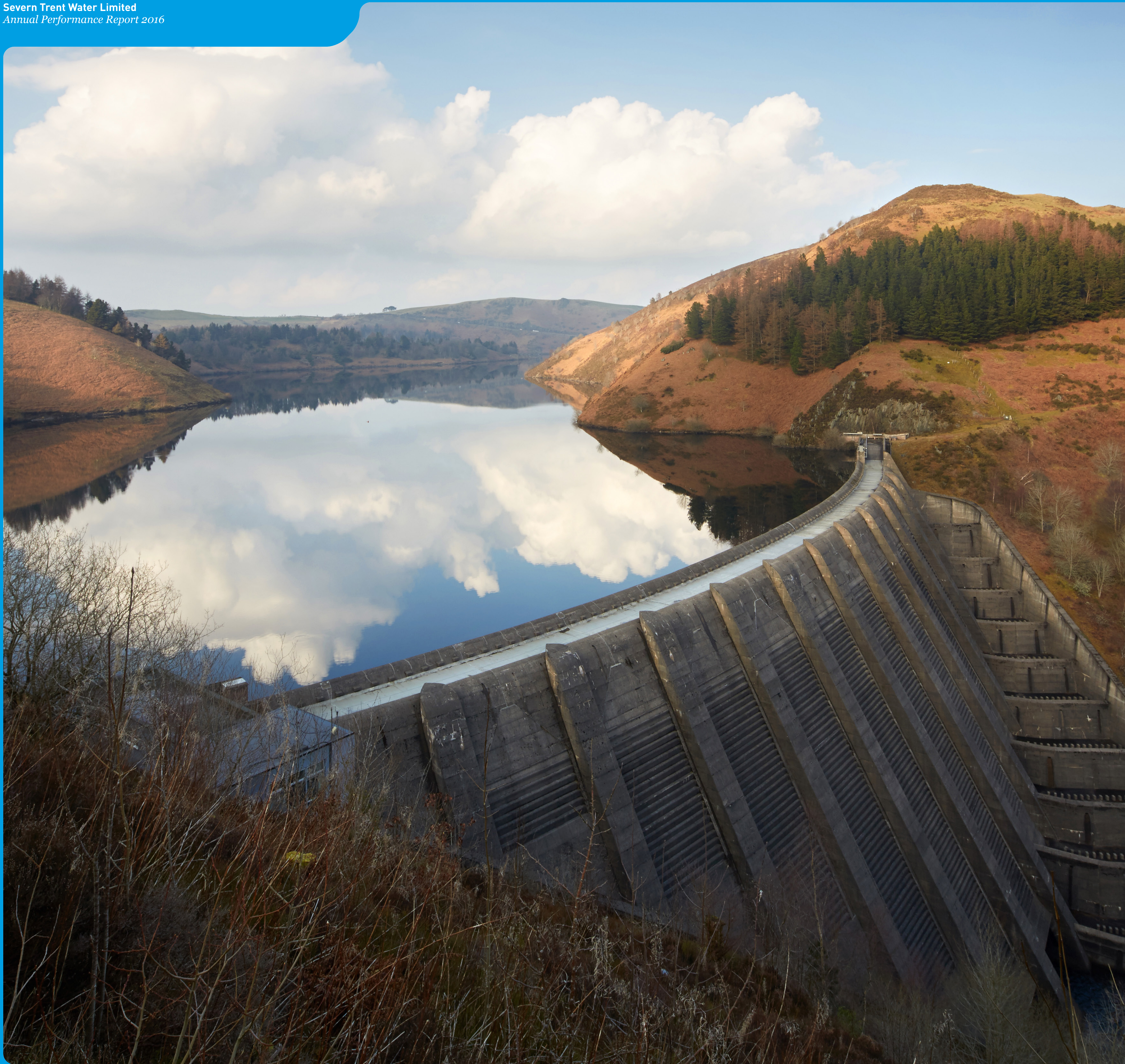
ANNUAL
PERFORMANCE REPORT

Year ended 31 March 2016

SEVERN
TRENT

Contents



Introduction

Severn Trent Water is one of the largest of the ten regulated water and sewerage companies in England and Wales. We strive to provide high-quality services to more than 4.3 million households and businesses in the Midlands and mid-Wales. Our customers pay the lowest average bills in the UK.

Most of our customers cannot choose their water and waste water supplier, therefore it is essential that they can have trust and confidence in the services we provide for the price paid. By 2020, we want to be the most trusted water company: delivering an outstanding customer experience, the best value service and environmental leadership.

The first year of the new price control period presented our business with new challenges, but also new opportunities to deliver for our customers. The introduction of the outcomes framework has helped us to focus on what really matters to our customers and other stakeholders; all our staff can see the impact of their work both for individual customers but also for the business as a whole.

Overall it has been a successful first year with outperformance in some of our customers' key areas of concern. We have delivered some of our best ever results on sewer flooding and pollution incidents; reducing the impact of service failures on our customers and the environment.

We have improved our customers' experience of our service, as seen through further reductions in unwanted calls and our complaint numbers continue to reduce. We are being innovative in how we interact with our customers, introducing the 'In My Street' and 'Track My Job' facilities to our website. There has been a focus on some of our more vulnerable customers which has led to an increase in uptake of our social tariffs – although we still have some way to go to reach the number of customers we committed to help.

Despite our efforts, at times we fell short of our customers' expectations. We were unable to reduce the number of drinking water quality complaints we receive as much as we planned; and we did not fix visible leaks as quickly as we intended. There is further work to do on our overall carbon emissions and customer education to ensure we deliver our commitments going forward.

Occasionally we experience problems that lead to prolonged disruption for our customers. In February we had our biggest supply interruption event since 2007 in Nottinghamshire; then in March we experienced a water quality incident in Castle Donington. As a company we are committed to reducing the frequency of these events and the impact they have on our customers.

The next 12 months give us a great opportunity to embed the success stories across our business and learn lessons where we're not delivering for our customers.

Reporting our performance

Every year we publish a wide range of information about our services and our performance. This information is used in a variety of ways; not least it may shape the choices our customers and stakeholders make. We therefore want to make sure that it can be relied on.

This is the first reporting year of the 2015-20 business plan and for 2015/16 we are publishing a series of documents to provide our customers with transparency on our performance both financial and operational.

- The **annual performance report** (the 'APR' this document) which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance.
- A **compliance statement** which confirms that we have complied with all our relevant statutory, licence and regulatory obligations and are taking appropriate steps to manage and mitigate any risks identified.
- A **data assurance summary** of the results of the data assurance activities we have carried out to demonstrate that the information we have provided our customers is accurate.

In addition Severn Trent Water has published its Annual Report and Accounts for the year ended 31 March 2016, which is available on our website (www.severntrent.co.uk). Where disclosures in the Annual Report fulfil requirements for the APR we have provided a cross reference in this document rather than duplicating the information.

When we developed our business plan for the period 2015-20, we recognised that the introduction of performance commitments with associated Outcome Delivery Incentives (ODIs) would create a new focus for our customers and play an important part in building this trust and confidence. Section 3 of this report provides details of our operational performance.

This report is set out in four sections:

1 Regulatory financial reporting
A baseline level of historical cost financial information aligned to the way in which price controls (and associated regulatory performance commitments and incentives) have been set.

2 Price review and additional segmental reporting
Further disaggregation of revenue and costs, to allow stakeholders to review the company's performance against its final determination.

3 Performance summary
A high-level report of the progress we have made on our plan and against our 45 performance commitments.

4 Additional regulatory information
Additional financial and non-financial information including totex analyses, current cost reporting and financial metrics.

Disclosure required by RAG 3

In addition to the disclosures that are set out in the tables in Sections 1 – 4, RAG 3 sets out requirements for narrative disclosures in the Annual Performance Report. The statements set out below address those requirements.

Governance and dividend policy

Severn Trent Water has chosen to apply the principles of the September 2014 version of the UK Corporate Governance Code (the 'Code') to its governance arrangements where appropriate and reasonably practicable. Details of how the company has applied the Code during the year are set out in the company's Annual Report and Accounts, which is available on the company's website (www.severntrent.co.uk).

The company's Annual Report and Accounts includes a long term viability statement in the Strategic Report on pages 29 – 30.

The company's dividend policy is to declare dividends which are consistent with the company's regulatory obligations and at a level which is decided each year after consideration of a number of factors, including regulatory uncertainty, market expectations, actual and potential efficiencies, future cash flow requirements and balance sheet considerations.

The amount declared is expected to vary each year as the impact of factors changes. The ordinary dividend declared and paid by the company in 2015/16 amounted to £310.0 million (2015: £203.7 million), being 31.0p per share (2015: 20.4p per share).

Disclosure of information to auditor

The Companies Act requires directors to make a statement in the company's Annual Report and Accounts regarding the provision of information to the auditor. RAG 3 requires an equivalent statement to also be made in the Annual Performance Report. This statement is set out below.

In the case of each of the persons who are directors of the company at the date when this report was approved so far as each of the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Risk and compliance

Our compliance statement is published on our website. In summary the statement confirms that Severn Trent Water:

a) Considers it has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations;

b) Has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations and has appropriate systems and processes in place to allow it to identify, manage and review its risks;

c) Sets out the steps the company is taking or will take to manage and/or mitigate any material or potential material risk which is identified and defines materiality for the purposes of this.

Statement of Directors' responsibilities

The directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies.

Further to the requirements of company law, the directors are required to prepare financial statements which comply with the requirements of Condition F Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Water Services Regulation Authority. This additionally requires the directors to:

a) Confirm that, in their opinion, the company has sufficient financial and management resources for the next twelve months;

b) Confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company;

c) Report to the Water Services Regulation Authority changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities;

d) Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and

e) Keep proper accounting records which comply with Condition F.

Diversification and the protection of the core business

The ring fencing provisions in the company's licence (Condition F6a) require it to make certain statements in relation to its ability to continue to carry out its regulated activities for at least a year after the date of the report. This statement is set out below.

Severn Trent Water hereby advises:

a) That in the opinion of the directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activity (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and

b) That in the opinion of the directors, the Appointee will for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

Ring Fencing

Paragraph 3.1 of Condition K requires that, at all times, to ensure that if a special administrator were appointed to manage the regulated activities, that administrator would have sufficient control over the regulated business and assets to be able to do so. In addition to the statement set out above under Condition F6a, the company is required to confirm that it is in compliance with Condition K3.1. This statement is set out below.

In accordance with the requirements of the Water Services Regulation Authority, the board confirmed that, as at 31 March 2016, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of the company in order that the purposes of a special administration order could be achieved if such an order were made.

Liv Garfield
Chief Executive

For and on behalf of the board.
15 July 2016

Report of the auditor to the Water Services Regulation Authority and the directors of Severn Trent Water Limited

Opinion on Annual Performance Report

In our opinion, Severn Trent Water Limited's (the "Company") Regulatory Accounting Statements within the Annual Performance Report:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG1.06, RAG2.05, RAG3.08, RAG4.05 and RAG5.06) and the accounting policies set out on pages 18-19 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2016 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Financial information other than that prepared on the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs") does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of IFRSs.

In forming our opinion on the Regulatory Accounting Statements within the Annual Performance Report, which is not modified, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the accounting separation methodology) set out in the statement of accounting policies and under the historical cost convention.

The Regulatory Accounting Statements on pages 11 to 31 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

Sections 1 and 2 within Severn Trent Water Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historic cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household revenues by customer type (table 2F), the non-household revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis and wholesale control reconciliation (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (table 3A) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the Annual Performance Report and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under ISAs (UK & Ireland).

Report of the auditor to the Water Services Regulation Authority and the directors of Severn Trent Water Limited

The Company has presented the allocation of operating costs and assets in accordance with the accounting separation policy set out in note 1 and its Accounting Separation Methodology Statement published on the Company's website on 15 July 2016. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Other matters

The nature, form and content of the Annual Performance Report is determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WRSA's purposes. Accordingly we make no such assessment.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2016 on which we reported on 23 May 2016, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom
15 July 2016

Regulatory financial reporting

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1A - Income statement

Year ended 31 March 2016	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total £m
Revenue	1,550.2	(6.2)	(14.6)	(20.8)	1,529.4
Operating costs	(1,030.5)	3.1	9.6	12.7	(1,017.8)
Other operating income	-	3.0	-	3.0	3.0
Operating profit	519.7	(0.1)	(5.0)	(5.1)	514.6
Other income	-	3.2	-	3.2	3.2
Interest income	68.6	(67.7)	-	(67.7)	0.9
Interest expense	(272.5)	66.6	-	66.6	(205.9)
Other interest expense	-	(14.0)	-	(14.0)	(14.0)
Profit before tax and fair value movements	315.8	(12.0)	(5.0)	(17.0)	298.8
Fair value gains on financial instruments	4.0	-	-	-	4.0
Profit before tax	319.8	(12.0)	(5.0)	(17.0)	302.8
UK corporation tax	(55.2)	-	1.0	1.0	(54.2)
Deferred tax	69.3	0.8	-	0.8	70.1
Profit for the year	**333.9**	**(11.2)**	**(4.0)**	**(15.2)**	**318.7**

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments		Reclassifications					
	Capitalisation of interest and related depreciation £m	Share of group pension scheme £m	ROCs & LECs income £m	Developer services income £m	Repair of damages recharges £m	Profit on fixed asset disposals and non-operating income £m	Pension scheme net interest costs £m	Total differences £m
Revenue	-	-	(8.3)	1.7	0.4	-	-	(6.2)
Operating costs	2.9	0.2	8.3	(1.7)	(0.4)	(6.2)	-	3.1
Other operating income	-	-	-	-	-	3.0	-	3.0
Other income	-	-	-	-	-	3.2	-	3.2
Interest income	-	-	-	-	-	-	(67.7)	(67.7)
Interest expense	(16.3)	-	-	-	-	-	82.9	66.6
Other interest expense	-	1.2	-	-	-	-	(15.2)	(14.0)
Deferred tax	1.1	(0.3)	-	-	-	-	-	0.8
Total	**(12.3)**	**1.1**	**-**	**-**	**-**	**-**	**-**	**(11.2)**

1B - Statement of comprehensive income

Year ended 31 March 2016	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total £m
Profit for the year	333.9	(11.2)	(4.0)	(15.2)	318.7
Actuarial gains/(losses) on post employment plans	113.1	(11.7)	–	(11.7)	101.4
Other comprehensive income	5.6	–	–	–	5.6
Total comprehensive income for the year	**452.6**	**(22.9)**	**(4.0)**	**(26.9)**	**425.7**

The differences between statutory and RAG definitions are outlined in the following table:

	Per Income Statement £m	Net actuarial difference on pensions £m	Deferred tax on actuarial gains only £m	Deferred tax rate change £m	Total differences £m
Profit for the year	(11.2)	–	–	–	(11.2)
Actuarial gains/(losses) on post employment plans	–	(13.9)	2.5	(0.3)	(11.7)
Total	**(11.2)**	**(13.9)**	**2.5**	**(0.3)**	**(22.9)**

1C - Statement of financial position

As at 31 March 2016	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total £m
Non-current assets					
Fixed assets	7,641.7	(75.7)	–	(75.7)	7,566.0
Intangible assets	68.3	–	–	–	68.3
Financial instruments	40.2	–	–	–	40.2
Total non-current assets	7,750.2	(75.7)	–	(75.7)	7,674.5
Current assets					
Inventories	6.0	–	–	–	6.0
Trade and other receivables	432.9	–	–	–	432.9
Total current assets	438.9	–	–	–	438.9
Current liabilities					
Trade and other payables	(387.3)	67.5	–	67.5	(319.8)
Capex creditor	–	(56.6)	–	(56.6)	(56.6)
Borrowings	(332.4)	–	–	–	(332.4)
Financial instruments	(0.4)	–	–	–	(0.4)
Current tax liabilities	(28.8)	–	–	–	(28.8)
Provisions	(1.2)	–	–	–	(1.2)
Total current liabilities	(750.1)	10.9	–	10.9	(739.2)
Net current assets / (liabilities)	(311.2)	10.9	–	10.9	(300.3)
Non-current liabilities					
Trade and other payables	(869.5)	867.4	–	867.4	(2.1)
Borrowings	(4,509.2)	–	–	–	(4,509.2)
Financial instruments	(167.7)	–	–	–	(167.7)
Retirement benefit obligations	(309.5)	17.5	–	17.5	(292.0)
Provisions	(5.9)	–	–	–	(5.9)
Deferred income - grants and contributions	–	(878.3)	–	(878.3)	(878.3)
Deferred tax	(670.2)	10.4	–	10.4	(659.8)
Total non-current liabilities	(6,532.0)	17.0	–	17.0	(6,515.0)
Net assets	**907.0**	**(47.8)**	**–**	**(47.8)**	**859.2**
Equity					
Called up share capital	100.0	–	–	–	100.0
Retained earnings and other reserves	807.0	(47.8)	–	(47.8)	759.2
Total equity	**907.0**	**(47.8)**	**–**	**(47.8)**	**859.2**

1C - Statement of financial position

As at 31 March 2016

The differences between statutory and RAG definitions are outlined in the following table:

	Adjustments		Reclassifications		
	Capitalisation of interest £m	Share of group pension scheme £m	Capex creditor reclass £m	Deferred income reclass £m	Total differences £m
Fixed assets	(75.7)	–	–	–	(75.7)
Trade and other payables (current)	–	–	56.6	10.9	67.5
Capex creditor	–	–	(56.6)	–	(56.6)
Trade and other payables (non-current)	–	–	–	867.4	867.4
Retirement benefit obligations	–	17.5	–	–	17.5
Deferred income - grants and contributions	–	–	–	(878.3)	(878.3)
Deferred tax	13.6	(3.2)	–	–	10.4
Total	**(62.1)**	**14.3**	**–**	**–**	**(47.8)**

1D - Statement of cash flows

Year ended 31 March 2016	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total £m
Statement of cash flows					
Operating profit	519.7	(0.1)	(5.0)	(5.1)	514.6
Other income	–	3.2	–	3.2	3.2
Depreciation	310.2	(2.9)	–	(2.9)	307.3
Amortisation - grants and contributions	(10.5)	–	–	–	(10.5)
Changes in working capital	(0.2)	–	–	–	(0.2)
Pension contributions	(25.7)	–	–	–	(25.7)
Movement in provisions	9.2	(0.2)	–	(0.2)	9.0
Profit on sale of fixed assets	(2.9)	–	–	–	(2.9)
Cash generated from operations	**799.8**	**–**	**(5.0)**	**(5.0)**	**794.8**
Net interest paid	(184.0)	–	–	–	(184.0)
Tax paid	(20.0)	–	1.0	1.0	(19.0)
Net cash generated from operating activities	**595.8**	**–**	**(4.0)**	**(4.0)**	**591.8**
Investing activities					
Capital expenditure	(433.4)	–	–	–	(433.4)
Grants and contributions	35.0	–	–	–	35.0
Disposal of fixed assets	12.6	–	–	–	12.6
Net cash used in investing activities	(385.8)	–	–	–	(385.8)
Net cash generated before financing activities	**210.0**	**–**	**(4.0)**	**(4.0)**	**206.0**
Cash flows from financing activities					
Equity dividends paid	(310.0)	–	4.0	4.0	(306.0)
Net loans received	(18.9)	–	–	–	(18.9)
Cash outflow from equity financing	(4.0)	–	–	–	(4.0)
Net cash used in financing activities	(332.9)	–	4.0	4.0	(328.9)
Decrease in net cash	**(122.9)**	**–**	**–**	**–**	**(122.9)**

The differences between statutory and RAG definitions are outlined in the following table:

	Share of group pension scheme £m	Non-operating income reclass £m	Depreciation on capitalised interest £m	Total differences £m
Operating profit	0.2	(3.2)	2.9	(0.1)
Other income	–	3.2	–	3.2
Depreciation	–	–	(2.9)	(2.9)
Movement in provisions	(0.2)	–		(0.2)
Total	**–**	**–**	**–**	**–**

1E - Net debt analysis

As at 31 March 2016	Interest rate risk profile			Total
	Fixed rate £m	Floating rate £m	Index linked £m	£m / %
Total borrowings	2,642.5	982.3	1,195.7	4,820.5
Cash				–
Net debt				**4,820.5**
Gearing				61.6%
Full year equivalent nominal interest cost	138.8	15.6	41.8	196.2
Full year equivalent cash interest payment	138.8	15.6	22.8	177.2
Indicative interest rates				
Indicative weighted average nominal interest rate	5.3%	1.6%	3.5%	4.1%
Indicative weighted average cash interest rate	5.3%	1.6%	1.9%	3.7%

Fair value adjustments on debt of £21.1m are included in the total borrowings disclosed in the Statement of financial position, but are excluded from the net debt analysis above.

Current tax reconciliation

Year ended 31 March 2016

A reduction in the UK corporation tax rate from 20% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. The deferred tax liability at 31 March 2016 was calculated based on the rate of 18% substantively enacted at the balance sheet date. This has resulted in an overall deferred tax credit in the income statement. A further reduction to the UK corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the Company's future current tax charge accordingly.
The tax charge for the year ended 31 March 2016 is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	£m
Profit on ordinary activities before tax	302.8
Tax at the standard rate of corporation tax in the UK 20%	60.6
Tax effect of expenditure not deductible in determining taxable profits	1.4
Capital allowances in excess of depreciation	(4.6)
Other temporary differences	(0.4)
Prior year adjustment	(2.8)
Appointed current tax charge	**54.2**

The current tax charge allowed in price limits is reconciled to the appointed current tax charge as follows:

	£m
Total current tax charge allowed in price limits	45.3
Differences in profit before tax	15.4
Tax effect of expenditure not deductible in determining taxable profits	0.1
Capital allowances in excess of depreciation	(4.2)
Other temporary differences	0.4
Prior year adjustment	(2.8)
Appointed current tax charge	**54.2**

Notes to the Annual performance report

Year ended 31 March 2016

1 Regulatory reporting

The regulatory accounts as reported on pages 11 to 31 should be read in conjunction with the financial review set out on pages 22 to 26 of the consolidated Severn Trent Water Limited Annual Report and Accounts 2016 to aid understanding of the performance of the business.

Differences in recognition and measurement between statutory and regulatory financial accounts

Borrowing costs

Borrowing costs where directly related to the construction of an asset are capitalised in the statutory accounts. These amounts are not capitalised in the regulatory financial reporting statements in accordance with the RAGs.

Treatment of the defined pension benefit costs

The statutory accounts include the full cost and net deficit of the Severn Trent group's defined benefit pension schemes, whereas the regulatory accounts include only Severn Trent Water's share of the costs and net deficit. This creates a difference in operating costs and net finance costs in the income statement, actuarial gains and losses in other comprehensive income, and the retirement benefit obligation on the balance sheet. A difference in deferred tax has also arisen as a result of this accounting treatment.

Differences in presentation between statutory and regulatory financial accounts

Revenue and cost classification

Certain items which are netted off against operating costs within the statutory accounts are grossed up and shown as revenue for regulatory reporting. This includes developer contributions for administration costs incurred in relation to new connections and recharges for costs of repair from damages. Other items such as income from renewable energy incentives are shown as revenue in the statutory accounts and negative operating costs for regulatory reporting.

Difference in presentation of specific items required to be separately disclosed in the regulatory financial statements.

Profit or loss on disposal of fixed assets and non-operating income are included in operating costs in the statutory accounts but are shown as separate line items in the regulatory financial statements. In addition, interest income and costs relating to defined benefit pension schemes are included in finance income or cost respectively in the statutory accounts but are shown as other interest expense in the regulatory accounts.

The capex creditor and deferred income from grants and contributions are included within trade and other payables in the statutory accounts but are shown as separate items in the regulatory accounts.

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.05 'Guideline for classification of costs across the price controls'.

The tables presented in section 2 and 4 of the Annual Performance Report have been prepared in accordance with our Accounting Separation Methodology Statement which can be found at www.severntrentwater.co.uk. The methodology statement explains the bases for allocation of operating and capital expenditure and has been updated for changes to the requirements in the year. Wherever possible, direct costs and assets have been directly attributed to price controls. Where this is not possible, appropriate cost allocations have been applied as described in the methodology. Material changes to the allocation approach compared to the previous year are documented in the methodology statement.

2 Accounting policies

Basis of preparation

The regulatory financial statements are separate from the statutory financial statements of the company. They have been prepared on a going concern basis as set out in the Strategic Report of the Severn Trent Water Limited Annual Report and Accounts 2016 on page 30.

The regulatory financial statements have been prepared in accordance with Condition F of the Instruments of Appointment of the Water and Sewerage Undertakers and the Regulatory Accounting Guidelines as issued by the WSRA.

Revenue recognition

Turnover represents income receivable from regulated water activities, excluding value added tax.

Turnover includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information. There have been no changes in methodology in the year.

The Water Industry Act 1991, Chapter 1 A 'Licensing of Water Suppliers' describes the duties imposed on a water and sewerage undertaker and the licence conditions involved. Regulated activities are consequently those activities that are necessary in order for the appointee to fulfil the functions and duties of a water and sewerage undertaker.

Non-appointed income primarily consists of tankered trade waste income, car park income and marketing income.

Turnover is not recognised in respect of unoccupied properties. Properties are classified as unoccupied when:

- The company is informed that a customer has left a property and it is not expected to be reoccupied immediately;
- New properties are connected but are not occupied;
- Properties are disconnected following a customer's request; or
- The identity of the customer is unknown.

The following activities are undertaken to ensure properties classified as unoccupied are in fact not occupied:

- Where the company is informed that the customer has left a property and the property is expected to be occupied by someone else, a welcome letter is sent to the property encouraging the occupier to contact the company.
- If there is no response to the welcome letter within two months a void letter is sent to the property explaining that we have classified the property as empty and may schedule the property for disconnection.
- Meter readings are taken for metered unoccupied properties; where consumption is recorded, a letter is sent to the property.
- Inspections are organised throughout the year by geographical area.

Bad debts

Provisions are charged to operating costs to reflect the company's assessment of the risk of non-recoverability of debtors. Provisions are calculated based on the age of the debtor balance and the company's previous collection experience for balances of that age. The bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system.

The company's bad debt write off policy has remained unchanged and has been consistently applied in the current and the prior years.

Debt can only be written off if it is a legitimate charge against the debtor (if it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note) and if one of the following criteria is met:

- The customer does not have any assets or has insufficient assets on which to levy execution;
- The customer is bankrupt or has gone into liquidation and no dividend has been, or is likely to be, received;
- The customer has died without leaving an estate or has left an insufficient estate on which to levy execution and the company has been unable to prove its case in court; or
- All available economic options for collection of the debt have been pursued or that debt recovery procedures have proved to be ineffective or uneconomic to continue. Uneconomic circumstances are those where, following the application of debt recovery procedures:
  - the customer could not be traced without incurring an unreasonable degree of expenditure; or
  - the company has an insufficiently sound case to justify further expenditure on debt recovery procedures; or
  - the likelihood of recovering the debt is so small in particular circumstances that further expenses on debt recovery cannot be justified.

The above write-off rules apply primarily to customers to whom the company has ceased to provide a service. Only in exceptional circumstances is debt relating to continuing customers considered for write-off.

Other accounting policies

All other accounting policies applied to the regulatory financial reporting accounts are set out in pages 78 to 83 of the consolidated Severn Trent Water Limited Annual Report and Accounts 2016, including the capitalisation policy which is outlined within the property, plant and equipment accounting policy note. Full details of the capitalisation policy are outlined in the Accounting Separation Methodology Statement.

Current cost accounting

Although there is no longer a requirement to produce full current cost financial statements, the requirement to disclose summary current cost financial results has been retained in the Wholesale current cost financial performance table.

The capital maintenance charge has been calculated using the infrastructure renewals charge for below ground assets and current cost depreciation for above ground assets. For current cost depreciation the 2014-15 values have been indexed and adjusted for additions. For the infrastructure renewals charge, actual/forecast infrastructure renewals expenditure has been averaged over AMP6, to give an indicative calculation for a medium term cost.

3 Statement of directors' remuneration and standards of performance

Information regarding Directors' Remuneration can be found on pages 56 - 59 of the Severn Trent Water Limited Annual Report and Accounts 2016, including details of the link to performance, how remuneration was calculated and details of amounts paid. Further details in relation to outcomes against performance commitments are detailed in Section 3.

Price review & other segmental reporting

2

2A - Segmental income statement

Year ended 31 March 2016	Retail		Wholesale		Total
	Household £m	Non-household £m	Water £m	Wastewater £m	£m
Revenue - price control	117.5	25.6	664.8	704.7	1,512.6
Revenue - non price control	0.1	–	13.8	2.9	16.8
Operating costs	(86.8)	(17.0)	(478.5)	(435.5)	(1,017.8)
Other operating income	–	–	1.1	1.9	3.0
Operating profit before recharges	30.8	8.6	201.2	274.0	514.6
Recharges from other segments	(8.9)	(1.9)	(2.3)	(9.1)	(22.2)
Recharges to other segments	0.3	–	19.0	2.9	22.2
Operating profit	**22.2**	**6.7**	**217.9**	**267.8**	**514.6**
Surface water drainage rebates					**0.2**

2B - Totex analysis (wholesale)

Year ended 31 March 2016	Water £m	Wastewater £m	Total £m
Operating expenditure			
Power	47.9	26.7	74.6
Income treated as negative expenditure	(0.2)	(16.1)	(16.3)
Service charges / discharge consents	6.8	9.1	15.9
Bulk supply / bulk discharge	11.7	–	11.7
Other operating expenditure[1]	233.3	221.3	454.6
Local authority rates	45.2	29.3	74.5
Total operating expenditure excluding third party services	344.7	270.3	615.0
Third party services	5.1	0.3	5.4
Total operating expenditure	349.8	270.6	620.4
Capital expenditure			
Maintaining the long term capability of the assets - infra	–	–	–
Maintaining the long term capability of the assets - non- infra	120.2	137.5	257.7
Other capital expenditure - infra	52.6	61.0	113.6
Other capital expenditure - non-infra	55.9	29.1	85.0
Total gross capital expenditure excluding third party services	228.7	227.6	456.3
Third party services	–	–	–
Total gross capital expenditure	228.7	227.6	456.3
Grants and contributions (price control)	(21.2)	(38.6)	(59.8)
Totex	**557.3**	**459.6**	**1,016.9**
Cash expenditure			
Pension deficit recovery payments	7.1	6.3	13.4
Total cash expenditure	7.1	6.3	13.4
Totex including cash items	**564.4**	**465.9**	**1,030.3**

[1] Other operating expenditure includes net infrastructure renewals expenditure of £78.3m and £47.7m for Water and Wastewater respectively.

2C - Operating costs analysis (retail)

Year ended 31 March 2016	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	29.7	4.3	34.0
Debt management	7.0	1.9	8.9
Doubtful debts	20.1	3.4	23.5
Meter reading	4.6	1.4	6.0
Services to developers	–	1.8	1.8
Other operating expenditure	22.0	4.2	26.2
Total operating expenditure excluding third party services	83.4	17.0	100.4
Third party services operating expenditure	–	–	-
Total operating expenditure	83.4	17.0	100.4
Depreciation	3.4	–	3.4
Total operating costs	**86.8**	**17.0**	**103.8**
Debt written off	17.2	4.3	21.5

2C - Operating costs analysis (retail)

Year ended 31 March 2016

Differences between total operating costs and retail revenues allowed in price limits

Household

Retail household total operating costs of £86.8m are £24.2m (21.8%) lower than the Final Determination (FD).
This variance is made up of the following:

Customer services
Customer services costs of £29.7m are £2.4m (8.8%) adverse to the FD.

This is largely due to an increased focus on serving our vulnerable customers which has resulted in a shift of £1.1m from Debt management to Customer services. In addition, a change in organisational structure which led to costs of handling network enquiries and complaints being directly recorded in Retail rather than an allocation from Wholesale has resulted in an increase of £1.0m in relation to this activity.

Debt management
Debt management costs of £7.0m are £2.7m (27.8%) favourable to the FD.

As noted above, there has been a shift of £1.1m to Customer services costs as a result of the increased focus on vulnerable customers.

In 2015/16 part of the debt management activities for Household and Non-household were split into separate teams. Previously these costs had been allocated based on the net value of debtors. The switch from allocation to direct costs has resulted in a favourable variance for household compared to FD of £1.1m.

The remaining £0.5m favourable variance is driven by efficiencies within the debt management process which has allowed the same level of activity to be carried out at a lower cost.

Doubtful debts
Doubtful debts costs of £20.1m are £10.6m (34.5%) favourable to the FD.

The FD assumes bad debt costs of 2.7% of revenue compared to actual bad debt costs of 1.8% of revenue. The improvement was driven by better collection performance on amounts billed in the year and better management of aged debtor balances.

Meter reading
Meter reading costs of £4.6m are £0.9m (16.4%) favourable to the FD.

Total meter reading costs for all Retail customers for 2015/16 are £0.7m lower than the FD. All meter reading activity costs now derive from a dedicated team and hence there is no allocation required. Previously costs were based on an allocation from a larger team. Furthermore, we have changed our allocation methodology between Household and Non-household to allocate costs based on the time taken or meter reads whereas the FD allocation was based on the number of meter reads. This has resulted in an 11% reduction in the amount allocated to Household.

Other operating expenditure
Other operating expenditure of £22.0m is £6.5m (22.8%) favourable to the FD.

General and support costs are £1.0m favourable compared to the FD. This is attributable to lower general and support costs for the company arising from an organisational restructuring in 2015 partly offset by an increase in the bonus provision for 2015/16, additional training schemes and higher property costs driven by increased rates charges.

The retail household share of general and support costs has decreased due to a change in allocation methodology. PR14 allocates general and support expenditure between retail household and retail non-household based on customer numbers. For 2015/16 actuals, the updated guidance in RAG 2.05 has been applied, which indicates that allocation based on FTEs is preferable to customer numbers for specific general and support items.

A change in company policy in June 2015 on customer side leaks, whereby the company no longer repairs leaks without charge, has resulted in costs being £3.0m lower than the FD.

Business improvement and transformation activities included within other operating activities in the FD have been allocated to the relevant activity in 2015/16. This has resulted in a favourable variance of £1.3m compared to the FD which is offset in the other expense categories.

Depreciation
Depreciation charges of £3.4m is £5.9m (63.4%) favourable to the FD.

This is partly due to a difference in the FD methodology which only included depreciation on new assets (including use of asset recharges). The depreciation in 2015/16 includes charges on existing and new assets (excluding use of asset recharges). In addition as Retail Household is deemed to be the principal user for all retail assets this creates a further variance to FD. The adverse variance is partly offset by a timing difference driven by the delay in the delivery of a new CRM system into next year.

Non-household

Retail non-household total operating costs of £17.0m are £1.1m (6.9%) higher than the Final Determination (FD).
This variance is made up of the following:

Customer services
Customer services costs of £4.3m are £1.5m (25.9%) lower than the FD.

Increased efficiency in billing activities has been partially offset by an adverse variance on customer enquiries arising from a change in the organisation structure which allowed costs of network enquiries and complaints to be directly attributed rather than allocated (see above).

Debt management
Debt management costs of £1.9m are £0.2m (11.8%) higher than the FD.

As noted above, a change in the organisational structure has enabled part of the debt management costs to be directly attributed rather than allocated. This has resulted in an increase in the amount charged to Non-household.

Doubtful debts
Doubtful debts of £3.4m are £1.0m (22.7%) lower than the FD.

The improvement was driven by better collection of performance on amounts billed in the year and better management of aged debtor balances.

Meter reading
Meter reading costs of £1.4m are £0.2m (16.7%) higher than the FD.

As noted above, total meter reading costs are £0.7m lower than the FD and a change in the allocation methodology has resulted in a 15% increase in allocation to Non-household.

Services to developers
Services to developer costs of £1.8m is £1.4m higher than the FD.

Developer services costs in relation to providing information and administration for new connections are based on percentage allocations for individual roles within developer services calculated through analysis of tasks performed by each role, compared to a management estimate of retail activities at cost centre level in the FD.

Other operating expenditure
Other operating expenditure of £4.2m is £2.2m (110%) higher than the FD. The main variances are:

General and support costs are £2.0m adverse compared to the FD. As noted above, the total general and support costs are lower than the FD but a change in allocation methodology has increased the proportion of such costs allocated to Non-household.

The change in company policy to charge for customer side leaks has resulted in costs being £0.2m lower than the FD.

Other direct costs are £0.6m higher than FD. This is due to one-off business transformation costs.

Depreciation

Depreciation charges in the year are nil compared to charges of £0.4m in the FD.

As Household is deemed to be the principal user for all retail assets there are no principal user assets in the non-household business. This results in a favourable variance to FD which includes depreciation on legacy and new assets (including use of asset recharges).

2D - Historic cost analysis of fixed assets

As at 31 March 2016

	Wholesale		Retail		Total
	Water £m	Wastewater £m	Household £m	Non-household £m	£m
Cost					
At 1 April 2015	5,259.5	6,658.2	28.2	–	11,945.9
Disposals	(15.5)	(18.6)	–	–	(34.1)
Additions	219.2	223.3	0.2	–	442.7
At 31 March 2016	**5,463.2**	**6,862.9**	**28.4**	**–**	**12,354.5**
Depreciation					
At 1 April 2015	(1,963.0)	(2,547.8)	(14.7)	–	(4,525.5)
Disposals	8.8	15.6	–	–	24.4
Charge for the year	(116.6)	(169.6)	(1.2)	–	**(287.4)**
At 31 March 2016	**(2,070.8)**	**(2,701.8)**	**(15.9)**	**–**	**(4,788.5)**
Net book amount at 31 March 2016	3,392.4	4,161.1	12.5	–	**7,566.0**
Net book amount at 1 April 2015	3,296.5	4,110.4	13.5	–	**7,420.4**

2E - Analysis of capital contributions & land sales (wholesale)

Year ended 31 March 2016

	Fully recognised in income statement £m	Capitalised and amortised against depreciation £m	Total £m
Grants and contributions - water			
Connection charges (s45)	–	9.6	9.6
Infrastructure charge receipts (s146)	–	8.7	8.7
Requisitioned mains (s43, s55 & s56)	–	1.5	1.5
Diversions (s185)	7.0	–	7.0
Other contributions	1.7	1.4	3.1
Total	**8.7**	**21.2**	**29.9**
Grants and contributions - wastewater			
Infrastructure charge receipts (s146)	–	9.1	9.1
Requisitioned sewers (s100)	–	4.1	4.1
Diversions (s185)	2.4	–	2.4
Other contributions	–	25.4	25.4
Total	**2.4**	**38.6**	**41.0**

	Water £m	Wastewater £m	Total £m
Balance sheet - Capital contributions			
Brought forward as at 1 April 2015	387.0	442.0	829.0
Capitalised in year	21.2	38.6	59.8
Amortisation (in income statement)	(5.4)	(5.1)	(10.5)
Carried forward as at 31 March 2016	**402.8**	**475.5**	**878.3**
Land sales			
Proceeds from disposals of protected land	7.7	4.9	12.6

2F - Household revenues by customer type

Year ended 31 March 2016	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers 000s	Average household retail revenue per customer[1] £
Unmeasured water only customer	25.7	2.3	28.0	150	15.27
Unmeasured wastewater only customer	65.7	7.0	72.7	447	15.74
Unmeasured water and wastewater customer	541.9	53.5	595.4	1,692	31.62
Measured water only customer	19.0	2.3	21.3	116	19.48
Measured wastewater only customer	40.5	5.0	45.5	254	19.70
Measured water and wastewater customer	308.8	47.4	356.2	1,289	36.81
Total	**1,001.6**	**117.5**	**1,119.1**	**3,948**	**29.77**

[1] The average household retail revenue per customer is calculated by dividing the retail revenue by the number of customers. The calculation uses retail revenue values at 3 decimal places and actual customer numbers, therefore the average household retail revenue per customer disclosed will differ from the average calculated when using the numbers above.

2G - Non-household water revenues by customer type

Year ended 31 March 2016	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (number)	Average non-household retail revenue per customer[1] £
Non-default tariffs					
Non-default tariffs	-	-	-	-	-
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Band 1 - Water: unmetered	2.9	0.3	3.2	9,475	34.64
Band 2 - Water: 0-10 ml/a metered	105.8	9.7	115.5	170,876	57.29
Band 3 - Water: 10-50 ml/a metered	24.0	0.5	24.5	1,023	485.54
Band 4 - Water: 50+ ml/a metered	29.0	0.5	29.5	214	2,212.75
Band 5 - Water: Special Agreements - metered*	–	–	–	183	14.27
Total default tariffs	161.7	11.0	172.7	181,771	61.01
Total	**161.7**	**11.0**	**172.7**	**181,771**	**61.01**

* Retail revenue for Band 5 tariff is £0.003m

[1] The average non-household retail revenue per customer is calculated by dividing the retail revenue by the number of customers. The calculation uses retail revenue values at 3 decimal places, therefore the average non-household retail revenue per customer disclosed will differ from the average calculated when using the numbers above.

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2H - Non-household wastewater revenues by customer type

Year ended 31 March 2016	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (number)	Average non-household retail revenue per customer[1] £
Non-default tariffs					
Non-default tariffs	-	-	-	-	-
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Band 6 - Sewerage: unmetered	2.4	0.3	2.7	8,946	30.94
Band 7 - Sewerage: 0-50 ml/a - metered	54.6	4.2	58.8	169,606	24.79
Band 8 - Sewerage: 50-250 ml/a - metered	4.2	0.1	4.3	240	268.34
Band 9 - Sewerage: 250+ ml/a - metered*	3.4	–	3.4	38	107.95
Band 10 - Sewerage: Special Agreements - metered**	–	–	–	4	1.05
Band 11 - Surface Water Drainage: unmetered	2.5	2.4	4.9	20,362	114.15
Band 12 - Surface Water Drainage: 0-50 ml/a - metered	102.0	5.3	107.3	153,615	35.16
Band 13 - Surface Water Drainage: 50-250 ml/a - metered***	2.5	–	2.5	92	436.89
Band 14 - Surface Water Drainage: 250+ ml/a - metered****	2.2	–	2.2	37	764.73
Band 15 - Trade Effluent: 0-50 ml/a - metered	9.4	0.2	9.6	2,866	59.34
Band 16 - Trade Effluent: 50-250 ml/a - metered	11.5	0.2	11.7	94	1,684.81
Band 17 - Trade Effluent: 250+ ml/a - metered	11.5	0.2	11.7	21	7,855.87
Band 18 - Trade Effluent: Special Agreements – metered*****	–	–	–	3	–
Total default tariffs	206.2	12.9	219.1	355,924	36.07
Total	**206.2**	**12.9**	**219.1**	**355,924**	**36.07**

* Retail revenue for Band 9 tariff is £0.004m

** Retail revenue for Band 10 tariff is £0.000004m

*** Retail revenue for Band 13 tariff is £0.040m

**** Retail revenue for Band 14 tariff is £0.029m

***** Retail revenue for Band 18 tariff is nil

[1] The average non-household retail revenue per customer is calculated by dividing the retail revenue by the number of customers. The calculation uses retail revenue values at 3 decimal places, therefore the average non-household retail revenue per customer disclosed will differ from the average calculated using the numbers above.

2I - Revenue analysis and wholesale control reconciliation

Year ended 31 March 2016	Household £m	Non-household £m	Total £m
Wholesale charge - water			
Unmeasured	317.3	2.9	320.2
Measured	185.8	158.8	344.6
Third party revenue	–	–	–
Total	503.1	161.7	664.8
Wholesale charge - wastewater			
Unmeasured	316.0	4.9	320.9
Measured	182.5	201.3	383.8
Third party revenue	–	–	–
Total	498.5	206.2	704.7
Wholesale total	**1,001.6**	**367.9**	**1,369.5**
Retail revenue			
Unmeasured	62.8	3.0	65.8
Measured	54.7	20.9	75.6
Retail third party revenue	–	1.7	1.7
Retail total	117.5	25.6	143.1
Third party revenue - non-price control			
Bulk Supplies			5.1
Other third party revenue			1.2
Other appointed revenue			10.5
Third party revenue total			16.8
Total appointed revenue			**1,529.4**

	Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control	664.8	704.7	1,369.5
Grants & contributions	19.8	13.2	33.0
Total revenue governed by wholesale price control	**684.6**	**717.9**	**1,402.5**
Amount assumed in wholesale determination	667.8	711.2	1,379.0
Difference	**16.8**	**6.7**	**23.5**

Difference between allowed and actual revenue under the wholesale control

Wholesale revenue for 2015/16 of £1,402.5m is £23.5m (1.7%) higher than the amount assumed in the Wholesale Final Determination (FD)

Wholesale Water

Wholesale Water revenue of £684.6m is 16.8m (2.5%) higher than the FD. The main variances are as follows:

- Higher customer demand equating to revenue of £9.1m. There has been an underlying increase in consumption for both household (307 Ml/d against 333 Ml/d) and non-household (330 Ml/d against 337 Ml/d).
- A focus on revenue initiatives in Non-Household (e.g. bill the right service) has generated revenue from back billing of £3.2m.
- A net increase in revenue of £0.9m due to movement in void properties. An increase in household revenue reflects current year impact of voids work completed in March 2015 (£1.4m). Non-household has seen a general increase in void properties resulting in lower revenue (£0.5m).
- Lower customer numbers reducing revenue by £0.4m. Net movements in customer numbers due to growth, demolitions and optants have resulted in higher Household revenue of £0.8m. This is offset by a reduction in Non-Household of £1.2m.
- Other minor favourable variances on core tariff revenue of £0.4m.
- Net Wholesale Water capital revenue is £3.6m higher than the FD. This is due to requisition income of £1.5m omitted from the FD, infra charges £4.3m higher than FD and new connections revenue £2.2m lower.

Wholesale Waste

Wholesale Waste revenue of £717.9m is £6.7m (0.9%) higher than the FD. The main variances are as follows:

- Net movement in customer demand equating to lower revenue of £3.6m. There has been an underlying increase in consumption for both Household and Non-Household customers partially offset by an error in the Non-Household volume forecast (volumes overstated in charges submission).
- Focus on revenue initiatives in non-household (e.g. bill the right service) generating revenue from back billing of £2.9m.
- Lower customer numbers reducing revenue by £1.6m. Net movements in customer numbers due to growth, demolitions and optants have resulted in higher Household revenue of £0.5m. This is offset by a reduction in Non-Household of £2.0m, which is partly due to an error in property volumes forecast for surface water drainage charges.
- Other minor favourable variances on core tariff revenue of £0.2m.
- Net wholesale waste capital revenue is £8.8m higher than FD, this is due to requisition income of £4.1m being omitted from the FD and infra charges being £4.7m higher than FD.

Performance summary

3

Executive summary

This is the first year of delivering on the 45 performance commitments (PCs) we made in our business plan for 2015-20 (which covers our Sixth Asset Management Plan (AMP6)).

These PCs were developed through extensive consultation with our customers and our multi-stakeholder group, the Water Forum. They reflect where customers wanted us to make improvements the most. They are set at levels so as to ensure that we meet our statutory and regulatory obligations towards the environment and public health.

Of these 45 PCs, 33 have financial outcome delivery incentives (ODIs) attached in the form of rewards or penalties. The extent of any rewards or penalties earned for the majority of ODIs will be taken into account by Ofwat as we set charges for the 2020-25 period. For 13 of these ODIs we are able to apply to Ofwat for any net rewards to be recovered through charges the following year.

A further 12 PCs include reputational incentives, which we have also reported on.

A good start

We have delivered well against a challenging set of PCs this year, and made some significant improvements across a number of areas of service, to the benefit of our customers.

We achieved 17 of our 27 commitment targets for the year with the main successes including:

- Reducing internal sewer flooding incidents by 364 (31%)
- Reducing in external flooding incidents by 2754 (28%)
- Reducing the most serious pollution incidents by 8 (80%) and the more minor by 76 (21%)

Of the 13 PCs which generate in AMP financial rewards/ penalties we have earned a net reward of £19.8m (in 12/13 prices and net of tax). This is reported in the performance summary table below. However, we will be seeking for a lower figure of £18.8m to be applied to our customers' charges in 2017/18. We explain our reasons behind this below in the 'doing the right things for our customers' section.

More to do

Whilst we have made a good start, we have more to do to meet the commitments we made to our customers. This year we did not meet our annual targets on the ten other commitments. These include the following:

- 13,941 complaints about drinking water quality, 2,041 more than we committed to
- 53% of visible leaks repaired in 24 hours, 17% less than we committed to,
- 117,728 customers reached through our education programme, 37,272 below our target

We made considerable headway in helping customers who struggle to pay their bills - particularly through our new social tariff - but we recognise that we have much more to do to reach those in genuine need of support.

Our qualitative performance on Ofwat's Service Incentive Mechanism (SIM) fluctuated throughout the year. We recognise that we need to capitalise on where we have had successes with our customers, and deliver these more consistently next year.

And whilst our overall supply interruptions performance was better than our PC for this year, one incident in Nottinghamshire affected over 7,000 customers for more than 12 hours. We are committed to keeping this type of incident to a minimum.

Doing the right thing for our customers

This year we are reporting a reduction in our leakage levels of 10Ml/day. 9Ml/day of this reduction was driven by 'real' improvements. The remainder reflected methodological and data changes. These are explained in more detail on page 45. Whilst we believe that it is important that companies are incentivised to continue to make improvements in the accuracy with which they can report and target leakage, this year the level of outperformance we will seek to be applied to customer charges only reflects the real improvements reported.

At the close of the financial year, a drinking water quality incident at our Castle Donington reservoir affected 3,700 properties in Derbyshire and Leicestershire, the majority of which were able to use their water supply again within 24 hours. We expect the Drinking Water Inspectorate to report on this incident during the calendar year 2016 as a drinking water quality event. Following the event, we provided financial redress directly to those customers affected. We recognise that this event, and a significant supply interruption in Nottingham in February 2016 impacting over 7,000 customers, may have affected how our broader customer base perceives our service. We have worked hard to reduce the frequency of such events over the past few years, but we have more to do to ensure our customers are confident that we can deliver a consistently high level of service. In recognition of this, we have chosen to forego the reward of £0.9m we earned for reducing supply interruptions and will not be seeking for this to be reflected in bills during 2017/18.

All else remaining the same, the adjusted level of outperformance we have delivered this year would equate to around £6 increase in the average combined household bill for the year. Under the cost sharing mechanism included in our Final Determination, this reflects around half of the value that customers actually placed on the improvements made. This is expected to be largely offset by a reduction in the average combined household bill of a similar amount under the Wholesale Revenue Forecast Incentive Mechanism following the over collection of revenue in 2015/16.

Embracing change

This year we have embraced the change and renewed our focus on customers that PCs and ODIs have brought about. Our improvements have been driven by considerable hard work across the organisation and through a focus on:

- embedding customers at the heart of all we do;
- driving operational excellence and continuous innovation, and
- investing responsibly for sustainable growth.

We report on improvement activities under each PC in the remainder of this section.

Performance Summary

Row	Unique ID	Performance commitment	Units	2014-15 performance level - actual	2015-16 performance level - actual	2015-16 CPL met?	2015-16 reward or penalty (in-period ODIs)	2015-16 reward or penalty (in-period ODIs) £m absolute value	Notional reward or penalty accrued at 31 March 2016	Notional reward or penalty accrued at 31 March 2016 £m absolute value	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m absolute value
1	PR14SVTWSW_W-A1	W-A1: Number of complaints about drinking water quality	nr	14,339	13,941	No	Penalty	1.8	N/A	0	N/A	0
2	PR14SVTWSW_W-A2	W-A2: Compliance with drinking water quality standards	%	99.94	99.96	No	Penalty deadband	0	N/A	0	N/A	0
3	PR14SVTWSW_W-A3	W-A3: Asset stewardship - number of sites with coliform failures	nr	13	5	Yes	blank	0	blank	0	N/A	0
4	PR14SVTWSW_W-A4	W-A4: Number of successful catchment management schemes	nr	0	0	blank	N/A	0	blank	0	N/A	0
5	PR14SVTWSW_W-B1	W-B1: Resource efficiency (distribution input per customer) - amount of water taken out of the environment	nr	230	237	No	N/A	0	N/A	0	N/A	0
6	PR14SVTWSW_W-B2	W-B2: Leakage levels	nr	444	434	Yes	Reward	1.2*	N/A	0	N/A	0
7	PR14SVTWSW_W-B3	W-B3: Speed of response in repairing leaks (% fixed within 24 hours)	%	44	53	No	Penalty	0.2	N/A	0	N/A	0
8	PR14SVTWSW_W-B4	W-B4: Number of minutes customers go without supply each year (interruptions to supply > 3 hours)	time	9.90	11.17	Yes	Reward	0.9**	N/A	0	N/A	0
9	PR14SVTWSW_W-B5	W-B5: % of customers with resilient supplies (those that benefit from a second source of supply)	%	77.1	77.0	blank	N/A	0	blank	0	N/A	0
10	PR14SVTWSW_W-B6	W-B6: Asset stewardship - mains bursts	nr	6,253	4,784	Yes	blank	0	N/A	0	N/A	0
11	PR14SVTWSW_W-B7	W-B7: Customers at risk of low pressure	nr	230	162	Yes	Reward	0.1	N/A	0	N/A	0
12	PR14SVTWSW_W-B8	W-B8: Restrictions on water use	nr	0	0	Yes	N/A	0	blank	0	N/A	0
13	PR14SVTWSW_W-B9	W-B9 Timing delays on Birmingham resilience scheme	text	NA	NA	blank	N/A	0	blank	0	N/A	0
14	PR14SVTWSW_W-B10	W-B10 Non-delivery of the outcome of the Birmingham resilience scheme	text	NA	NA	blank	N/A	0	blank	0	N/A	0
15	PR14SVTWSW_W-B11	W-B11 Timing delays on community risk schemes	text	NA	NA	blank	N/A	0	blank	0	N/A	0
16	PR14SVTWSW_W-B12	W-B12 Non-delivery of the community risk schemes	text	NA	NA	blank	N/A	0	blank	0	N/A	0
17	PR14SVTWSW_W-B13	W-B13 Timing delays on Elan Valley Aqueduct (EVA) maintenance	text	NA	NA	blank	N/A	0	blank	0	N/A	0
18	PR14SVTWSW_W-B14	W-B14 Non-delivery of the Elan Valley Aqueduct (EVA) maintenance	text	NA	NA	blank	N/A	0	blank	0	N/A	0
19	PR14SVTWSW_W-C1	W-C1: Customers rating our services as good value for money (based on tracker survey)	%	51	57.48	Yes	Reward	0.1	N/A	0	N/A	0
20	PR14SVTWSW_W-D1	W-D1: Improvements in river water quality against WFD criteria	nr	0	0	blank	N/A	0	blank	0	N/A	0
21	PR14SVTWSW_W-D2	W-D2: Asset stewardship - environmental compliance	%	95.74	97.51	No	N/A	0	N/A	0	N/A	0
22	PR14SVTWSW_W-D3	W-D3: Biodiversity	hectares	328	323	blank	N/A	0	blank	0	N/A	0
23	PR14SVTWSW_W-D4	W-D4: Sites with eel protection at intakes	nr	0	0	blank	N/A	0	N/A	0	N/A	0
24	PR14SVTWSW_W-E1	W-E1: Size of our carbon footprint	ktCO2e	239	247	No	Penalty	0.3	N/A	0	N/A	0
25	PR14SVTWSW_W-F1	W-F1: Improved understanding of our services through education	nr	52,127	117,728	No	N/A	0	N/A	0	N/A	0
26	PR14SVTWSWW_S-A1	S-A1: Number of internal sewer flooding incidents	nr	1,168	804	Yes	Reward	9.0	N/A	0	N/A	0
27	PR14SVTWSWW_S-A2	S-A2: Number of external sewer flooding incidents	nr	9,896	7,142	Yes	Reward	6.1	N/A	0	N/A	0
28	PR14SVTWSWW_S-A3	S-A3: Partnership working	nr	0	0	blank	N/A	0	blank	0	N/A	0
29	PR14SVTWSWW_S-A4	S-A4: Asset stewardship - blockages	nr	45,920	44,107	Yes	blank	0	N/A	0	N/A	0
30	PR14SVTWSWW_S-A5	S-A5: Statutory obligations (Section 101A schemes)	nr	0	35	blank	N/A	0	blank	0	N/A	0
31	PR14SVTWSWW_S-B1	S-B1: Customers rating our services as good value for money (based on tracker survey)	%	51	57.48	Yes	Reward	0.1	N/A	0	N/A	0
32	PR14SVTWSWW_S-C1	S-C1: Improvements in river water quality against WFD criteria	nr	0	0	blank	N/A	0	blank	0	N/A	0
33	PR14SVTWSWW_S-C2	S-C2: The number of category 3 pollution incidents	nr	369	293	Yes	Reward	4.4	N/A	0	N/A	0
34	PR14SVTWSWW_S-C3	S-C3: Asset stewardship - environmental compliance	%	95.74	97.51	No	N/A	0	Penalty deadband	0	N/A	0
35	PR14SVTWSWW_S-C4	S-C4: Biodiversity	hectares	328	323	blank	N/A	0	N/A	0	N/A	0
36	PR14SVTWSWW_S-C5	S-C5: Sustainable sewage treatment	nr	0	0	blank	N/A	0	blank	0	N/A	0
37	PR14SVTWSWW_S-C6	S-C6: Serious pollution incidents	nr	10	2	Yes	N/A	0	N/A	0	N/A	0
38	PR14SVTWSWW_S-C7	S-C7: Overall environmental performance (basket of environmental measures)	nr	Calculated in 2018/19	Calculated in 2018/19	blank	N/A	0	N/A	0	N/A	0
39	PR14SVTWSWW_S-C8	S-C8: The number of category 4 pollution incidents	nr	200	186	Yes	N/A	0	N/A	0	N/A	0
40	PR14SVTWSWW_S-D1	S-D1: Size of our carbon footprint	ktCO2e	252	238	Yes	Reward	0.2	N/A	0	N/A	0
41	PR14SVTWSWW_S-E1	S-E1: Improved understanding of our services through education	nr	52,127	117,728	No	N/A	0	N/A	0	N/A	0
42	PR14SVTHHR_R-A1	R-A1: Customer satisfaction with their service (based on a survey)	text	Median	Median	Yes	N/A	0	N/A	0	N/A	0
43	PR14SVTHHR_R-A2	R-A2: Customers' experience of dealing with us (based on Ofwat's SIM)	text	N/A	83.7	blank	N/A	0	N/A	0	N/A	0
44	PR14SVTHHR_R-B1	R-B1: Customers helped by a review of their tariff & water usage &/or supported by SVT social fund	nr	N/A	24,110	No	N/A	0	N/A	0	N/A	0
45	PR14SVTHHR_R-B2	R-B2: Percentage of customers who do not pay (household bad debt divided by total household revenue)	%	2.2	1.8	Yes	N/A	0	N/A	0	N/A	0

* We are only claiming the reward due to reduction in real losses for leakage (£1.107m reward to be claimed).

** Due to some high profile incidents, we do not think it appropriate to claim the reward for WB4 – Number of minute's customers go without supply

Notes: We have used 'blank' to indicate where there is no relevant information to report (for example where the PC does not have a committed level of performance within the report year)

We have used 'not applicable' to indicate where the cell is not relevant to the PC (e.g. the incentive cells for non-financial ODIs)

Performance Summary

About this chapter

Our business plan for 2015-20 was developed based on three years' consultation and discussion with our customers and stakeholders. It is driven by – and for – our customers.

Our plan includes:

- 10 strategic, long term objectives;
- 45 PCs that we will achieve by 2020, the majority of which have interim annual commitments
- 33 financial outcome delivery incentives attached to PCs (which attract a reward for out-performance, a penalty for under-performance, or attract a penalty only); and
- 12 reputational ODIs where we are holding ourselves publicly to account where we have not delivered our committed level of performance.

Our PCs were developed in consultation with our customers. They seek to drive improvements where customers want them the most, and our financial ODIs are set at a level that reflects the value customers place on these improvements. Our PCs also incorporate our statutory obligations towards the environment and public health.

The development of our plan was challenged by our multi-stakeholder Water Forum. It was agreed with Ofwat, our economic regulator, in its 2014 Final Determination. The Water Forum now has an on-going role to challenge the delivery of our PCs in line with this Final Determination.

In this section, we set out the progress we made in the first year of our plan (2015/16) against our 45 PCs. All financial information included in this section is reported in the 2012/13 price base in line with the 2014 Final Determination.

The level of future performance is uncertain and may depend on factors outside of our control. For this reason it is not possible to make reasonably reliable estimates of performance against our commitments in future years. Therefore no forecast information has been included in this report.

Focusing on our commitments

The new framework of PCs and ODIs we are working in is helping us to think differently about what we do, and how we do it, so that we:

- embed customers at the heart of all we do
- drive operational excellence and continuous improvement, and
- invest responsibly for sustainable growth.

Embedding customers at the heart of all we do

ODIs have helped us look at our activities differently. By understanding the value of every unwanted contact about water quality, about every sewer flooding or pollution incident, we have been more focused than ever before on resolving the issue for our customers, not just on repairing the problem with our assets.

At the start of the year we embarked on an education and training programme across our whole business. For the first time we were able to directly link the impact of our activities, especially any service failures, to the value our customers and stakeholders placed on them. This has given everyone a real understanding of the impact of our actions.

Driving operational excellence and continuous innovation

Across our business we have started using our data differently to better target investment and intervention. We are aligning our supply chain and delivery partners to ensure we are all incentivised to aim for the same goal. We focused on getting to the root cause of any incidents and embedded by using 'Communities of Practice' which bring together experts from across the company and empower them to share knowledge and drive improvements.

A great example of this way of working was towards our supply interruptions PC. During July, our 'Zero Heroes' campaign challenged us to go a whole month without adding any time to our measure (minutes customers are without supply). We had one of our best months ever adding just 26 seconds.

Our 'Cleanest Water Plan' is a key element in our drive for operational excellence. It is a coordinated package of initiatives aimed at ensuring we are the best water company for water quality by 2020. We are one year in to our three year journey. Highlights from our first year include a programme of service reservoir and tank cleaning, wide scale training for all our key water treatment works operators and an improvement in customer complaints resolution time by 85%.

Whilst we have had some successes so far, we know we have more to do to ensure the consistently excellent quality of drinking water that our customers rightly expect. In year two we are focussing on improving the control of our key water treatment processes and improving our water quality complaints performance.

Investing responsibly for sustainable growth

Our approach to asset management is becoming increasingly proactive. We are planning well into the future and delivering sustainable changes that are embedded in our business. We are also committed to ensuring our whole asset base is fit for purpose for both today's customers and our customers of the future. Through our PCs, and tracking other measures internally, we are able to monitor the health of our pipes, sewers, and treatment works and all of our other assets.

This year we started our 'Proactive Asset Management programme'. This is a major project covering a number of work streams such as our overall strategy, asset data and performance, risk management and operating models. We expect this to help us deliver excellent customer service through a focus on asset management as well as delivering efficiencies in our processes and our investment.

Information that can be trusted

Publishing robust, accurate and assured data and information in a transparent way is key to building trust with our customers, stakeholders and regulators. Over the last 10months we have worked with our stakeholders to target where we should focus our assurance. Based on their feedback, all 45 PCs in this document have undergone independent technical assurance by Jacobs Consulting (Jacobs) at both the half and full financial year.

Our performance has also been challenged by the Water Forum at both the half and full financial year. The Water Forum has also reviewed this section of the Annual Performance Report.

Full details of the assurance undertaken are included in our accompanying 'Assurance summary' document'.

Ensuring transparency

During the course of our half-year assurance, we identified a number of PCs where the measure agreed with Ofwat in its 2014 Final Determination could be open to interpretation. This includes a number of PCs where the incentive rate is described as 'per-year' but is intended to be determined at the end of the AMP period. In these circumstances the reward or penalty will be for the whole AMP period and include all five years' of incentive in the calculation.

To ensure transparency about the basis on which we have reported, throughout this section we have highlighted where the wording of the Final Determination is open to interpretation. For each PC we have explained our understanding of the issue and detailed how we intend to report on performance. This approach has been discussed with the Water Forum and Ofwat.

ODIs and customers' charges

Whether we under or outperform against our ODIs will ultimately impact on average household and wholesale charges. Our performance – be it a net reward or a penalty position - will be taken into account by Ofwat as we develop our business plan and charges for 2020-25.

We are one of just three water and waste water companies who are also able to apply for some financial rewards earned during any year to be applied to bills during the 2015-20 period, (that is, before our full plan is completed). 13 of our PCs qualify for 'in period' rewards. Later this year (2016/17) we will apply to Ofwat to have total net rewards of £18.8m (after tax) taken into account in our 2017/18 charges. This is driven by outperformance on:

- Internal sewer flooding events earning a reward of £9.0m
- External sewer flooding events earning a reward of £6.1m
- Category three pollution incidents earning a reward of £4.4m

And offset by underperformance on:

- Drinking water quality contacts being penalised by £1.8m
- Carbon emissions for the water service being penalised by £0.3m

This year we are reporting a reduction in our leakage levels of 10Ml/day. 9Ml/day of this reduction was driven by 'real' improvements. The remainder reflected methodological and data changes. These are explained in more detail on page 45. Whilst we believe that it is important that companies are incentivised to continue to make improvements in the accuracy with which we can report and target leakage, this year, the level of outperformance we will seek to be applied to customer charges only reflects the real improvements reported.

At the close of the financial year, a drinking water quality incident at our Castle Donington reservoir affected 3,700 properties in Derbyshire and Leicestershire. We expect the Drinking Water Inspectorate (DWI) to report on this incident during the calendar year 2016 as a drinking water quality event. Following the event, we provided financial redress directly to those customers affected, the majority of which were able to use their water supply within 24 hours.

We recognise that this event and the significant supply interruption in Nottingham in February 2016 affecting more than 7,000 customers, may also have affected how our broader customer base perceive our service. We have more to do to build confidence that we can deliver a consistently high level of service. In recognition of this, in the ODI net reward figure reported above we have chosen to forgo the reward of £0.9m we earned for reducing supply interruptions.

All else remaining the same, the adjusted level of outperformance we have delivered this year would equate to around £6 increase in the average combined household bill for the year. Under the cost sharing mechanism included in our Final Determination, this reflects around half of the value that customers actually placed on the improvements made. This is expected to be largely offset by a reduction in the average combined household bill of a similar amount under the Wholesale Revenue Forecast Incentive Mechanism following the over collection of revenue in 2015/16.

Outcome 1:
We will provide water that is good to drink

Introduction

Our customers consistently tell us that drinking water quality is their highest priority. They trust us to deliver water that is safe and pleasant to drink.

We measure our progress towards this outcome against four PCs. Each has financial delivery incentives attached:

- reducing the number of customer complaints about drinking water quality;
- improving compliance against drinking water quality standards;
- reducing the number of coliforms detected at our treatment works; and
- using catchment management schemes to protect the quality of our raw water sources.

PC	2015/16 Target	2015/16 Actual	Reward/ (Penalty)
Drinking Water Quality Complaints	11,900	13,941	(£1.8m)
Drinking Water Quality Compliance	99.97%	99.96%	-
Coliforms	<8	5	-
Successful Catchment management	N/A	-	-

This outcome is a priority area for improvement. In 2015 we launched our 'Cleanest Water Plan' which comprises a range of initiatives designed to improve our drinking water quality, and our customers' satisfaction with it. During the course of 2016/17 we will be embedding these improvement initiatives into our wholesale and customer operations.

We discuss our performance against each of the PCs in turn.

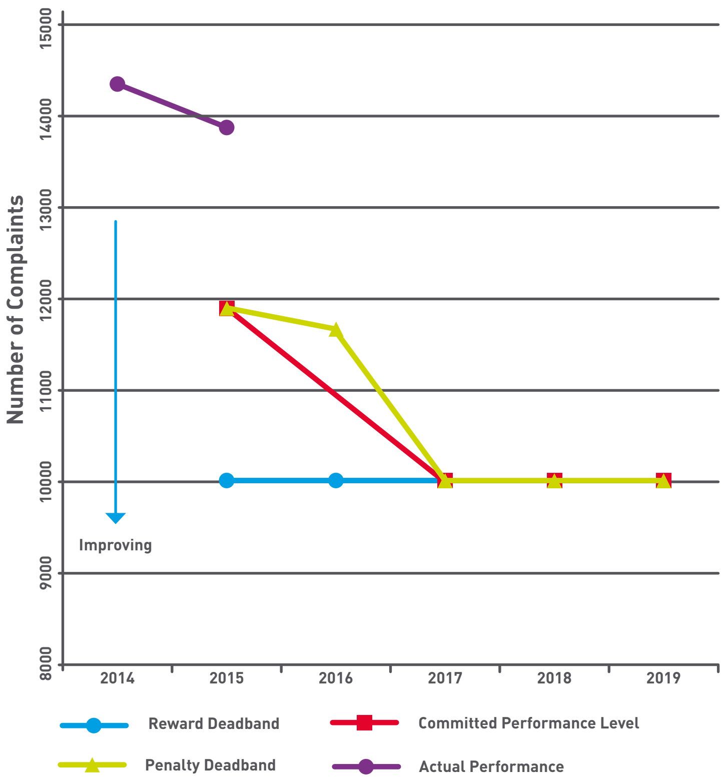
WA1 – Drinking water quality complaints

This PC measures the total number of customer complaints about discolouration, taste and odour per calendar year. It has both financial rewards and penalties attached.

Performance in 2015

In 2015, whilst we reduced the number of drinking water quality complaints from 14,339 to 13,941, we did not achieve our committed performance level of 11,900. This will be reflected in a penalty payment of £1.8m. Our actual performance relative to our PC, and the point at which penalties and rewards apply, is illustrated in figure 1 below:

Figure 1: WA1 - Drinking Water Quality Complaints



Improvement activities in 2015

This year we undertook a range of activities to improve our performance. We cleaned 1,500km of water mains, 500km of which was targeted in communities with the highest risk of discolouration. We also undertook schemes to replace unlined cast iron mains to reduce potential discolouration.

Fire hydrants, if improperly used, can cause discolouration by disturbing mains sediment. We began a number of projects towards the end of 2015 to manage this risk, such as trialling new hydrant locking caps in the Derbyshire area to reduce illegal hydrant use, and training the Fire Services to use hydrants in a way that causes minimum disruption to the network.

We invested in more turbidity monitors for field staff. These monitors help field workers who carry out maintenance or repairs to our distribution network to understand if their work could impact water quality and appearance.

As well as tackling discolouration, by removing hand dosing of chlorine from the majority of sites which still practiced this approach, we made progress to address taste and odour issues caused by occasional minor changes in chlorine levels.

We also worked with our external assurance providers to improve confidence in our reported data. This included undertaking a number of retrospective checks to ensure complaints had been properly categorised. We shared the outcome of this review with the Water Forum. No material issues were found.

Improvement activities planned for 2016

Some of our activities did not deliver the reduction in complaints expected during 2015. However, we anticipate that the benefits to customers of a number of the initiatives begun in 2015 will be realised in 2016. We are also strengthening the governance of projects to expedite the delivery of the anticipated benefits.

There are a number of initiatives planned for 2016.

We will continue to invest in the maintenance and renewal of our distribution network through mains cleaning and replacement, as well as using more tactical projects to address specific issues. For example, a new initiative for the year ahead focusses on proactive customer messaging to keep them better informed in advance of water quality issues.

We are also exploring the use of new, innovative approaches to deliver improvements. As part of a research and development project, we are using a new theory of metal behaviour to drive a greater reduction in metals at our treatment works, particularly manganese, and their impact on discolouration and to understand how changes in the condition of the trunk mains within our network could affect discolouration, we will be looking at how PODDS theory (Prediction of Discolouration in Distribution Systems) can be practically applied.

WA2 – Drinking water quality

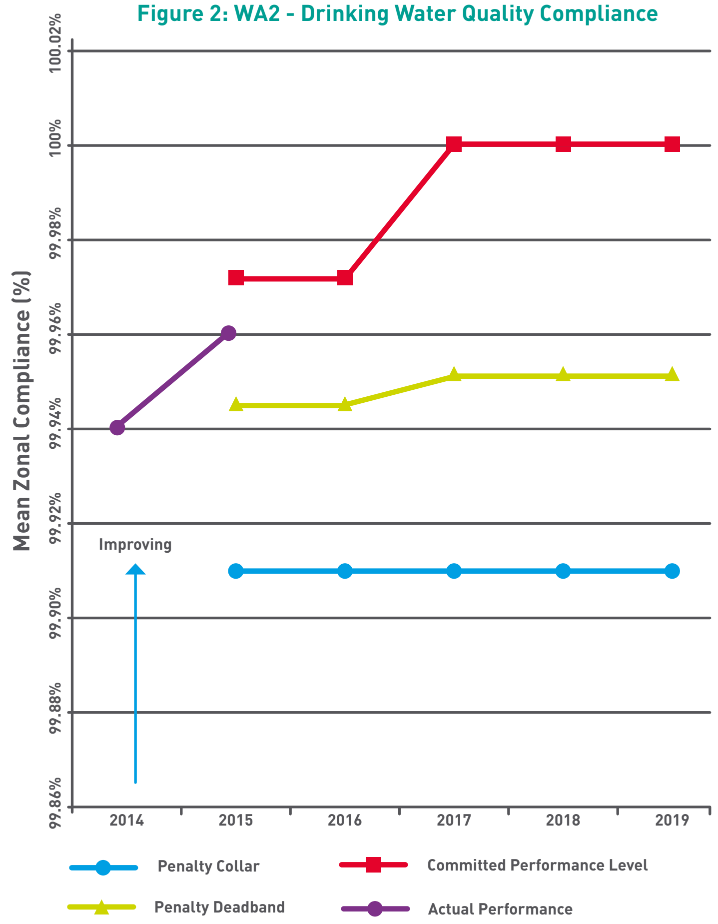
This PC is based on the DWI's mean zonal compliance (MZC) measure which calculates the percentage of samples taken from customers' taps (or sampling points) which meet all 40 parameters covered by the Water Supply (Water Quality) Regulations 2000. Our company-wide MZC is the arithmetic mean of every water supply zone's percentage compliance. An improvement in this percentage means that there have been fewer failures (of statistical significance) that have impacted on the quality of water at customers' taps. It is a calendar year measure and has financial penalties only.

Performance in 2015

Our outturn performance was 99.96% - an improvement on the previous year (99.94%) - but slightly below the 99.97% committed performance level for 2015. The penalty threshold for this PC is 99.945% in this year, therefore no penalty has been incurred. This is illustrated in figure 2 above.

The DWI has commented on our performance in comparison with the wider industry in its annual report.

Figure 2: WA2 - Drinking Water Quality Compliance



Improvement activities in 2015

Our Cleanest Water Plan places a strong emphasis on root cause analysis. This year we have been working to understand the impact that using suboptimal sampling bottle material can have on sample results. We have undertaken a number of actions this year to help address this problem including changing the bottle material to ensure no false-negative results occur due to the bottle material. To support this, we have also built our own 'app' for use by our operational control centre agents and field workers to properly categorise circumstances and ensure that the correct sampling approach and materials are used. This has contributed to fewer taste and odour failures in 2015.

Progress was also made with a lead replacement scheme in Wolverhampton and Willenhall to reduce the risk of lead failures in this high risk area. Further work is planned in this area for 2016.

Outcome 1:
We will provide water that is good to drink

Improvement activities planned for 2016

Whilst in 2015, we fell just short of the overall level of water quality we committed to deliver, we are confident that a number of the initiatives we are undertaking will realise greater benefits in the coming year. We remain committed to meeting our performance level for 2016.

Over the next 12 months, in order to reduce the risk of lead failures, we will invest in three first time phosphate dosing projects. Two lead pipe replacement schemes will also be completed.

To reduce the number of iron and manganese failures, we will continue our mains cleaning and rehabilitation work, as well as investigating the impact of innovative technologies to address discolouration issues, such as manganese reduction and control at treatment works.

We will also complete a number of schemes to reduce the risk of failures for customers in smaller water quality zones.

WA3 – Asset Stewardship – Coliforms

This PC is one of four 'asset stewardship' measures designed to ensure that we are sufficiently maintaining and investing in our assets now so that they can continue to serve customers in the future. The PC is defined as the number of treatment works which had coliform detections in regulatory sampling. It has financial penalties only and is a calendar year measure.

Coliform bacteria detection is used as an indicator of the microbiological quality of water supplies. The presence of coliforms in water supplies can indicate a problem with our treatment processes.

Performance in 2015

During 2015 we detected coliforms at five water treatment works sites, which is better than our committed performance level of fewer than eight works with coliform detections. This is an improvement on our performance in 2014 where we identified 13 water treatment works with failures. No penalty is incurred. This is illustrated in figure 3 below.

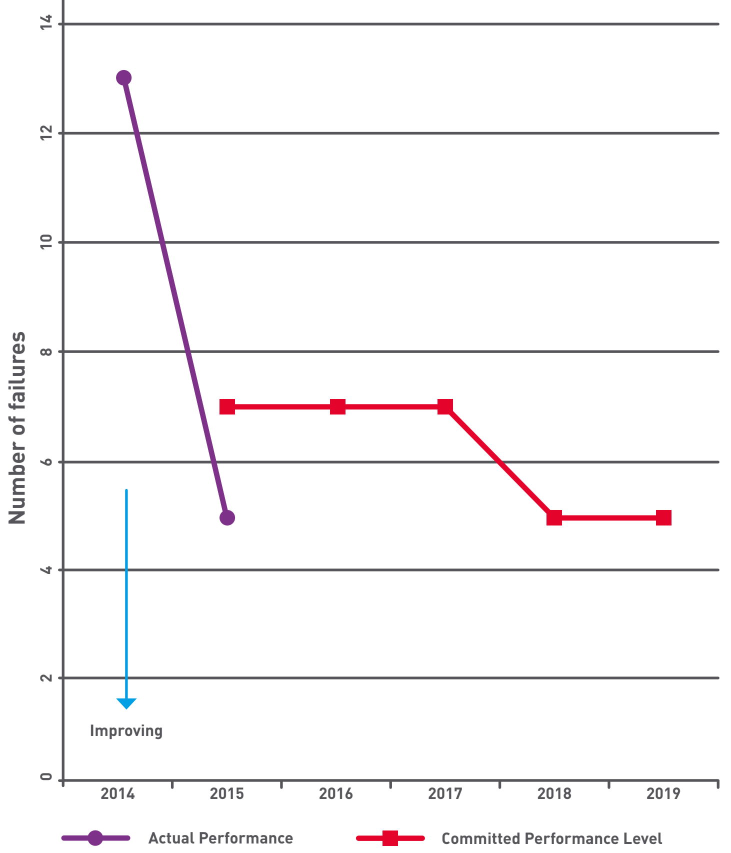
Improvement activities in 2015

This year we have made progress at reducing the reoccurrence of coliforms at treatment works where they have previously been detected. This improvement has been driven by undertaking detailed root cause analysis, and following with remedial actions – for example making contact ingress repairs at Melbourne water treatment works.

As part of our AMP6 programme, we have progressed investment in rapid gravity filters at Church Wilne and Little Eaton treatment works, in addition to the completion of a pumping scheme and additional treatment tank at Frankley water treatment works.

We are also beginning to see the benefits from the installation of 12 new ultra violet (UV) steriliser plants at groundwater sites completed at the end of AMP5. A further eight were installed during 2015/16.

Figure 3: WA3 - Asset Stewardship - Coliforms



Improvement activities planned for 2016

Over the next 12 months, we will continue to embed the improvement initiatives from our Cleanest Water Plan into our wholesale and customer operations. One of these initiatives, our Operational Effectiveness Programme, which scrutinises in detail, (in consultation with site operatives), the day-to -day operation of our process and works, will continue to be rolled out across our major sites.

We will continue to progress AMP6 investment in rapid gravity filter schemes (a further 14 schemes are proposed), and UV plants to enhance our disinfection processes.

We believe the benefits from these schemes, and from those initiated in 2015, will help us to meet committed level of performance for 2016.

WA4 – Successful catchment management

This PC is defined as the number of catchment management schemes that succeed in changing farming infrastructure and practices. The successful delivery of these schemes will help to protect the quality of our raw water sources. This PC has financial rewards and penalties which will be determined in 2018/19.

The Final Determination did not define what a 'successful catchment management scheme' was. To quantify this we have developed a series of key performance indicators (KPIs), which are catchment specific, to act as an indicator of success given that real changes in water quality are unlikely to be seen within the reporting period.

We presented the above clarification to the Water Forum; we agreed to discuss the detailed KPIs with individual members but, overall, there was agreement to the approach we had taken to define successful delivery.

Performance in 2015

In our 2015-20 plan, we committed to delivering 12 successful catchment schemes by 2018/19. There are no interim annual commitments (including for 2015/16). Accepting that we have experienced some delays with initiating schemes (see below), there is typically a lead time from the initiation of a scheme before it begins to operate successfully. We are therefore reporting zero schemes delivered in the year.

In order to ensure there is transparency and a consistent understanding of what 'successful' comprises we have developed a suite of key performance indicators (KPIs). This approach has been discussed with, and supported by, the Environment Agency and Water Forum.

The KPIs focus on the proportion of farmers changing their infrastructure and practices, as changes in raw water quality are not expected to be observed during the reporting period. The application of KPIs varies between catchments, depending on each area's specific circumstances (e.g. metaldehyde KPIs are not applicable to all catchments).

The KPIs are:

- To have engaged with 90% of target farms in priority areas.
- To have had positive engagement with 80% of farms following 1-2-1 visits or farmer workshops.
- To have had 75% attendance at workshops based on venue capacity.
- 80% of farmers in priority areas (who have received advice) confirm their knowledge of Severn Trent water quality issues in their catchment has increased.
- 75% of farms in priority areas and with high risk fields have applied for our Farmers as Producers of Clean Water (FaPCW) scheme or metaldehyde substitution scheme.
- 100% of the annual Severn Trent Environmental Protection Scheme (STEPS) grant budget spent each year during AMP6.
- 10% of farms receive repeat visits, to see what advice has been followed and what measures have been taken up.

Independent audits of our KPI data have been carried out to ensure what we have recorded is correct and accurate. This work has been carried out by agricultural consultants. They have audited 10.7% of the farms we had engaged with between 15 April 2015 and 22 December 2015.

Further assurance has been undertaken by Jacobs. Their findings, and our responses are reported in our Assurance Summary.

Improvement activities in 2015/16

The recruitment of both internal agricultural advisers and external catchment advisers is vital to the delivery of 'successful' catchment schemes. Securing eight internal agricultural advisers with the appropriate skills and experience has proven to be difficult, resulting in a six month delay to the start of our AMP6 catchment scheme delivery. As a consequence we were unable to run two key schemes that were originally planned for year one.

To account for the delay in recruiting our agricultural advisers, we adjusted our catchment action plans to ensure we remain on track to meet our 2018/19 commitment target.

We have also been working in close partnership with a number of key stakeholders and identified projects where we can deliver multiple environmental benefits. They include the following:

- As a lead partner we helped secure €16 million of EU funding for a project to deliver water quality and peatland restoration in the Upper Derwent Valley through our Moorlife 2020 collaboration. This effectively quadrupled the funding available had we undertaken this initiative alone.
- Working alongside Nottinghamshire Wildlife Trust and the Environment Agency in the River Idle Catchment to jointly fund a catchment adviser to work with farmers on water quality issues around our boreholes, as well as deliver wetland creation and sediment reduction projects within the catchment.

Improvement activities planned for 2016/17

Over the next 12 months our activities will cover a range of farmer visits and workshops/farm demonstration events. This will focus on delivering the initiatives delayed from year one.

Outcome 2: We will ensure water is always there when you need it

Our customers expect, and depend on, a reliable supply of water.

Across our region, the communities we serve continue to grow, creating further demand on water resources and our infrastructure. At the same time, the amount of water we take out of the environment could have a long-lasting detrimental impact on local habitats and ecosystems. So we cannot just abstract more water to meet this increased demand. We need to ensure that we use water resources responsibly, and encourage our customers to do the same.

Based on our customers' feedback, and our statutory obligations, we devised eight PCs for this objective.

To help reduce demand on our raw water sources and to ensure we use water responsibly, one PC measures the amount of water we take from the environment and put in to our network (per person served) and a further two focus on a key priority area for our customers, leakage - both the total level of leakage and our speed of response to fix visible leaks.

Four PCs relate to the ability of our network to deliver water. These are:

- the average time customers are without supply in a year,
- the percentage of customers who can be supplied from an alternative source,
- the number of bursts on the network, and
- the number of customers at risk of receiving water at low pressure.

To measure our overall ability to supply sufficient water, one PC relates to the number of temporary use bans we have to enforce.

A further PC, discussed under this outcome - we will protect our local environment – focuses on specific schemes to reduce the amount of water we abstract from the environment.

In addition, we have six PCs relating to longer term resilience and our maintenance schemes for the Elan Valley Aqueduct.

PC	2015/16 Target	2015/16 Actual	Reward/ (Penalty)
Resource efficiency (l/p/day)	225	237	-
Leakage (Ml/day)	444	434	£1.23m***
Speed of response (%)	70	53	(£0.2m)
Minutes lost (min)	13.6 (13 min, 36 seconds)	11.17 (11 min, 10 seconds)	£0.9m*
Resilient supplies (%)	N/A	77.0	-
Mains bursts (no. of homes)	<6,905**	4,784	-
Low pressure	250	162	£0.1m
Temporary use bans	0	0	-

* Due to a number of high profile events during the year, we do not think it is appropriate to claim the reward for WB4 – Number of minute's customers go without supply

** Shadow performance commitment set by Severn Trent Water. See section WB6 for details

*** Only reward due to real loses in leakage will be claimed

WB1 – Resource efficiency

Our customers expect us to use the water we take from the environment responsibly.

This PC is defined as the total volume of water we put into distribution, divided by household population. It is measured as the number of litres per person per day put in to supply (distribution input). This is a reputational PC.

Performance in 2015/16

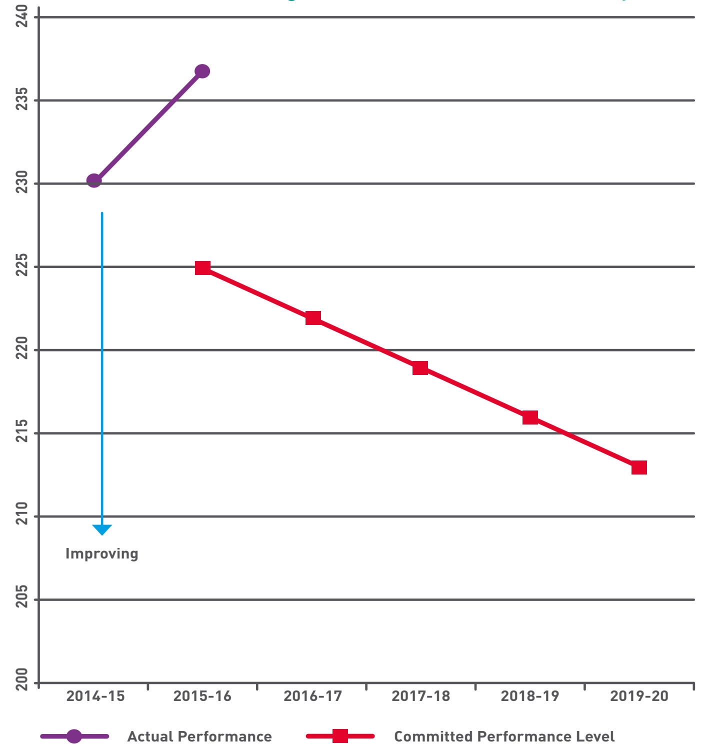
We are reporting an outturn position of 237 litres per person per day which falls short of our committed performance level of 225 litres per person per day. However, as our performance falls within the penalty deadband, there is no financial penalty due; see figure 4 below.

Our resource efficiency PC is impacted by a number of factors which drive the total amount of water we have to put in to our network (distribution input).

Some of our activities reduce the distribution input, such as driving down our overall level of leakage to 434Ml/day for 2015/16 and encouraging our customers to use less water through water efficiency savings of 4.32Ml/day.

There are also upward pressures which, this year, have outweighed the savings above. Primarily this is because both household demand and commercial demand have increased in 2015/16 to 25Ml/day and 28Ml/day respectively. Commercial demand in particular, has been higher than we initially forecast in 2012/13, reflecting the improving economic environment since that time.

Figure 4: WB1 - Resource Efficiency



Improvement activities in 2015/16

This year we have continued to act to reduce leakage. These activities are explained in 'WB2-Leakage levels overleaf.

To promote water efficiency amongst our customers we successfully trialled a free water efficiency 'Home Check' to household customers offering advice, an audit of customer fittings and, where appropriate, the installation of water saving devices. We began the trial in September and completed 5,590 audits.

Improvement activities planned for 2016/17

Our target is 222 litres per person per day. Our immediate focus is to gather greater understanding of reasons for higher than expected consumption which we can use to target improvement activities.

One activity we are committed to is to expand our 'Home Check' programme initially working in the Coventry area to undertake over 12,000 audits which will help customers improve their efficient use of water.

Our planned improvement activities for leakage are set out below.

WB2 – Leakage levels

Our customers regard leakage as a waste. They want us to reduce leakage further.

This PC is defined as the total level of leakage, including customer supply pipe leakage, expressed in mega litres per day. It has both financial rewards and penalties attached.

We recognise both the importance customers place on leakage reductions, and that the calculation of leakage is complicated, relying on many datasets and methodological assumptions. We therefore identified leakage as an area needing particular focus in our assurance plans. We undertook our own review and asked our technical assurers, Jacobs, to carry out a 'deep dive' review.

This review found that there was a minor error in the calculation of our 2014/15 reported level of leakage. As such we are revising our 2014/15 reported level of leakage to 444Ml/day; whilst this is an increase of 3Ml/day, we still met our regulatory target.

In light of this review, we want to make sure that our customers and stakeholders have a clearer understanding of how leakage is calculated; what methodological assumptions are made, and how these can change in any year as we get better information. We have therefore set out below the changes made this year. They have been validated by Jacobs.

Outcome 2: We will ensure water is always there when you need it

Understanding leakage

We have a vast network of over 42,000km of pipes and water mains. We cannot record leakage from every part of our infrastructure directly. Instead, to calculate the level of leakage we need to understand how the water we put into our network is used. This is known as the water balance and it has multiple components.

Some components of the water balance we can directly measure, like the volume used by households with a meter.

Others are less certain, like the volume used by the Fire Service in emergencies or water taken illegally from the network, and we need to make reasoned and evidence-based assumptions about them.

Once we understand all of these components and deduct them from the volume of water we put in our network, the volume that is left unaccounted for is considered to be leakage.

We continually review these components to ensure we are using the most accurate data or assumptions in our calculation. The better we understand leakage, the more effectively we can target it.

As we improve our understanding, the amount of leakage can change in the water balance. We categorise changes in the level of leakage in two ways:

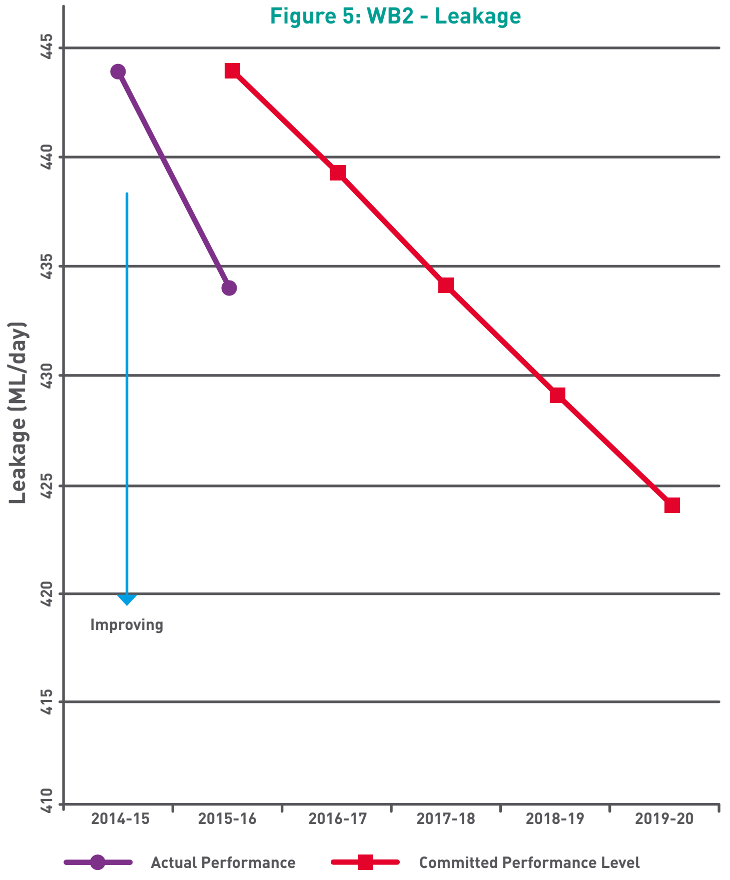
- Real changes – this is where we have actively invested to reduce the volume of water leaking from our network. It includes, for example, fixing bursts, managing pressure in the network and proactive maintenance of the network.
- Methodological and data changes – this is where we have updated our data accuracy or new evidence causes us to change some of our assumptions about how water is used. These changes affect components of the water balance and ultimately can move the level of water that we cannot account for both up and down. They do not result in real changes in the level of leakage - as no physical activity has taken place on our network – but do mean our measure is more accurate.

We explain changes this year below.

Performance in 2015/16

Our outturn position for 2015/16 was a total of 434Ml/day. We have achieved our committed performance level of 444Ml/day. Our performance is equivalent to a reward of £1.2m. This is illustrated in figure 5 below.

Figure 5: WB2 - Leakage



Reductions this year have been driven by:

- **Real losses** – we have updated our estimate of trunk mains and service reservoir leakage based on the activity carried out in AMP5 which included a trunk main walking programme, identifying losses, and leak detection/ asset condition trials. The estimate will be updated annually moving forward to avoid data swings.
- **Data** – we have seen greater consumption both from our measured customers, and from our consumption monitor for unmeasured customers.
- **Data** - an actual reduction in commercially void properties.

Increases in this year's leakage are mainly driven by:

- **Real losses** – there was a rise in District Metering Area (DMA) leakage due to us being behind our expected level of leakage at the beginning of the year;
- **Data** – we updated our assumptions of household night use, the pressure adjustment factor and household occupied void properties;
- **Methodology** – calibration of the water into supply at our Frankley works, using a new approach to assess throughput at the works;
- **Methodology** – an update to uncertainty around leakage from trunk mains; and
- **Methodology** – we updated our methodology for assessing occupied household properties classed as void resulting in more void properties

This has resulted in a net change of -10Ml/day as illustrated below.

2014/15 reported figure	441Ml/day
APR15 correction	3Ml/day
Restated 2014/15 figure	444Ml/day
Real losses	(9)Ml/day
Data	(10)Ml/day
Method	9 Ml/day
2015/16 reported figure	**434Ml/day**

We are also working to understand a potential underestimation of Per Capita Consumption (PCC). This is used to estimate consumption for unmeasured households and can affect reported leakage. To calculate PCC, some of our customers volunteer to have their water use measured; we believe that these customers are already water aware and likely to be more water efficient than the average customer. Using other meters on our network, we have analysed 12 months' worth of data from 2015/16. This data suggests our estimate of PCC is underestimated.

We have not, however, used this information in this year's calculation of leakage. During 2016/17 we will gather more data and analyse this to calibrate our initial findings. We will discuss our findings with our Water Forum and other stakeholders before making any changes to our assumptions.

Improvement activities in 2015/16

During 2015/16 we took action to both reduce real leakage and improve our measurement of it.

We delivered 3Ml/day of savings through increasing pressure control on our network. This reduced the need for people-intensive 'Find and Fix' solutions in these areas. A 'Find and Fix' solution requires teams on the ground to identify the exact point on our network where there is a leak. Often these are leaks that are underground and not visible on the surface. It is a time consuming process that is frequently undertaken at night when usage is at a minimum, so any flow in the network is more likely to be because of a leak. Whenever we identify a leak, we also undertake a repair to fix it.

Where 'Find and Fix' teams were deployed, additional resources from October helped to drive improved performance in the second half of the year. With the exception of a 20Ml/day spike during January (which was recovered within three weeks) the relatively benign winter helped these teams to drive down real losses and not just respond to incidents.

We have seen an increase in the average run time of leaks on customers' supply pipes. These pipes are the responsibility of individual home owners to repair, but we include water lost from them in our overall leakage calculation.

During the year we have clarified our approach to customer supply pipe leakage to ensure that all of our customers get clear and consistent information on what to do and understand that it is their responsibility to fix these leaks. We also no longer subsidise repair costs; this has contributed to an increase in the average number of days private supply leaks run for, from 8 days to 44 days in 2015/16. Further investigation is required in 2016/17 to understand whether this change in policy has led to a real increase in supply pipe leakage.

As part of our drive to improve our consumption monitoring, we now have more than 10,000 properties being monitored. This is the highest sample we have ever had and ensures we are able to provide stable and accurate estimates of domestic usage.

Improvement activities planned for 2016/17

Our target for next year is 439Ml/day. Our plans focus on better measurement of savings from all programmes of work – especially the capital delivery of network meters and further pressure management that will sit alongside delivery of 'Find and Fix'.

We will have a strong focus on customer supply pipe leakage to fully understand the impact of our decision to no longer subsidise repairs, as well further investigation on trunk mains and service reservoir leakage.

We will also continue to improve our measurement of the water balance components. Our main focus is to implement a new commercial consumption monitor to improve our estimates of commercial night usage.

In addition, we will use our consumption monitors to calibrate our PCC estimates to understand if our approach of using customers who volunteer to have their water use measured creates a bias.

Following our approach during AMP5, and in line with UK Water Industry Research (UKWIR) best practice on PCC, we propose to validate these revisions during 2016/17 to ensure any changes in our 2016/17 reporting are robustly evidenced. Due to the potential impact of these changes on the water balance, we propose to discuss them with our external assurance providers, the Water Forum and Ofwat throughout the year to ensure we continue to provide customers with an appropriate level of protection.

Outcome 2: We will ensure water is always there when you need it

WB3 – Speed of response in repairing leaks

Our customers not only dislike leakage, but also dislike seeing it. They want us to repair visible leaks as soon as possible.

This PC is defined as the percentage of visible leaks, (reported by customers or detected by our teams), on our network that we repair within 24 hours (where we can do so safely and without unduly disrupting customers). It has both financial rewards and penalties associated with it.

There are certain scenarios in which we cannot commit to repairing visible leaks within 24 hours. These are instances where it is not safe to carry out the repair in this timescale or where carrying out the repair without due planning would cause undesirable customer disruption. There are also specific legislative restrictions such as the Roads and Street Works Act.

Our proposed exclusions have been discussed and assured by our external assurance providers. During 2016/17 we will be reviewing our application of the exclusion criteria, particularly those where legal barriers exist, as well as tracking new measures to ensure that customers' concerns are resolved as quickly as possible.

For jobs which fall into these categories we apply an exclusion, which removes them from our reportable numbers. These jobs are then carried out as quickly as possible, but ensuring the correct safety or planning processes are in place.

Performance in 2015/16

This year we fixed 53% of visible leaks on our network within 24 hours, against a commitment to repair 70%. Financial penalties apply for any performance at or worse than 60%. Therefore we have incurred a penalty of £0.2m. This can be seen in figure 6 below.

This is a new and very challenging PC – we have not targeted our visible leak performance in this way previously. Whilst our performance this year was below our commitment, we have built a better understanding and identified a number of opportunities to improve our processes and deliver a faster service to our customers going forward.

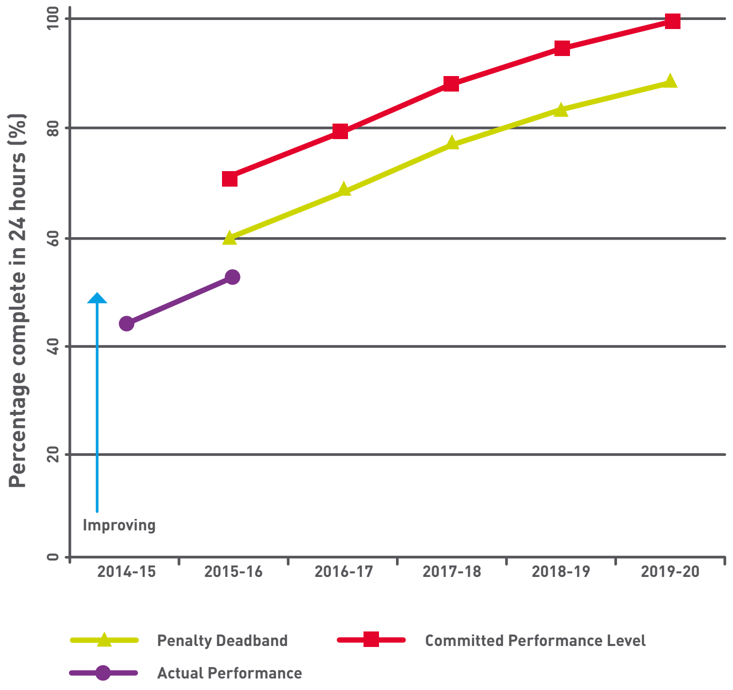
Improvement activities in 2015/16

Resource availability is critical to the speed in which we can respond to network visible leaks. We are improving our processes for assessing demand and providing the right resource capacity in our operational areas. These improvements will allow us to have the right level of trained and equipped resource available to respond in the required timescales.

We are also working to deploy our teams more efficiently. We have reviewed our customer call handling processes to improve our point of call diagnosis so that we can better target the skills and equipment of our teams to customers' issues.

We introduced new in-day reporting measures which have helped us understand the factors which drive our performance in this area and how we can affect them. And whilst our performance has been inconsistent at times as we have tested our assumptions, our learning from this year will enable more sustainable improvements to be introduced next year.

Figure 6: WB3 - Speed of response to repair visible leaks



Improvement activities planned for 2016/17

We anticipate that meeting the 2016/17 committed performance level is achievable, but will require continued focus. We have two key improvement activities during the year that we anticipate will drive improvements.

First, we recognise that our processes for identifying network leakage in our call centre operations can be improved. Currently we investigate a number of jobs which turn out not to be network visible leaks; this ties up our resources to get to, investigate and fix actual leaks.

Second there is further scope for improvement in the operations of our frontline teams. We need to ensure that the exclusion criteria are being applied appropriately and consistently, as well as ensuring our teams have the skills and equipment to complete the repairs both quickly and safely. We will roll out further training programmes to ensure we maximise the benefits of this.

WB4 – Number of minutes customers go without supply each year

Our customers expect water to be available at their taps. They want to see improvements to reduce the number and duration of interruptions to their supplies.

This PC is defined as the average number of minutes that customers are without water supply each year, due to planned and unplanned interruptions to supply of over three hours. It has both financial rewards and penalties associated with it.

Performance in 2015/16

Interruptions stood at an average of 11.17 minutes (11m 10s) in 2015/16. This is ahead of our PC of 13.60 minutes (13m 36s). See figure 7 below. This performance would earn a reward of £0.9m. However, as we explain on page 37, we have chosen to forego this reward this year.

In February we had our single largest event since 2007 when a community in Nottinghamshire (c.14,000 population) was impacted by a burst on a 24 inch main. There were a number of factors which affected our response including the proximity of a wall at risk of collapsing and a car accident at the site of the burst which required removal before any repair work could be attempted. The event created disruption for customers in the community which has been reflected as an additional 2.84 minutes (2m 50s) on our performance.

Improvement activities in 2015/16

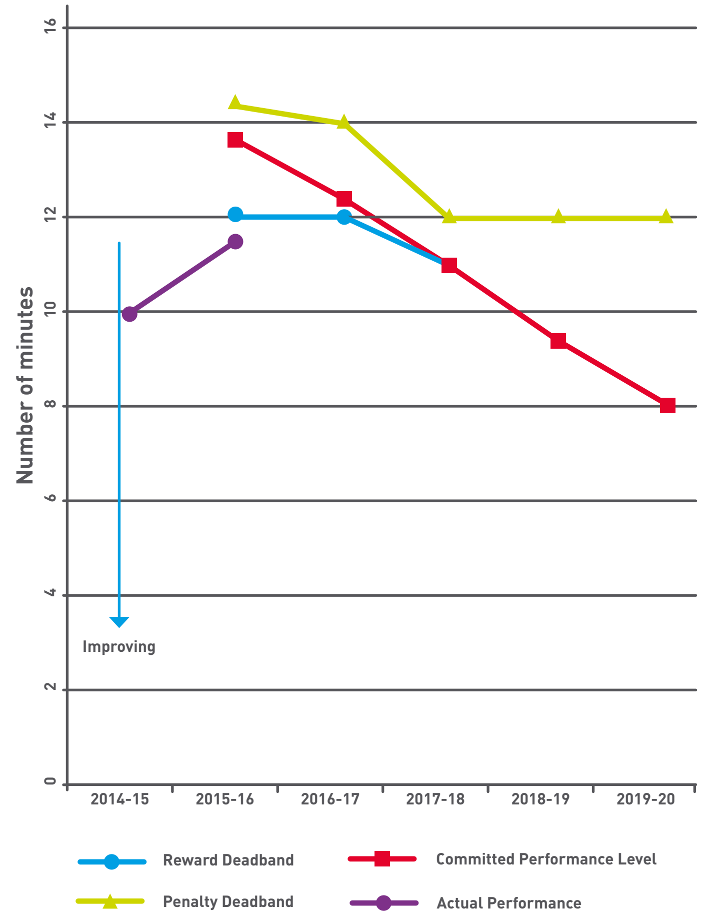
This year we placed considerable focus on our people, processes and systems.

A significant reorganisation of our wholesale operations has:

- brought field expertise into our network control centre to improve situational awareness and decision making
- created a new risk and contingency team to improve how we plan to undertake works, and
- created greater accountability for individual teams, underpinned by local area performance metrics (used in weekly communication and discussion meetings with team members).

We also used company-wide internal communications campaigns to focus on improvements. Our 'Zero Heroes' campaign aimed for zero interruptions the month of July. We challenged our entire company to think differently, to trial new ways of working and approach each activity with a 'zero minute' mind-set. A total of 26 seconds were added to our measure through unplanned interruptions, and zero minutes through planned interruptions - which is one of our best months ever.

Figure 7: Minutes customers go without supply



In addition to focussing on our people, we have also invested in new technologies including:

- a large tracked excavator (to provide a faster response to rural interruptions);
- trialling high speed loggers (to detect sudden pressure changes); and
- investing in 50 loggers (to improve post event root cause analysis).

Outcome 2: We will ensure water is always there when you need it

Improvement activities planned for 2016/17

Preventing and responding quicker to larger scale events remains a key focus into 2016/17.

We have invested £26m in mains-laying to maintain the stability of our network. We have covered 170km this year and we plan to cover a further 830km planned over the rest of the AMP.

We will continue our trial in high speed loggers which, by detecting sudden pressure changes, help us to target where changes to how we operate areas of our network are needed to prevent bursts.

We also expect the 50 loggers installed this year to continue to realise benefits by enabling us to proactively identify issues in the network to prevent events occurring, as well as during events to identify the root cause.

WB5 – Percentage of customers with resilient supplies

Our customers support us taking action to increase resilience of their supplies and reduce the risk of longer duration supply interruptions.

This PC is defined as the percentage of customers for whom there is more than one source of water which can be used to provide supplies. It has both financial rewards and penalties attached (to be calculated in 2018/19). There are no annual committed performance levels.

In order to ensure we can demonstrate real improvements we will calculate performance using the same population, demand and capacity values that were used in our 2011/12 business plan submission.

This proposal has been discussed with our third party assurance providers and with the Water Forum.

Performance in 2015/16

We are reporting a performance of 77.0% for this PC for 2015/16.

We have five investment schemes in progress that have the potential to deliver a second source of supply to 1.5% of our customers. No schemes have yet been delivered.

Improvement activities planned for 2016/17

During 2016/17 we will continue to progress our five resilience schemes.

We are progressing a scheme at Stroud to link the Chalford Springs supply to our Strategic Grid, providing resilience to 18,692 customers. We are also in the feasibility stage with a scheme at Hencott, to deliver a second source of supply to 27,761 customers.

We are developing a resilience agreement with United Utilities to provide resilience to 35,693 customers via a supply agreement at Llanforda. We expect to sign the agreement in July 2016, with three months of testing and commissioning required in order to be able to deliver the required resilience.

In 2018 we expect to deliver resilience to 18,082 customers via supply from our borehole in Edgbaston. The next year will be key in the planning phases of this scheme.

We are also assessing the feasibility at additional resilience for 14,770 customers served from our supply at Nedge Hill to Redhill.

We are confident that the schemes above, (subject to confirmation that they should not be excluded from this PC by being part of the separately assessed Birmingham Resilience scheme), will deliver the committed performance level of 77.7% by 2019/20.

WB6 – Asset stewardship – mains bursts

This PC is one of four 'asset stewardship' measures designed to ensure that we are sufficiently maintaining and investing in our assets now, so that they can continue to serve customers in the future.

It is defined as the total number of mains bursts in a financial year, measured by the number of repairs to water mains. It has a financial penalty only.

Performance in 2015/16

During the year, as part of our assurance processes we identified that our method of measuring mains bursts had the potential to report a single incident as multiple bursts. In response, we analysed over three years of data (from the point at which a new reporting system was installed). We found that the issues existed in previous years and, on average, we had been over reporting by 11.4%. During AMP5, this duplication would have been included in our assessment of serviceability (a measurement of asset health) to our detriment as we would have reported a higher number of bursts each year.

This duplication was also embedded in the PCs which were agreed in Ofwat's 2014 Final Determination (see table 2 below).

Table 2 – Analysis of reported mains data

	2013/14	2014/15	2015/16	Average
Repairs returned	6,399	6,200	5,428	6,009
Events	5,598	5,590	4,784	5,324
Duplicates	801	610	644	685
Reduction	12.5%	9.8%	11.9%	11.4%

To take account of this duplication we have created a 'shadow' PC. We are committed to act as though this shadow PC is binding to ensure that customers receive the same level of protection from underperformance as agreed in the Final Determination.

We discussed our proposal with our independent assurances providers, Jacobs, and received robust challenges to address. Following this we presented our proposal to the Water Forum and to Ofwat to understand their views, comments and challenges prior to making this formal statement.

Table 3 – Shadow performance commitment for WB6 – Mains Bursts

	2015/16	2016/17	2017/18	2018/19	2019/20
Final Determination	<7,758	<7,758	<7,758	<7,758	<7,758
Shadow commitment	<6,905	<6,905	<6,905	<6,905	<6,905

Performance in 2015/16

Based on our new reporting methodology, we are reporting 4,784 bursts for the year. This is below the shadow committed performance level and no penalty is due this year. See figure 8 below.

We saw a lower seasonal spike in events during the winter months due to the benign conditions we experienced. However, compared to previous years, we also saw lower burst rates throughout the year, due to the ongoing work on mains conditioning, as well as activities to prevent bursts by managing the pressure within the network.

Improvement activities in 2015/16

Between 2015 and 2020 we are renewing around 200km of mains per year in order to offset deterioration in the network. We are targeting known burst hotspots to maximise the benefit of this work on our reported bursts.

Whilst it can prove difficult to directly link our activity to a reduction in mains bursts due to a number of external factors such as the weather and historical operational activity, the trend of our performance over recent years suggests that we are managing to reduce bursts.

Improvement activities planned for 2016/17

We will continue to renew our network against best modelling data and actively look at ways to avoid pressure surges over the coming years.

WB7 – Customers at risk of low pressure

This PC is defined as the number of connected properties that have received, and are likely to continue to receive, pressure below the reference level when demand for water is at a normal level. It has both financial penalties and rewards associated with it.

Performance in 2015/16

We have out-turned at 162 properties at risk of low pressure compared to our PC of 250 properties. Performance has improved since last year, with resolution of more pressure issues than new occurrences. Our performance has earned a reward of £0.1m.

Figure 8: WB6 - Mains Bursts

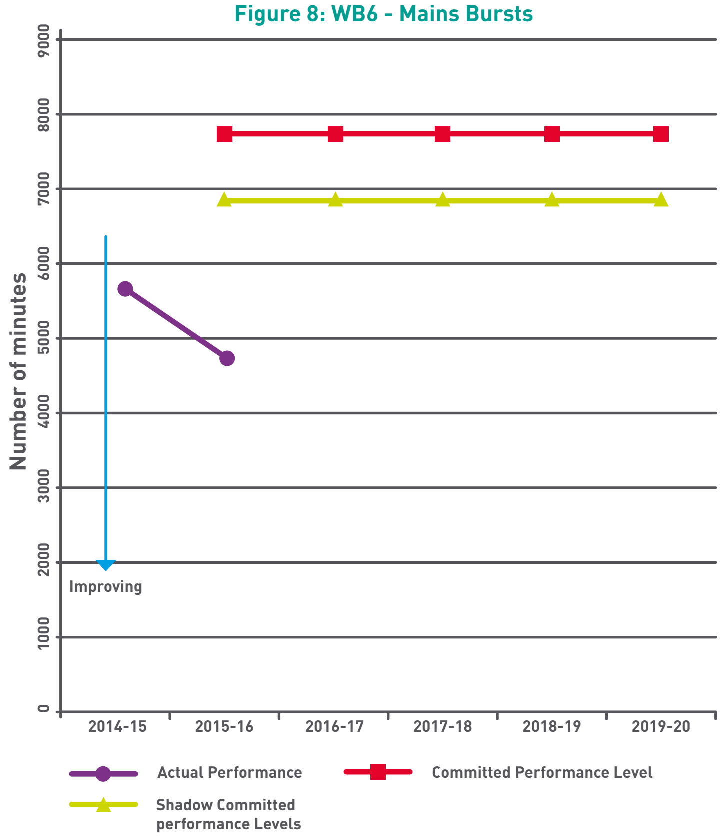
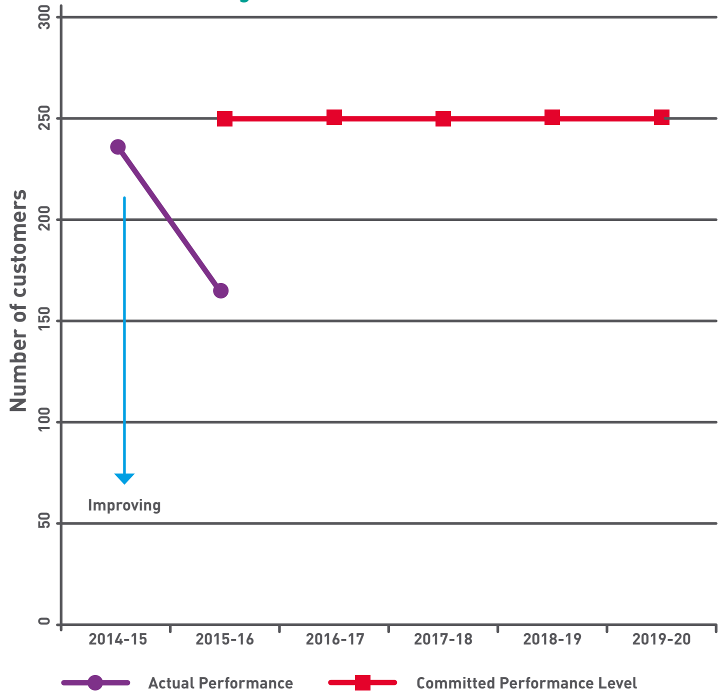


Figure 9: WB7 - Low Pressure



Outcome 2: We will ensure water is always there when you need it

Improvement activities in 2015/16
We invested around £220k in projects to resolve low pressure issues ranging from range from large scale new booster stations, to small scale cross connections which give us more flexibility to move water in our network.

We have also resolved some customers' issues without any capital investment by optimising the assets we have through resolving issues with pressure controllers, identifying and removing blockages in the network, and distributing water to better match supply with demand.

The average number of properties affected by a pressure issue has continued to reduce. This is great news for our customers as fewer and fewer of them are impacted. However, it means that future improvements in performance will be even more challenging as we increase our efforts to find solutions to more complex problems which affect a smaller number of properties.

Improvement activities planned for 2016/17
We are committed to finding further innovative solutions to pressure issues to avoid any customers being impacted by low pressure indefinitely, and to deliver permanent solutions at pace.

We have 63 longstanding properties where we have been unable to develop an economical solution to increase the pressure on the network. We have been investigating the use of a standard design for boosters to individual properties. Over the next two years we are going to deliver 43 of these as a batch to maximise efficiency to make this solution viable. This will deliver improvement to the customers that have been the most affected and have had pressure issues for the longest period, as well as creating more capacity whilst we continue to find a solution to longstanding issues.

We are continuing to invest behind the creation of a calmer, more stable network rather than one with large pressure variance. This strategy has multiple benefits including resolving leakage, burst mains and low pressure issues. We are increasing our investment in calming technology including pressure controllers both on pressure reducing valve and booster sets.

WB8 – Restrictions on use
This PC is defined as the number of water restrictions in place on customers in a five year period. It has both financial rewards and penalties associated with it. Water restrictions are formally known as temporary use bans.

Our Water Forum asked us to confirm that the Final Determination allowed us to pro-rate the penalty based on the number of customers affected (see page 170 of the 2014 Final Determination). Following this, the Water Forum accepted our interpretation.

Performance in 2015/16
We did not impose restrictions on use on any of our customers in 2015/16. We met our committed performance level of zero for the year and no penalties are incurred. It has been 20 years since we last imposed a restriction on our customers during the 1995-96 drought.

Improvement activities in 2015/16
There were concerns about our ability to maintain supply during the autumn of 2015 when storage in our Tittesworth reservoir fell. We convened a drought action team (DAT) and implemented measures from our drought plan to maintain raw water storage, such as ensuring the compensation flow released from the reservoir was not above the minimum licence requirements. The focus of the DAT ensured we were able to maintain supplies from Tittesworth without imposing a temporary use ban.

Improvement activities planned for 2016/17
We have accelerated planned capital maintenance, such as work at key service reservoirs close to Tittesworth, as part of our efforts to maintain supplies. We are also monitoring the water quality borehole maintenance work in this area to ensure that it does not reduce our customers' security of supply.

Progress with strategic resilience schemes (WB9-14)
Our Birmingham Resilience scheme, at £300m, is our largest planned investment for 2015-20. It will provide a second major source of water for Birmingham, allowing us to shut down its current source via the c.100 year old Elan Valley Aqueduct (EVA) for prolonged periods for refurbishment, and ensuring Birmingham's water supply is secured for another 100 years.

We have six PCs relating to delivery and timing of the Birmingham Resilience Scheme, and associated Bledffa and community risk schemes. There are multiple financial delivery incentives based around delivery of specific elements or milestones being reached.

Performance in 2015/16
The project's commitments are not measured on an annual basis, but rather milestones throughout the period and an assessment during 2019/20. However, as the detailed construction programme is being developed we will highlight and monitor ourselves against various 'lead' milestone measures.

Given the importance of the scheme, there is a strong governance structure in place. Progress on the project is reported monthly to the 'Birmingham Resilience & Elan Valley Aqueduct Steering Group' and also to our executive committee.

Improvement activities in 2015/16
The project remains on track to deliver the commitments within the Final Determination funding allocation.

Work with external stakeholders continues to progress well. We have an agreement with the Environment Agency over the abstraction licence 'pre-application', with the formal application now having been submitted in January 2016.

Planning applications to the four planning authorities were also submitted in January 2016, with decisions expected in June 2016. Land acquisition, which can be a major risk to projects of this scale, is now complete.

There was a delay with the appointment of contractors following the decision to split the work programme across two separate contracts as opposed to one. The raw water contract has been awarded but the treated water contract has not. This delay has reduced the headroom within the programme but we are still forecasting completion by December 2019.

We have created a sister project, 'Operational Readiness' to deliver the grid and network improvements necessary to support Birmingham when supplied from the River Severn.

The two EVA shutdowns scheduled for October 2015 and March 2016 were successfully completed allowing installation of critical structural monitoring prior to the commencement of construction activity in close proximity to the existing aqueduct.

Our engineering team has now completed the detailed design for the EVA maintenance project. Using collaborative planning techniques, the team has ensured that design and construction activity continues to progress in line with the programme. Design activity is now predominantly focused on the three community risk projects.

Improvement activities planned for 2016/17
The specifically designed and constructed tunnel boring machine required for the scheme was completed on schedule, tunnelling works are underway and will progress throughout 2016/17.

A detailed (hour by hour) connection programme is now being developed to mitigate the risk of overrun during the next EVA shutdown in October 2016. In view of the critical nature of this activity, the programme and proposed methodology will be subjected to an independent peer review.

Outcome 3: We will safely take your waste water away

Our sewers perform a vital service. Not only do they collect waste water from customers' properties, but they also collect surface water from a much larger area. We provide this vital service through approximately 92,000km of sewers and drains. Our sewers work well most of the time. However, they can flood customers' properties when they become blocked or when pipes are overwhelmed with heavy rainfall. The consequence of sewer flooding can range from a waterlogged lawn to major damage to a customer's home or business.

This outcome was developed to bring together all the activities that we need to undertake on our sewers and drains so that we can ensure that we safely take our customers' waste away including protecting our customers from sewer flooding. The objective also encompasses the delivery of our statutory wastewater obligations, as defined within Defra's Statement of Obligations and the National Environment Programme.

We developed five PCs to track delivery of this outcome:

- we are monitoring the numbers of both internal and external sewer flooding incidents;
- to monitor the health of our network we will track the number of blockages that occur on our network;
- our customers want to see us work collaboratively, so we have set targets to deliver schemes in partnership with other organisations that provide mutual benefit; and
- we will track the number of existing properties connected to the sewerage network for the first time.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
Internal sewer flooding	1,014	804	£9.0m
External sewer flooding	7,639	7,142	£6.1m
Partnership working schemes	N/A	-	-
Sewer blockages	<50,470	44,107	-
First time rural sewerage schemes	N/A	35	-

Our 'Love Our Network' campaign is a key driver to help our whole business and our customers focus on protecting the health of our sewers. From proactive maintenance, to educating people about what they can and cannot put down the drains and reporting potential issues before they occur, it is all part of our drive to zero incidents.

SA1 – Number of internal sewer flooding incidents / SA2 – Number of external sewer flooding incidents

Our customers want us to take further action to reduce sewer flooding, but expect us to do it in a cost effective way.

These PCs are defined as the number of times customer properties are flooded internally/externally due to a failure on our sewer network (including sewers transferred in 2011) in the financial year. This includes both flooding due to capacity issues in our pipes and those due to other causes such as blockages. Both PCs have financial rewards and penalties.

Performance in 2015/16

We are reporting performance of 804 internal incidents against our committed performance level of 1,014 incidents. We have outperformed by 210 internal incidents (21%) in year one. Similarly, we are reporting a performance of 7,142 external incidents against our committed performance level of 7,639. This means we have outperformed by 497 incidents (7%) in year one.

Ultimately our performance results in our customers experiencing fewer incidents of sewer flooding.

Figure 10: SA1 - Internal Sewer Flooding

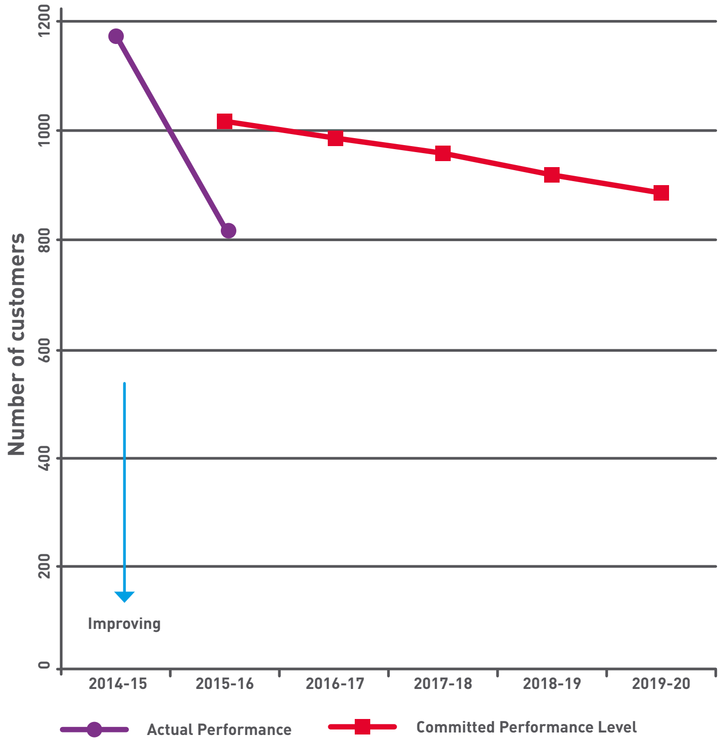
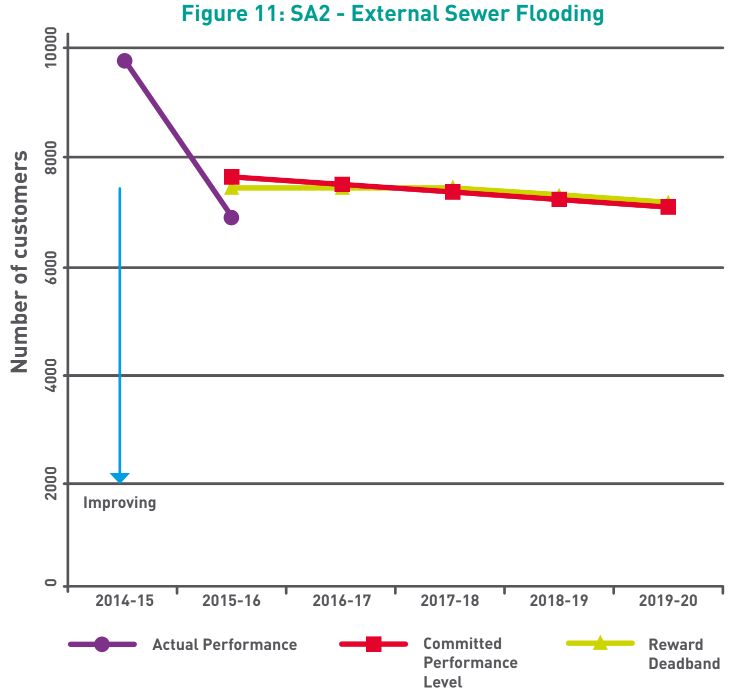


Figure 11: SA2 - External Sewer Flooding



Improvement activities in 2015/16

For both internal and external sewer flooding incidents, we started 2015/16 with poorer levels of performance than we had forecast at the time of setting our PCs (1,168 internal incidents against a forecast of 1,031 and 9,896 external incidents against a forecast of 7,714). Over the course of the year we have delivered improved performance through greater focus, investment and changing the way we work. This has allowed us to close the year delivering a better than targeted level of performance for our customers.

At the start of the year we introduced teams dedicated solely to improving our flooding performance. These teams helped create a programme of work which consisted of 13 key areas of activity, ranging from customer education to trialling new acoustic sensing technology alongside additional investment on planned programmes of work.

We have made a step increase in our engagement activities, including away days and training for operational teams entirely focused on flooding, development of e-learning around our flooding processes, implementation of standard operating procedures for a number of new smaller process changes and use of our communities of practice to implement some key practical changes to the way we operate.

We have completed a programme of planned physical work on our network, increasing investment by 25%. We invested £12m to ensure failure of our assets does not lead to sewer flooding incidents. A further £13m was invested to increase the capacity of our network to reduce the number of incidents from overloaded sewers. Where we could not provide a permanent solution, we have installed mitigation measures at 330 properties to remove the impact of any flooding events.

Customers wanted us to prioritise the most serious cases of sewer flooding within the next five years. So we have been proactively inspecting our flooding hotspot areas and cleaning or repairing sewers that are at high risk of causing flooding that would impact our customers. We have also investigated and resolved issues at more than 3,000 properties where customers have experienced internal or external flooding on more than one occasion over the last ten years.

We have increased our customer education activities and reached over 84,000 customers to talk about sewer misuse. Where we have carried out proactive and reactive maintenance on our network, we targeted residents and businesses on those streets to inform our customers about what we have found and provide them with the right information so they do not flush the wrong things down the sewers in the future.

We have been working closely with schools and universities, sharing the 'healthy sewers' concept with schools to promote a lasting effect for future generations and working with universities because our data identifies these are known hot spots, in particular for sewer misuse. We have liaised with local fast food chains as and McDonald's franchises in our region to encourage the correct disposal of fat which is one of the common causes of sewer blockages and can lead to flooding. In recent months we have also been working in partnership with Stoke City Football Club and we launched two promotional videos on sewer misuse at a match day in front of 30,000 spectators.

In addition, we have improved our operational processes to identify and prevent repeat incidents, doing our best to ensure that any customers experiencing flooding this year, do not flood again. This has led to a year on year reduction of almost 400 incidents across internal and external flooding.

Improvement activities in 2016/17

During the next 12 months we will be continuing with the reactive and planned elements of our programme. Our efforts in 2015/16 have not eliminated all repeat flooding incidents and we will continue to work to reduce this. As part of this we have installed a new root cause database to track and report our repeat incidents and drive continuous improvement.

Our improved jetting standard is helping to prevent properties flooding because of activities we are carrying out. This has reduced this type of incident by 32% during 2015/16 and we will maintain this focus and drive into 2016/17.

We will also increase the resources we expend on educating customers. This will be a mix of local engagement in hot spot areas supported by a targeted media campaign. Furthermore we will be investing a further £12m on proactive programmes of work, with a specific focus on flooding incidents from our transferred assets (post 2011).

Outcome 3:
We will safely take your waste water away

SA3 – Partnership working

Our customers support us working in partnership with stakeholders to address flooding issues of mutual concern.

This PC is defined as the number of projects where we work in collaboration with other recognised public and not-for-profit organisations to help drive wider benefits for the community, in terms of reducing flooding.

Our committed performance level is to deliver 21 partnership schemes by 2019/20; there are no annual targets. It has both financial rewards and penalties applied on the basis of the total number of completed projects delivered by 2019/20.

In our Final Determination, the incentive rate is expressed per year. However, as indicated in our business plan the intention was that five years' worth of penalty or reward would be applicable for any under or over performance. We have informed our external assurance providers, the Water Forum and Ofwat of our understanding and intention.

Performance in 2015/16

We have identified 52 potential partnership schemes and these are already promoted in the sewer flooding capital programme. Of these, three have been completed, two are in the construction phase and a further three are at the detailed design stage.
The activity for the three partnership schemes that have been completed have not been validated yet by the Environment Agency. Therefore, we are formally reporting zero schemes completed in 2015/16.

Improvement activities in 2015/16

This year we have completed three schemes (subject to approval by the Environment Agency).

The Newark Flood Alleviation Scheme, in partnership with Nottinghamshire County Council, reduced the risk of sewer and surface water flooding for ten properties. Similarly, the Kenilworth Flood Alleviation Schemes, in partnership with Warwickshire County Council's Highway Authority and Lead Local Flood Authority, reduced the risk of sewer and surface water flooding for 14 properties.

As lead partner we undertook the feasibility, design and construction for both sewer and surface elements of these schemes. In total we invested £1.3m from our capital investment programme to reduce flood risk from sewers caused by exceeding capacity.

By undertaking these schemes in partnership, our customers benefited from a scheme to address sewer and surface water flooding at the same time with a reduction in the impact to customers during construction by co-ordinating sewer and surface water elements of the scheme.

The Hucknall Property Level Protection Scheme, in partnership with Nottinghamshire County Council and Ashfield District Council, reduced the risk of sewer, surface and river water flooding for 11 properties.

Nottinghamshire County Council were the lead partner; we were contracted to design and construct the property level protection (PLP) and contributed £20,000 to the capital delivery.

No single authority could justify the investment in this scheme in isolation, so the scheme was only possible by pooling limited resources. By acting as the delivery partner, we were able to use existing framework contractors to deliver the PLP and further increase efficiencies through the collaborative approach.

Improvement activities planned for 2016/17

A key focus for us over the next 12 months is to finalise and agree the sign off process for the partnership schemes. We have also agreed to develop an outline programme of partnership schemes for 'in principle' approval prior to detailed design and construction.

Further work is also planned to identify and develop more partnership schemes. This includes identifying schemes through our flood mitigation programme, identifying further opportunities through collaborative mapping such as the Environmental Agency led project 'Communities at Risk', and promoting potential partnership schemes to ensure we have sufficient schemes to deliver the minimum of 21.

We will develop a more defined policy on contributions and our response to flooding from sewers caused by other sources, such as river flooding. As part of this we will be submitting further bids (either directly or indirectly via partners) for partnership funding to support delivery of partnership schemes.

SA4 – Asset stewardship – sewer blockages

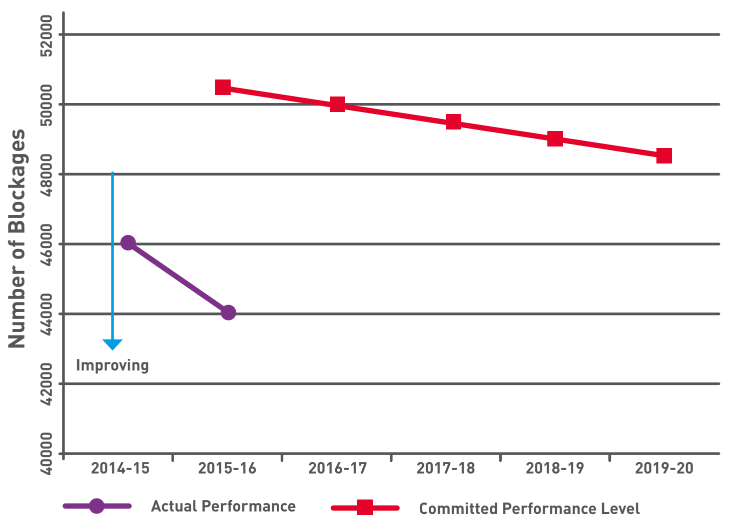
This PC is defined as the total number of sewer blockages on our sewer network (including sewers transferred in 2011).
This PC has a financial penalty incentive only.

It is one of four of our asset stewardship measures which are designed to be key indicators of whether we are maintaining our asset base in a stable and serviceable condition. There is therefore a penalty, set at a level above where normal variation in performance could be expected, to ensure that we don't allow the condition of our sewers to deteriorate.

Performance in 2015/16

We are reporting an outturn position of 44,107 sewer blockages for 2015/16 compared to a committed performance level of fewer than 50,470. This represents an improvement of around 4% from out 2014/15 performance. No penalty has been occurred.

Figure 12: SA4 - Asset Stewardship - Blockages



Improvement activities in 2015/16

A sewer blockage is the primary cause in approximately 90% of sewer flooding or pollution incidents. We have separate PCs for sewer flooding and pollutions and our continued focus and investment has led to an improving trend of performance, benefitting both our customers and the environment.

Our activity to tackle sewer blockages falls into three main areas:

Reactive response -– Our 'right first time' mind-set aims to ensure our response to an incident prevent any repeat occurrences in the future. We have reviewed cases where multiple blockages have occurred and prioritised our follow on work (cleansing or repair) to these locations. In 2015/16 we reviewed our contracts for delivering this work and as a result we have moved to a single strategic contract partner who is incentivised to work with us to help us deliver on our commitments. This has improved our speed of response to a report of a blockage from 24 hours to 12 hours; the quicker we can attend and fix the issue the less impact it will have on our customers and the environment by reducing the risk that the blockage will cause flooding or pollution.

Proactive programme of work - We have a programme of work to inspect and where necessary cleanse or repair sewers that we believe are susceptible to blockages, especially those that might cause flooding or pollution. In 2015/16 we have increased our investment in this area to over £10m and this has been a key contributor to driving down internal and external flooding, pollutions and blockages. We have also been trialling acoustic blockage sensing technology as a means of making our identification of pipes that might contain a blockage faster and more effective. This technology works by sending sound waves down the sewer and measuring the reflection that is returned to assess whether there is a potential obstruction.

Customer education – We have a separate PC to increase our customers' awareness of how improper sewer use can cause blockages.

Our historical performance consistently shows that we see more blockages in the period following Christmas into January and February than we do at other times of the year. We ran a specific campaign on social media and in print over the Christmas period to spread the message about not putting fats, oils and greases down the drain. We also worked with a supermarket chain to help spread the message, and gave out free fat traps with every turkey sold. In 2015/16 we didn't observe the same increase in numbers of blockages post-Christmas than we have in previous years indicating that our campaign has contributed to this improved performance.

Improvement activities in 2016/17

In the next 12 months we will be continuing with the reactive and proactive elements of our activities and increasing the resources we expend on educating customers. This will be a mix of local engagement in hotspot areas supported by a targeted media campaign.

SA5 – Statutory Obligations (s101A schemes)

This PC is defined as the total number of connectable properties, identified as polluting or likely to pollute, associated with the new section 101A schemes over the five years to 2019/20. This PC has no financial incentives.

Our commitment is to deliver first time sewerage provision to 312 properties, by 2019/20, that have been identified as causing, or likely to cause, pollution or amenity (e.g. odour) issues from their existing private drainage arrangements. There are no annual targets for this commitment.

Performance in 2015/16

Under section 101A of the Water Industry Act 1991 owner/ occupiers can apply to us to provide them with the opportunity to connect to a public sewer. We deliver schemes to provide these public sewers and connect them to our existing network or construct a new treatment works to deal with foul flows. In 2015/16 we connected 35 properties consisting of three discrete schemes.

Improvement activity in 2015/16

There are two schemes at Dunstall Cross (12 properties) and Straight Mile (6 properties) which have been delivered in the first year. The additional 17 properties have come from an AMP5 project where additional outputs were identified during project delivery that could not be delivered in 2014/15 at Slade Heath.

Improvement activity planned for 2016/17

We are aware of 282 properties that will contribute towards our overall target of 312. We are expecting to receive a number of new applications that will allow us to deliver our commitment by 2019/20. Responding to applications in this timescale will be an improvement on historical schemes where customers might have been waiting eight to 10 years before benefitting from a public sewerage provision. We currently have eight applications that we are assessing and our focus over the next 12 months will be turning those where we believe we have a duty into full schemes for delivery in 2018/19 and 2019/20.

Outcome 4: We will provide you with excellent customer service

Our customers expect a trouble-free service that gives them few reasons to contact us. When they do need to contact us, they want us to communicate in a straightforward way, take ownership of the issues and keep them informed of any progress.

We have two PCs that seek to improve our customers' experience of us:

- The utility sector-wide customer satisfaction index, and
- Ofwat's service incentive mechanism (SIM).

RA1 - Customers' satisfaction with their service

By 2020, we want to deliver some of the highest levels of customer satisfaction in the utilities industry.

This PC is measured by the UK Customer Satisfaction Index (UKCSI) - a survey independently conducted by the Institute of Customer Service (ICS). Our commitment is to achieve median position within the utilities sector until 2017, and then an upper quartile positon from 2017/18 onwards. This is a reputational ODI.

Performance in 2015/16

This year we achieved a median position and ranked fifth in the utility league table.

Improvement activity in 2015/16

A benefit of UKCSI is the unique insight it provides us of other companies which we use in a benchmarking and learning process. We have completed research into the leading utility service providers to understand their brand and digital offerings, taking learnings from this work and starting to incorporate it into our website redesign. Based on our experience elsewhere we are also undertaking a cultural change programme (which feeds into our overall SIM improvement plan).

Improvement activity planned for 2016/17

Our planned improvement activities for this measure form part of our overall activities reported below.

RA2 - Customers' experience of dealing with us (SIM)

Our customers do not expect to have cause to contact us, but if they do, they would like their issue to be resolved quickly, and the first time round.

The SIM is designed to encourage water companies in England and Wales to provide better customer service. It also allows comparison of company performance. SIM relates to household customers only.

There are four quantitative components:

- Unwanted telephone complaints;
- Total written complaints;
- Escalated written complaints;and
- CCWater escalated complaints.

And one qualitative measure:

- Annual Survey Score (provided by McCallum Layton).

Performance in 2015/16

We are reporting a company SIM score of 83.7 against a target of achieving upper quartile (when compared with all other companies). We await the final outcome from Ofwat as to our comparative performance, and therefore whether we receive a financial reward or penalty for our performance. However, our expectation is that our SIM score will result in a median outturn (i.e. neither reward nor penalty).

The SIM calculation has been revised for and therefore this year's overall SIM score is not comparable to previous years.

The outcome of the qualitative component of SIM (customer survey) is shared with all companies quarterly. The aim of the customer experience survey is to capture the views of those customers who have been in contact with any part of our business. We had some great successes this year where we finished in 3rd place for wave 1, and across 2 waves for billing we achieved 1st place. However, inconsistency in delivery, along with other water company improvements in performance means we are reporting a performance of 4.35 (11th of all water and waste water and water only companies) based on an aggregate position.

Improvement activity in 2015/16

During this year we launched a new voice of the customer programme called Rant and Rave (satisfaction survey). From this feedback we have delivered a wide range of actions to help drive a performance improvement with some examples below:

- Introduced numerous proactive communication offerings to help keep customers informed – including 'Track My Job', 'In My Street' options on our website and appointment reminder SMS;
- Revised water and waste water service levels to improve our timeliness of response and management of customer expectations; and
- Introduced 'Awesome Customer Experience' training for all of our meter reading, water and waste water employees who meet customers in person.

A number of these initiatives are already starting to make a difference to our customers which has been reflected in a 29% decrease in complaints this year (9,419 written complaints compared to 13,277 written complaints in 2014/15), and a 31.69% reduction in escalated complaints. Regrettably, one customer chose to escalate their complaint to the Consumer Council for Water (CCWater), which required investigation. This compares with two for the prior year.

One of the major improvements we have delivered this year is to embed a case management approach to complaints handling. This means that each customer has one point of contact throughout the journey of their complaint, better enabling us to deliver a resolution that satisfies both parties, in most cases.

Improvement activity in 2016/17

One of the key challenges we have faced over the past year is ensuring we deliver a great customer experience each and every time. Our focus for the coming year will be to reduce variability in our performance across all aspects of our SIM performance. We will be focusing on embedding the improvements achieved in 2015/16 and delivering a smaller number of more impactful initiatives.

These initiatives include:

- Upskilling our contact centre staff so they can solve more queries at the point of contact;
- A web transformation programme that will simplify and improve these digital journeys;
- Building on our existing capability to ensure we have automated updates at key points across our customer journeys; and
- A new programme of work to further embed cultural change.

Outcome 5: We will have the lowest possible charges

Throughout the period since privatisation in 1989, average household bills for Severn Trent customers have been amongst the lowest in the England and Wales. By becoming more efficient and innovative, we will continue to keep bills as low as possible.

Our customer research has shown that our customers' perceptions of value for money are complicated by the fact that in the absence of direct competitors, they find it difficult to gauge if they are getting a good deal or not and what they are paying for. We also know that our customers are influenced by the level of profits we make, and by what they hear about us and the industry in general in the media.

In order to track how we are perceived by our customers we have developed our value for money PC. This tracks how customers see us as a company in terms of the value of our services and commits us to drive improvements in this irrespective of external factors.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
Value for money (water)	47%	57.5%	£0.1m
Value for money (waste)	47%	57.5%	£0.1m

WC1 & SB1 – Customers rating our services as good value for money

This PC is defined as the percentage of customers rating our services as good or very good value for money, as measured by our quarterly Customer Satisfaction Survey. This commitment is replicated across both the water and waste price controls with separate reward and penalty incentives applying in each.

We are reporting an outturn position of 57.5% for 2015/16. This is ahead of our committed performance level of 47%. We have exceeded the reward deadband set at 57% and, therefore, a reward of £0.2m is due split equally across the water and waste water controls.

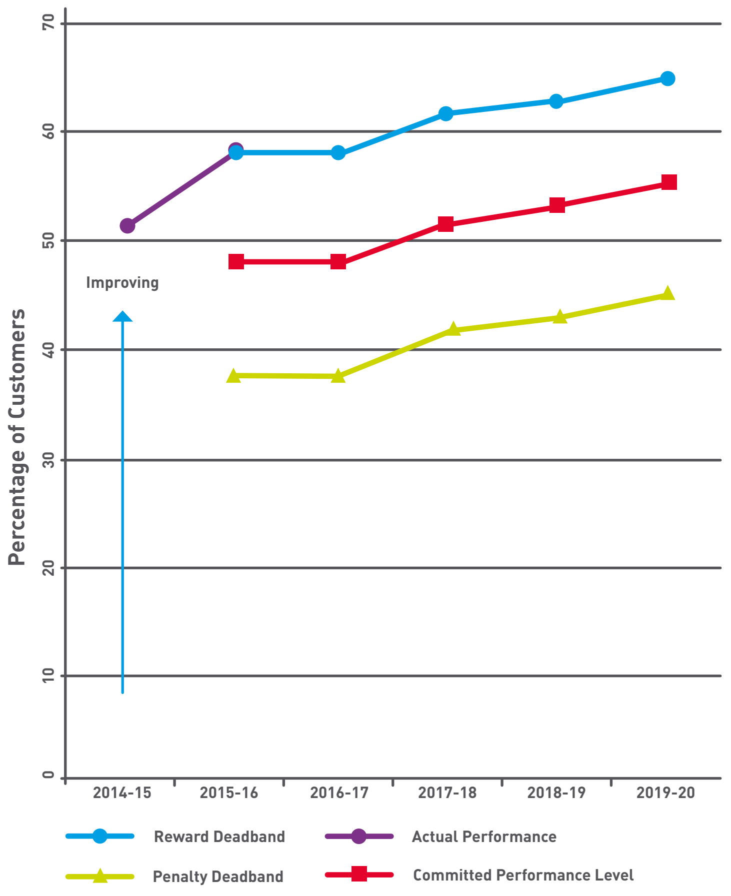
WC1/SB1 – Customers rating our service as value for money

Value for money is a holistic measure of satisfaction, fairness and reassurance. It is driven by perceptions and service experiences. It represents the assurance that customers are getting a good deal – an excellent service that feels fair. Perception of value for money is not directly linked to the bill level but more so to what customers are hearing both in the local and national news about Severn Trent, the water industry as a whole or other utilities. Their own personal experiences of us as a company will also impact their views.

A strong performance in value for money is, in part, indicative of a brand that is seen by customers as delivering what matters and being on the side of good corporate citizenship. The biggest influencer on value for money is that customers know that we are using their money wisely in investments such as reducing leakage or stopping sewer flooding. What does drive the perception of value for money is a sense of fairness; that we have charged customers a relatively small amount (not indicative of excess profit) and provided a good service. At the same time, bill increases and bad media coverage amongst other utilities are likely to have acted as a positive contrast effect.

We are confident that, through our brand messaging and our behaviours as a company we will be able to meet our committed performance level for 2016/17 irrespective of the external influences on value for money.

Figure 13: WC1/SB1 - Value for Money



Outcome 6: We will help you if you struggle

Our customers expect us to ensure that those who can pay their bills, do pay. Our research shows that they also support us providing targeted help to those customers who are genuinely struggling with their bills.

We have two PCs by which we hold ourselves to account for delivering this outcome:

- Number of struggling customers helped with their bills, and
- Percentage of household customers who do not pay.

These commitments drive our strategies to improve our debt management and extend the scope and reach of our support options. They consider how we can better serve customers that need help in the short term, but also the longer term as well.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
Number of struggling customers helped	35,000	24,110	N/A
Percentage of customers who do not pay	2.7%	1.8%	N/A

RB1 - Number of struggling customers helped with their bills

Our customers support us helping customers in genuine need who are struggling with their bills.

This reputational PC is a measure of the number of customers helped by a review of their tariff and water usage. Our commitment through 2015/16 was to help 35,000 customers via four key initiatives:

- Our WaterSure tariff;
- Our new social tariff;
- Pro-active metering project; and
- Water health checks.

This PC has no financial rewards or penalties attached.

Performance in 2015/16

This year we helped 24,110 customers through a review of their tariff and water usage, against a PC of 35,000. Whilst this represents a significant increase over 2014/15 (based on 10,783 customers on WaterSure), we did not reach our PC. Of the four component parts of our PC, it was primarily our newest form of support, the social tariff we introduced this year, which did not reach the expected number of customers.

Improvement activity in 2015/16

The introduction of our social tariff represents a significant innovation on the previous forms of support we offered. The target set was particularly challenging and represents our ambition, and the willingness of our wider customer base, to help customers in genuine need.

In line with the advice and feedback we received from expert stakeholders during consultation on our business plan, our chosen delivery model was to use a third party with specialist expertise (this year Coventry Citizens Advice Bureau (CAB)) to administer the tariff.

We worked extensively with the CAB over the year to increase the outreach of the scheme, and build a stronger network with Bureaux across our region.

Uptake increased substantially in the second half of the year but not sufficiently to compensate for the s;ow start in the first half of the year.

Improvement activity planned for 2016/17

Due to the limited success in increasing the volume of customers on our social tariff through 2015/2016, we have made the decision to move to using more than one third party provider to administer it.

In doing so we open up additional customer channels and a greater reach across our customer base to promote the tariff via their existing processes and additional campaigns. We also have the flexibility to increase or decrease targets according to performance of the panel of providers, therefore reducing the risk of underperformance in 2016/2017 and the rest of the AMP. We will continue to work with the CAB but also to work with the Severn Trent Trust Fund (STTF) with whom we have a strong, well established relationship. A small trial run over our third quarter of 2015/16 delivered promising results.

We have also expanded our own teams and built up further specialist expertise in financial vulnerability so that we too can administer the scheme.

R-B2 - Percentage of customers who do not pay

Our customers want us to ensure that those who can pay, do pay.

This PC is defined as our household bad debt divided by total household revenue, as reported in our regulatory accounts. This PC is reputational only – however, if we do not meet our committed performance level, we bear the cost of additional bad debt incurred.

Performance in 2015/16

Our outturn position this year was 1.8% against a 2.7% target.

Improvement activity in 2015/16

We entered the AMP with a good track record in this area, despite a challenging financial climate. This performance was underpinned by a strategy that focused on customers' specific circumstances, and implemented using tailored systems and communications.

Over the last year we have continued to focus on understanding our customers' needs and how we can help turn our customers' journeys into a positive experience where possible. We have restructured our operation and also set up a dedicated team to focus entirely on supporting and identifying our customers who require help.

Work has continued on the redesign of our customer debt journey, using analytics and customer feedback to identify where processes can be adjusted to drive a more favourable response, but also to improve the identification of our customers who may be struggling with their bills. An example is where we have worked upon the wording and frequency of our communications and whilst not entirely responsible, this exercise has helped deliver a 51% reduction in the stage 1 complaints normally attributed to this business area.

Improvement activity planned for 2016/17

We are consistently reviewing our debt strategy based upon our strong prior year performance and we continue to seek opportunities to help drive our cash collection as a business.

Outcome 7: We will protect our local environment

Our customers and stakeholders have told us that they value their local environment. They want to see clean rivers which can support a variety of wildlife. They would also like us to address pollution incidents, particularly the most serious.

This outcome reflects our customers' priorities by drawing together 11 PCs designed to ensure that, as we serve our communities, we do not have a detrimental impact on the local environment. Our PCs also incorporate our statutory environmental obligations, as defined within Defra's Statement of Obligations and the National Environment Programme (NEP).

Of our 11 PCs (reported as nine):

- Two relate to our obligations under the Water Framework Directive (WFD) with respect to both water and waste water;
- Three monitor the number of pollution incidents our assets cause;
- Two commitments monitor the compliance of our treatment assets with legal obligations (reported as one figure);
- Two measure improvements in biodiversity on both Severn Trent owned land and land our activities have an impact on (reported as one figure);
- One relates to installation of protection at our works inlets for eels; and
- Our overall environmental compliance commitment is a composite of four Environment Agency measures.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
WFD (water)	N/A	-	N/A
WFD (waste)	N/A	-	N/A
Serious pollutions	8	2	N/A
Category 3 pollutions	429	293	£4.4m
Category 4 pollutions	225	186	N/A
Asset stewardship - performance	100%	97.51%	-
Biodiversity	N/A	323	N/A
Sites with eel protection	N/A	-	N/A
Overall environmental compliance	N/A	N/A	-

WD1 – Improvements in river water quality against Water Framework Directive criteria (water)

The Water Framework Directive (WFD) seeks to sustain and drive improvements in river ecology. It is important that we, as a company dependent on water as a natural resource, play our part in achieving the objectives of the WFD and protect rivers (and other water bodies) in the communities that we serve.

This PC is defined as the number of WFD classification improvements we deliver that are attributable to improvements in river flow. It principally reflects the impact that our abstraction activities have on water bodies (a second PC– set out later – considers the impact of our waste water operations). A point is scored for each classification improvement. This is a calendar year measure that has both financial rewards and penalties. These rewards and penalties are to be calculated in 2018/19.

In our Final Determination, the incentive rate is expressed per year. However, as indicated in our business plan the intention was that five years' worth of penalty or reward would be applicable for any under or over performance. We have informed our external assurance providers, the Water Forum and Ofwat of our understanding and intention.

The definition does not specify exactly what determines a point. Through ongoing discussion with the Environment Agency we have agreed that a project output must meet the environmental outcome that will put the water body on the pathway to good status. The number of points will be determined on a site by site basis and agreed with the Environment Agency.

This has been discussed with our Water Forum.

Performance in 2015

We are reporting zero points for 2015. The committed performance level is 31 points by 2019/20; there are no annual targets.

Improvement activities in 2015

During the year we have progressed feasibility for projects at National Environment Programme (NEP) Implementation sites. This is nearing completion. We are engaging with local Environment Agency areas to agree on a site specific basis the final project output to be delivered and the corresponding points that can be claimed. This agreement will be recorded in an addendum to the plans agreed with the Environment Agency and produced for the NEP Implementation sites in 2016/17.

The Environment Agency has challenged our proposed points for the groundwater bodies where long disused sources are having their public water supply licences revoked. It is, however, recognised that there will be a benefit to the surface water bodies, as points can be claimed under the WFD no deterioration policy.

Improvement activities planned for 2016

Whilst there are delivery risks around some schemes, such as on the River Blithe, where feasibility has shown that a groundwater licence reduction and resource replacement may not be a viable solution based on cost benefit analysis, negotiations are ongoing with the Environment Agency. Based on our current proposals we believe we will meet our commitment in 2019/20.

Abstraction Incentive Mechanism

The Abstraction Incentive Mechanism (AIM) encourages companies to limit their abstraction from water sources where it has the potential to cause environmental damage. Ofwat have confirmed that, for the 2016/17 report year, companies will be required to report on the number of AIM sites in their area.

Currently we do not have any abstraction sites included in AIM. This is because our region is dominated by sandstone aquifers and regulated rivers, so there are few obvious candidate sites where a short term reduction in abstraction would lead to an immediate improvement in river flow.

For the 2015-20 period we developed our WFD PCs as an incentive measure that is more reflective of the water resources in our region. We are committed to improving WFD water bodies and aquatic ecology at a number of sensitive sites across our region.

We will be delivering our largest ever water environment improvement programme, and we expect to improve 29 surface water bodies with a further potential seven groundwater bodies. In response to the consultation on AIM in 2015, we have explained our position to our Water Forum and Ofwat.

SC1 – Improvements in river water quality against Water Framework Directive criteria (waste)

This PC is defined as the number of WFD classification improvements we deliver attributable to improvements in flow. It reflects the impact our waste water operations can have on water bodies. A point is scored for each classification improvement. This is a calendar year measure and has both financial rewards and penalties, which will be calculated in 2018/19.

In our Final Determination, the incentive rate is expressed per year. However, as indicated in our business plan the intention was that five years' worth of penalty or reward would be applicable for any under or over performance. We have informed our external assurance providers, the Water Forum and Ofwat of our understanding and intention.

Performance in 2015

We are reporting zero points for 2015. The committed performance level is 202 points by 2019/20; there are no annual targets.

Improvement activities in 2015

Whilst we have not completed any WFD projects during the year (reflected in zero points reported), we have made important progress by investing approximately £15.5m to develop the process solutions and procure the assets that will deliver our committed level of performance by 2019/20.

We have also made good progress with the assurance process for sign off of each point by the Environment Agency, which is now largely agreed and documented. A spreadsheet is held by the Environment Agency that records the agreed schemes and points attributable to each water-body. It is based upon the improvements locked in by the permit limits set out in the NEP phase five.

Improvement activities planned for 2016

Our first WFD project has already been completed within year two. This will deliver six points through the closure of Langley Mill sewerage treatment works and the transfer of flows to Minworth sewerage treatment works. We will report on this project as part of next year's Annual Performance Report. Several other projects are due to start construction during the early part of 2016/17.

Based on progress during 2015/16, we are confident that we will be able to meet our committed performance level of 202 points by 2019/20.

Outcome 7:
We will protect our local environment

SC2/6/8 – Number of pollution incidents

The research we undertook for our 2015-2020 plan showed a high level of customer and stakeholder support for reducing pollution incidents, focusing on the most harmful as a priority. This underpins our ambition to be a frontier company as rated by the Environment Agency in their annual Environmental Performance Assessment.

We have three PCs which distinguish between the impacts of pollution incidents (based on Environment Agency categorisations):

- Eliminate the most serious (category one and two) pollution incidents by 2020;
- Reduce the category three incidents by around 20%; and
- Place a new focus on reducing the least serious (category four).

These PCs are defined as the number of pollution incidents attributable to our assets (including sewers transferred in 2011). All are calendar year measures. The category three PC has both financial rewards and penalties, the other two PCs are reputational only, although category one and two incidents are investigated by the Environment Agency and may lead to regulatory action.

We have discussed with the Environment Agency the definition of a category four incident to ensure both organisations are reporting incidents comparatively. It was agreed that, for our PC (SC8) we should include incidents that are recorded on tracking systems excluding those that are compliant with permit conditions.

We have discussed this definition with our external assurance providers and with the Water Forum.

Performance in 2015

This year we made progress towards eliminating serious pollution incidents. We are reporting two serious pollution incidents, which is ahead of our committed performance level of eight.

We are reporting 293 category three incidents against a committed performance level of 429; this is 136 ahead of target and 81 incidents ahead of our reward dead-band of 374 incidents. This reward dead-band was set by Ofwat (in comparison with other companies) and ensures that we only receive a reward for this measure if we exceed upper quartile performance (against the rest of the industry). From 2017 onwards we will be penalised if we do not consistently achieve upper quartile performance. This year marks our best performance since 2001 and equates to a financial reward of £4.4m. See figure 15 below.

Similarly, we are reporting 186 category four pollution incidents which is ahead of our target of 225; see figure 16 below.

Improvement activities in 2015

During 2014 we delivered an improved performance on total pollutions, ahead of where we had forecast at the time of setting our PCs (and much better than our historical average). This improvement came about because we recognised that to reach the Ofwat target of achieving upper quartile performance (for category three pollutions) required us to start early to deliver a step change. We therefore focused significant energies in 2014 on improving our performance with a particular focus on prevention and data. Since that time we have continued to deliver higher performance levels through refining how we use data, better education and focused investment.

We have focused on our pollution hotspots; targeting 29 catchments and installed 330 storm tank monitors, telemetry on 1,000 combined sewer overflows and a further 700 final effluent monitors. This, as part of an overall investment of £25m, has aided us in targeting our pro-active maintenance and cleansing of our sewerage network to drive down the number of incidents.

As part of our work to reduce blockages, we have been educating our customers on what is and is not acceptable use of the sewers. We have reached over 84,000 customers directly regarding sewer misuse. During the Christmas period we worked with a number of supermarkets to distribute fat traps with each turkey purchased; this initiative helped reduce the peak in blockages in the network during the winter period. This work has helped drive improvements on pollution incidents as well.

We have renewed focus on fast food outlets; we were asked by McDonald's to roll out our staff education programme across the region and we worked with Loughborough University to minimise the impact of sewer misuse around the start of the new academic year.

We also ran campaigns with Stoke City Football Club to run educational videos at their home games.

We decided to change our contract model and use one sole supplier that had expertise in this area, to help us deliver our targets. This has helped us ensure consistent operational standards across our regions. Part of this is an improved response time to blockages, halving our response time has meant we are reducing the number of blockage incidents that turn in to pollution events. We have combined this with new signage on our assets so it is easier for customers to inform us if they think there is a problem with them.

Finally, we have rolled out a revised training programme to our people to ensure a more consistent response to incidents and greater assurance of a right first time approach.

Improvement activities in planned for 2016

We have seen demonstrable improvements from the initiatives we have undertaken in 2015. Our focus in 2016 will be to maximise the benefit of these measures and ensure we embed best practice across our operating area. There will also be a key focus on ensuring these initiatives continue to provide the improvements we have seen irrespective of the environmental conditions we experience during the year.

Whilst delivering sustained improvements will be challenging, we are confident that our improvements can be sustained and we will continue to meet our committed levels of performance for year two.

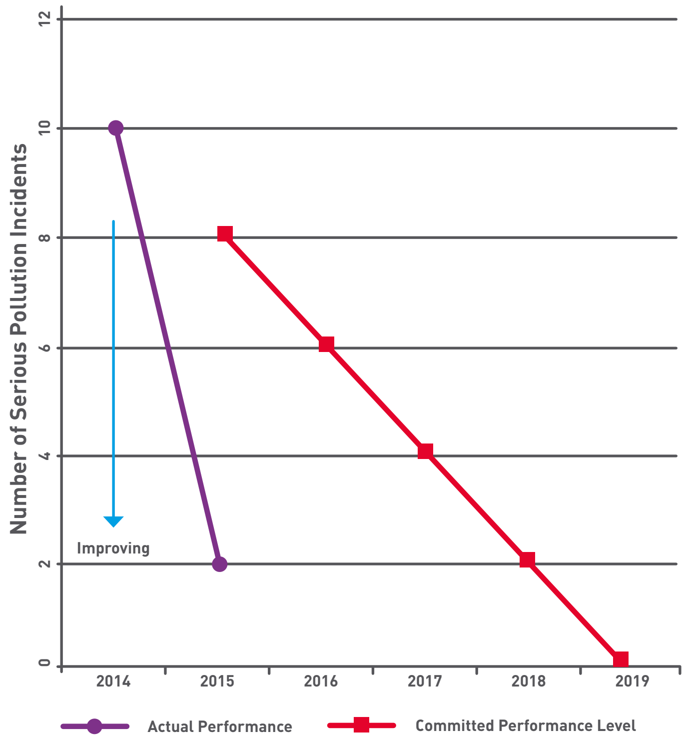


Figure 14: SC6 - Serious Pollution Incidents

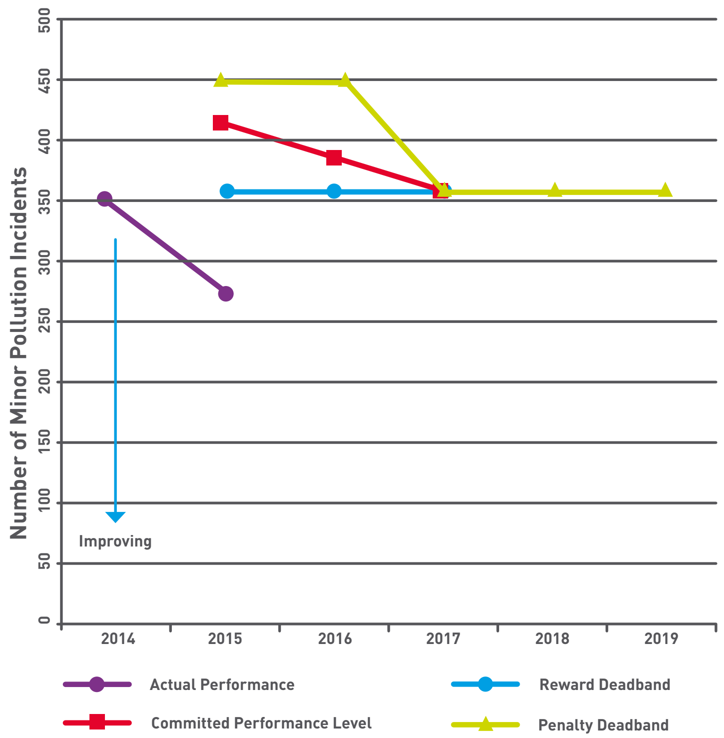


Figure 15: SC2 - Category 3 Pollution Incidents

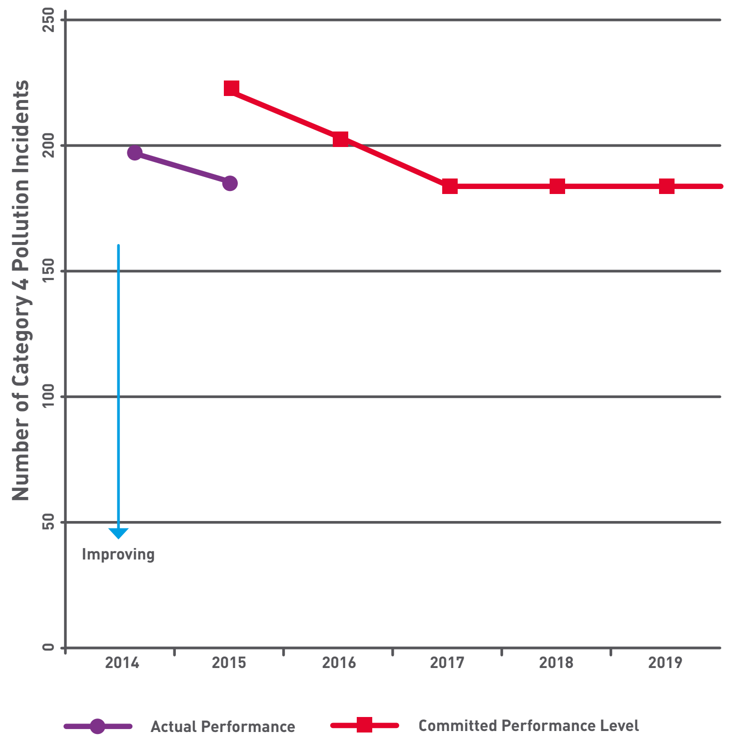


Figure 16: SC8 - Category Four Pollution Incidents

Outcome 7: We will protect our local environment

WD2 & SC3 – Asset stewardship – environmental compliance

This is one of four PCs that relate to whether we are maintaining our assets in the right condition now so that they can continue to deliver services to our customers in the future. It focuses on our compliance with sewage treatment and abstraction permits and includes four parts:

- Percentage of sewage treatment works passing their numeric consents;
- Percentage of actions raised from Environment Agency regulatory site audits (actions raised as a percentage of total site audits);
- Percentage of sites that do not exceed their 90 percentile flow on sewage treatment works or maximum daily flow on water treatment works; and
- Percentage of sites compliant with their abstraction permits.

This PC is based on calendar year figures and has financial penalties only.

Over the course of the year, we have identified that there is scope to provide greater clarity on two of the sub-measures used in the Final Determination. For transparency, we have set out the interpretation we have used for reporting below. We have consulted the Environment Agency and our Water Forum on these definitions.

Percentage of actions raised from Environment Agency regulatory site audits

The Final Determination makes reference to a specific line on the MD109 tables that has been removed. It was agreed that the measure should match the original data return as closely as possible and, as such, we will:

- Assess compliance against the total number of works with numeric consents;
- Include Operator Self Monitoring failures;
- Include works in England and Wales;
- Include the number of sites with failures; and
- Include corrective actions only, not advisory actions.

Abstraction licence compliance

We will measure the percentage of sites compliant with their abstraction permits as the number of daily licence exceedances divided by the number of daily licences held, multiplied by 365 (366 in a leap year).

Performance in 2015

We are reporting 97.51% against a committed performance level of 100%. This is an improvement on the previous year's performance of 95.74% compliance. Our penalty dead-band is set at >95.3% and, therefore, no penalties are due this year.

This overall improvement reflects an improved performance on three out of the four composite measures:

- Compliance with the numeric sub-measure reduced from 99.86% to 99.01%;
- Compliance with the non-numeric sub-measure improved from 94.77% to 97.88%;
- Compliance with the dry weather flow measure has increased from 88.72% to 93.18%; and
- Abstraction licence compliance improved from 99.61% to 99.96%.

Improvement activities in 2015

Our compliance with the numeric sub-measure reduced from 99.86% to 99.01% this year. This represents a reduction from our best ever performance of one failing works in 2014 to seven failing works in 2015. We have conducted root cause analysis of the failures and taken remedial actions, such as a review of standard operating procedures implemented to prevent reoccurrence in 2016

Our improvements in the non-numeric measure have been driven by a greater, more proactive focus on meeting our obligations. Site audits have been carried out to identify potential issues and standard operating procedures have been re-launched.

Whilst compliance with the dry weather flow measure has benefited from the relatively benign weather conditions in 2015, we have also been working to drive improvements. These activities include the development of a dry weather flow performance tool kit, and the exploration of permit trading options.

We are also starting to look at metrics which act as an early indication of potential dry weather flow failures and therefore sites that are at risk of non-compliance. Whilst it takes some time to carry out the monitoring surveys, infiltration investigations and to implement capital schemes required to improve performance, it is expected that compliance will improve further in 2016.

Our sites' compliance with abstraction licences has been supported by revised standard operating procedures, a new user guide with details of abstraction licences and an improved suite of measures to be used at regular team performance and communication meetings to better identify risks. One of our sites (Uckington) was responsible for multiple failures; a root cause analysis has been carried out and monitoring processes improved as a result.

Improvement activities planned for 2016

During 2015, the key focus of our improvement activities has been to better understand the causes of non-compliance, introduce new operating standards and procedures to help our teams to prevent and rectify these causes, and improved monitoring to better identify where there are risks of non-compliance. We expect these activities, and a continued focus on them, to deliver further improvements in 2016.

WD3 & SC4 – Biodiversity improvements

Our customers support us promoting improvements in biodiversity through the work we do. It is important that we play our part and address where we are contributing to land not achieving an 'improving' or 'favourable' biodiversity classification by Natural England.

We have PCs relating to water and waste water. These PCs are defined as the number of hectares of designated areas improved, measured through improvements made to:

- Sites of Special Scientific Interest (SSSIs) on Severn Trent Water's land; and
- our contribution to improving other designated areas in its region such as Special Areas of Conservation (SACs).

Improvements are made where our activities are contributing to a designated site failing to achieve 'improving' or 'favourable' (as defined by Natural England).

Our committed performance level is a net increase of 75 hectares of improved designated sites by 2019/20; this is a combined total across both the water and waste water price controls. There are no annual targets. The water control has a reputational incentive. The waste water price control has both financial rewards and penalties as the incremental investment for these measures is on waste water assets.

In our Final Determination, the incentive rate is expressed per year. However, as indicated in our business plan the intention was that five years' worth of penalty or reward would be applicable for any under or over performance. We have informed our external assurance providers, the Water Forum and Ofwat of our understanding and intention.

There is a discrepancy within the Final Determination between the text describing the PC and the baseline number of hectares within the table. We have discussed the following approach with the Water Forum; we are proposing that we report on the number of hectares of land, both owned and not owned by Severn Trent, that our activities have an impact upon. As indicated in the Final Determination, we are committed to a new improvement of 75 hectares across the AMP period.

Performance in 2015/16

Whilst we did not have a specific target to meet in 2015/16 we are reporting a net deterioration of five hectares on the basis of Natural England's annual reassessment. This was principally driven by the deterioration of one site and rebasing the start position in line with Natural England's reassessment of sites. However, as explained below, we remain on track for our PC to be delivered by 2019/20.

The financial reward/penalty is determined in 2019/20 therefore no penalty is due for this PC.

Improvement activities in 2015/16

Our strategy focuses on identifying and driving opportunities to deliver the best possible biodiversity benefits from other schemes and projects being undertaken across our organisation (as opposed to delivering investment schemes solely focused on biodiversity). We believe embedding biodiversity in this way offers best value to our customers, whilst ensuring we deliver the improvements they wish to see.

These contributing projects include: waste WFD projects, water NCP projects, Catchment Management schemes and Property Services projects. They are all on track to deliver the biodiversity benefit, and therefore our PC by the end of 2019/20.

This year we have focused on internal engagement to ensure that delivery teams fully understand the PC and how their projects will contribute to it. Governance processes have been put in place to ensure that progress can be tracked.

We have worked with Natural England on developing a proposed methodology to enable us to demonstrate that our activities have delivered the required improvement. We anticipate finalising the agreement of this methodology in early 2016/17.

Natural England have also helped us develop a methodology for Site Action Plans. These detail all of the information relating to the sites that we are looking to improve as well as the activities planned at each site. This has been a novel and innovative process for both Severn Trent Water and Natural England and has been driven by this PC.

Improvement activities planned for 2016/17

Our focus for the next 12 months will be to monitor and track the projects that will contribute to the achievement of this PC. There is one planned activity that is due to be completed that will remove part of our contribution to the failure of a site. We will not claim hectares improved at this site as it has a collaborative approach with a number of parties are contributing to its improvement. No other projects are planned to be delivered in year two.

We remain confident that we are able to meet the overall net improvement of 75 hectares by 2019-20.

Outcome 7:
We will protect our local environment

WD4 – Sites with eel protection at intakes
This PC is defined as the number of schemes delivered to provide eel protection at intakes. This PC has a reputational incentive only.

Performance in 2015/16
Our committed performance level is to deliver 20 improvements at river intakes by 2020/21. We have a progress milestone in 2018/19, however there are no annual committed performance levels. We are reporting zero completed schemes in 2015/16.

Improvement activities in 2015/16
In 2015/16 we have conducted aquatic surveys at 14 intake sites. These 14 sites cover the 20 improvements referred to in the PC.

These surveys have provided information not previously known concerning the presence of eels (and other fish species) being drawn into our intakes. This has enabled informed discussion with the Environment Agency concerning the requirements for eel protection, or other solutions, at our intakes. Solutions will be developed over the next 12 months and agreement to the proposals obtained with the Environment Agency.

Improvement activities planned for 2016/17
We met with the Environment Agency in February 2016 and agreed in principle four sites that are considered already compliant with the Eels Regulations. Subject to formal sign off by the Environment Agency following a site visit we will report these sites as delivered in 2016/17.

The Environment Agency has confirmed that we need to provide suitable eel protection measures at the four sites on the River Severn. Surveys at Upton and the Mythe confirmed the presence of eel including elver (young eels) at these two intakes. Once we have identified elver in the river, the solution requires screening sufficiently small to prevent them from passing through; this requirement is specified by statute. Current screening at Upton and the Mythe is insufficient to meet the regulatory standards so we are exploring solutions for these sites.

Based on the preliminary work undertaken during 2015/16 we are confident that we will meet our commitment to deliver 20 sites that are compliant with the Eels Regulations by 2020/21.

SC7 – Overall environmental compliance

This PC is designed to ensure that we improve our environmental performance in a balanced way (as opposed to focusing on some measures in isolation). It draws together four of the PCs already detailed under this outcome to create an overall score:

- Improvements in river water quality against WFD criteria
- Asset stewardship – environmental compliance
- Total number of category one, two and three pollution incidents and
- Biodiversity improvements.

It considers our overall environmental performance, assessed as our average performance across the 2015/16 to 2018/19 period including a forecast of performance in 2019/20.

The Final Determination does not explicitly state how we should determine average performance. As such, we have assumed that:

- For Asset Stewardship – Environmental Compliance, the mean performance for 2015-2018 must be greater than the penalty deadband for the measure (95.3%); and
- For pollution incidents, we will assess the total number of incidents against the cumulative targets for the corresponding year (20 serious incidents, 1,579 category three incidents). In order to achieve the target for pollution we must meet the committed performance level for both category three incidents (SC2) and serious pollution incidents (SC6).

We have discussed the above with our external assurance providers and with the Water Forum.

It is not possible to undertake the assessment for this PC until year four (2018/19) at which point the total reward or penalty will also be determined. Our performance against each of the individual commitments is discussed in the relevant sections above.

Outcome 8:
We will protect the wider environment

Our customers and stakeholders expect us to be a responsible company and help to protect the wider environment in which we all live and work. They want us to reduce carbon emissions and waste. We share their ambition.

We have a track record as an industry leader for renewable energy generation which we intend to build on by 2020. We are also working to become more energy efficient to ensure that, as we deliver our essential service, we are making the best possible use of natural resources.

We have two PCs relating to the wider environment. They relate to the net carbon footprint of our water and waste water operations.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
Carbon emission (water) (KtCO2e)	228	247	(£0.3m)
Carbon emissions (waste) (KtCO2e)	248	238	£0.2m

WE1 & SD1 – Size of our carbon footprint
These PCs are defined as the total net annual greenhouse gas emissions for the regulated water and waste water business. Performance for our water and waste water operations are reported separately. Each has financial rewards and penalties.

Since the publication of the 2014 Final Determination, external data that was used to develop the PCs has been updated. For clarity, we will report using the historic Global Warming Potential Factors for the 2015-20 reporting period. This has been shared with the Water Forum who accepted our proposal.

Performance in 2015/16
Outturn emissions for our water operations are 247 ktCO_2e compared to a target of 228 ktCO_2e. This will incur a penalty of £0.3m. See figure 17 right.

Outturn emissions for the waste operations are 238 ktCO_2e compared to a target of 248 ktCO_2e. This will generate a reward of £0.2m. See figure 18 right.

Overall, whilst we are behind our committed position, emissions have reduced in line with our on-going improvement trend and are the lowest since we began measuring in the early 2000s.

The key upward pressure on our emissions is higher energy use by our water production assets. This is due in part to around 2% more water being put into supply than was forecast. Reduced availability of our more efficient sources of water has also increased our energy use per mega litre delivered into supply over the network.

Figure 17: WE1 - Carbon (water service)

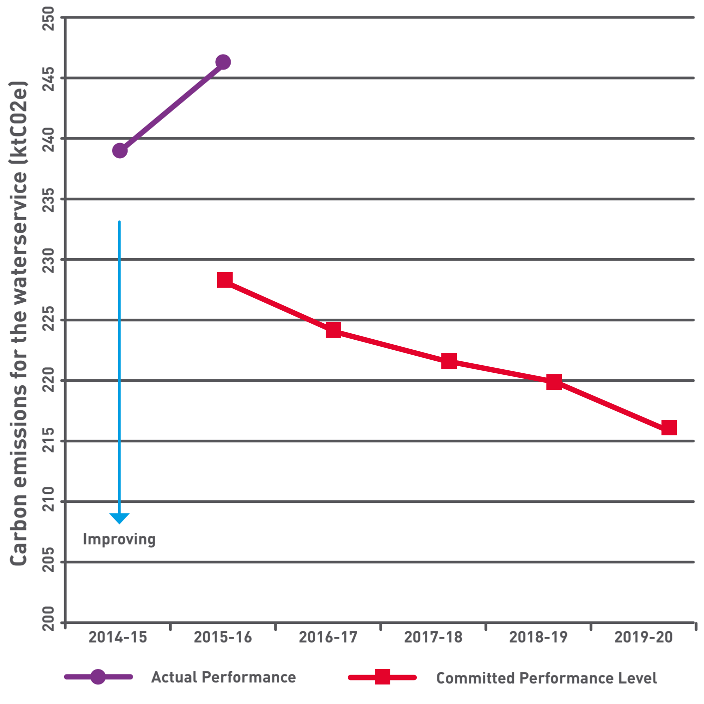
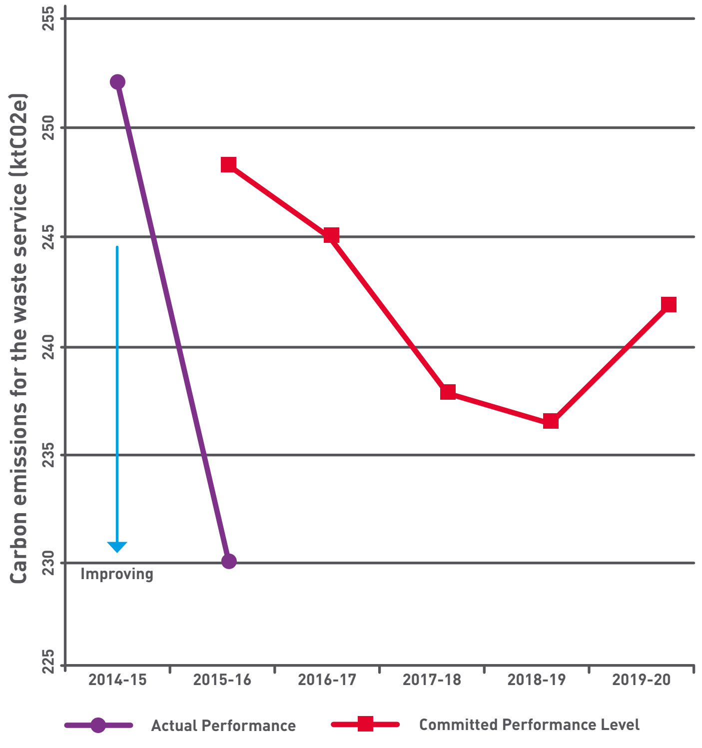


Figure 18: SD1 - Carbon (waste service)



Outcome 8: We will protect the wider environment

Improvement activities in 2015/16

Our improvement activities focus in two areas:

- Increasing our renewable energy generation; and
- Improving our energy efficiency.

In April 2015 we met our previous target to generate the equivalent of 30% of Severn Trent Water's electricity needs from renewable energy across both our regulated and non-regulated business. Over the next four years we aim to grow our renewable energy generation to 50% and retain our industry leading position. During 2015/16 we generated 295 GWh of renewable electricity, the equivalent of 33% of Severn Trent Water's electricity needs. In the regulated business, over 2015/16 we have generated 9% more than target from sludge and hydropower.

We continued to invest in energy efficiency this year, including (but not exhaustively) investment in pumps, blowers, asset control and heating and lighting. Energy management e-learning has been rolled out across our business to raise awareness of energy usage and where efficiencies can be made. A network of over 50 Energy Champions has been set up to focus energy savings within the region. Overall energy reduction projects were on target to deliver 13 MWh of reductions during the next year.

Improvement activities planned for 2016/17

We are confident that we can meet our committed performance levels for both the water and waste water controls for 2016/17.

SC5 – Sustainable Sewage Treatment Solutions

In our business plan, we proposed some PCs that were designed to encourage innovation – particularly in areas where we might not ordinarily be incentivised to do so. This PC is designed to incentivise the delivery of different, more sustainable approaches to sewage treatment which would deliver longer term benefits to customers and the environment.

It is defined as the number of works where future capital investment is avoided by the development of innovative solutions to reduce capacity pressures at sewage treatment works to accommodate growth. It has a target of zero by 2020 (reflecting that this is an experimental approach) and a financial reward incentive only should any successful schemes be delivered.

In our Final Determination, the incentive rate is expressed per year. However, as indicated in our business plan the intention was that five years' worth of penalty or reward would be applicable for any over performance. We have informed our external assurance providers, the Water Forum and Ofwat of our understanding and intention.

Whilst we have not delivered any qualifying schemes this year, over the next 12 months we will continue to look for opportunities. We are looking at new technologies with our research and development team and identifying areas where trade or domestic growth is forecast.

Outcome 9: We will make a positive difference in the community

The impact of our activities is felt by a wide range of people and businesses across our region, every day. It goes beyond the delivery of our essential service and can make a positive difference to the social and economic wellbeing of our region.

Our customers have a clear expectation about our role in educating communities, schools and customers about water efficiency, the environment and responsible sewer use.

The centrepiece of our plan for AMP6 is to increase our educational outreach programme from 375,000 people in AMP5 to a total of 700,000, an uplift of over 86%. This is reflected in a PC that applies to both our water and waste water operations.

PC	2015/16 Target	2015/16 Actual	Reward/ Penalty
Improved understanding through education	155,000	117,728	N/A

WF1 & SE1 – Improved understanding of our services through education

This cross-control PC is defined as the number of people benefitting from our total education programme including workshops, school lessons and site visits. It has a reputational incentive.

In our Final Determination the targets are replicated across both the water and waste water controls. For clarity, our proposal was to educate 700,000 customers across our business; therefore we report a single outturn number for both the water and waste water PCs. We have shared these proposals with the Water Forum who accepted them.

Performance in 2015

Our annual targets represent a step change in our education programme. This year, we are reporting 117,728 customers reached through our programme which is behind our intended annual target of 155,000 customers.

Improvement activities in 2015/16

The majority of our education programme is led by our community teams in partnership with schools to deliver messages on water efficiency and sewer misuse. This is done in fun and interactive sessions that introduce the 3 P's that can be flushed...pee, poo and paper. At the end of each session, the children are asked to make pledges to take some small actions which they add to a pledge card. This encourages the children to make a real difference themselves and also provides us with the opportunity to spread messages to parents and the wider community via our website.

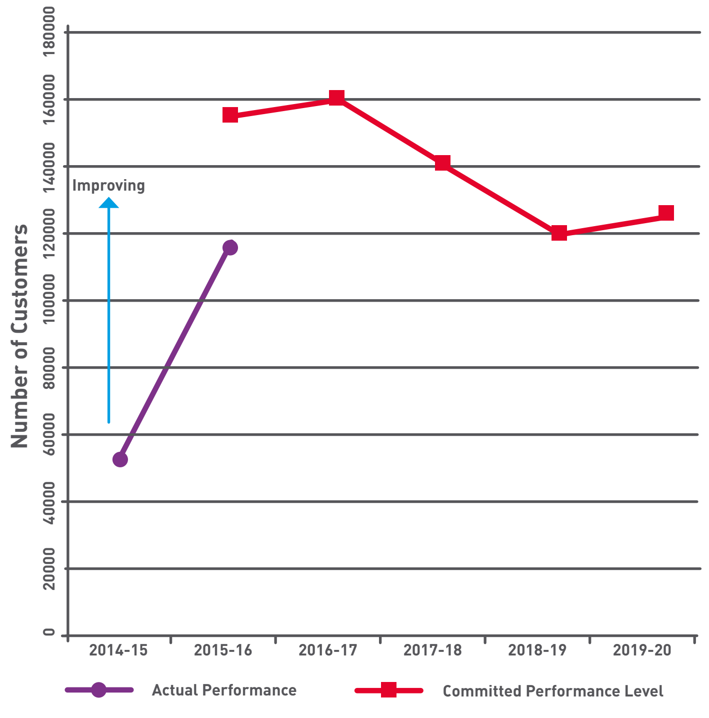
We also work in partnership with our contract partners who carry out water efficiency audits and install water saving products in customer homes. They talk to customers about ways to save water in their homes. Similarly our sewer blockage teams, who are out on the ground clearing blockages, talk to local customers about sewer misuse and actions they can take. These activities account for c.34,000 of contacts with customers during the year.

Improvement activities planned for 2016/17

In future years, we will continue with similar activities whilst looking for further opportunities to work in partnerships. Each year we also review and update our educational resources to ensure they continue to evolve and meet the needs of customers.

Now that we have increased the team size and completed our training programme we are confident that we will deliver our AMP6 commitment to educate 700,000 customers and make up the shortfall from 2015/16.

Figure 19: WF1/SE1 - Number of customers educated



Outcome 10: We will finance our business sustainably

Investment grade credit rating

We need to make sensible investment in our infrastructure now in order to protect our future services. We raise money from investors so that we can spread the costs of these improvements across the generations of our customers who will benefit from them. Our investors expect a return that is commensurate to the level of risk they take. In turn, our customers trust that we will not take on unsustainable levels of debt, nor pay our investors unjustified or excessive returns.

Investors typically use a suite of measures and financial ratios to gauge the financial health of companies. Whilst we do not have specific PCs relating to this outcome, we use our credit rating as an indicator of whether we were financing our business sustainably. Credit ratings are an indicator of our creditworthiness. They have the advantage of being independently assessed measures (assessments are made by credit ratings agencies) which are publicly available.

During the 2015/16 - we retained an investment grade credit rating.

Sections 1, 2 and 4 provide more information about our financial performance this year.

Overall Asset Health

Maintaining long term asset health is a key duty for Severn Trent; being able to demonstrate asset health is vital to ensure we maintain our licence to operate. Historically we demonstrated this through reporting on our serviceability.

During the 2015/20 period, we elevated a number of the former serviceability metrics to be PC's in their own right as part of our "Asset Stewardship" measures. In addition to this, we committed to develop an internal basket of measures that would demonstrate our overall asset health. This is not a formal PC.

During 2015/16 we have undertaken an internal review of PCs and other metrics to provide insight on our overall asset health to our management teams. This information will also feed in to our Proactive Asset Management (PAM) work-stream which is developing the basket of measures as part of our wider programme of work.

Additional regulatory information

4

4A - Non-financial information

Year ended 31 March 2016	Unmeasured 000s	Measured 000s
Retail household - number of households billed		
Water only connections	147.3	114.5
Wastewater only connections	452.8	259.7
Water and wastewater connections	1,691.1	1,230.7
Total	**2,291.2**	**1,604.9**
Number of void households	107.6	63.9
Per capita consumption (excluding supply pipe leakage) l/d	138.0	118.2

	Water (Ml/d)	Wastewater (Ml/d)
Wholesale volume		
Bulk supply export	61.5	–
Bulk supply import	351.8	–
Distribution input	1,846.0	

4B - Wholesale totex analysis

Year ended 31 March 2016	Water £m	Wastewater £m
Actual totex		
Menu totex	552.2	459.3
Items excluded from the menu		
Pension deficit recovery payments	7.1	6.3
Third party costs	5.1	0.3
Other adjustments	–	–
Total costs excluded from the menu	**12.2**	**6.6**
Actual totex	564.4	465.9
Actual totex base year prices	532.3	439.4
Allowed totex base year prices	501.7	481.0

Differences between actual and allowed totex
Totex expenditure of £971.7m in base year prices is £11.0m (1.1%) below the Final Determination (FD) allowed totex of £982.7m and £32.3m (3.3%) below the total allowed expenditure (which includes pension costs, third party costs and other adjustments) of £1,004.0m. The Water price control is £13.7m (2.6%) over the FD total allowed expenditure, offset by Waste water being £45.9m (9.5%) under the FD.

Water
The opex FD for Water includes an additional efficiency stretch of £13.4m for which plans are currently being implemented. In addition, electricity costs have increased by £6.6m of which £1.7m relates to increased usage and the remainder being price effects. Increased bonus provision costs have been broadly offset by a one off rebate from the Environment agency associated with the EIUC fund.

Within Water capex there are a number of variances driven by investment timing differences. The largest of these differences is due to the advancement of Ambergate reservoir expenditure of £8.2m, partially offset by delays on Peckforton resilience of £5.0m and eels regulation of £2.4m. In addition £4.0m of the saving is attributable to higher income received on Water infrastructure charges.

The increase in cash expenditure of £2.3m (51.8%) is due to higher pension deficit recovery payments.

Waste water
The opex FD for Waste water includes funding of £7.8m above the submitted business plan which has not been required in 2015/16. In addition, electricity costs have reduced as a result of increased self generation and biogas generation which have been partially offset by increased bonus provision costs.

The favourable variance for Waste water capex is predominantly driven by investment timing differences. The largest of these delays are Minworth Thermal Hydrolysis Plant of £6.7m, Chemical Investigations Block of £5.5m, Instrumentation Control Automation of £5.2m and Newark Sewer Flooding scheme of £4.6m. In addition, £4.3m of the saving is attributable to higher income received on Waste water infrastructure charges.

The increase in cash expenditure of £1.9m (48.2%) is due to higher pension deficit recovery payments.

Totex menu reconciliation
Two adjustments are required to actual totex in order to complete the totex menu reconciliation.

The first is transitional expenditure in respect of early investment on the Birmingham resilience programme (£10.8m) to be assessed as part of AMP6 totex. The second adjustment is in respect of Open Water costs incurred in 2014/15 (£0.8m).

The above adjustments result in the Water price control being £24.8m (4.6%) over the FD total allowed expenditure and Waste water being £45.5m (10.4%) under the FD.

4C - Forecast impact of performance on RCV

Year ended 31 March 2016	£m
RCV determined at FD	7,828.9
RCV element of Totex over/underspend	(11.2)
Allowance (Rewards/penalties - ODI)	–
Projected 'shadow' RCV	**7,817.7**

4D - Wholesale totex analysis (water)

Year ended 31 March 2016

	Water resources		Raw water distribution		Water treatment	Treated water distribution	Total
	Abstraction licences £m	Raw water abstraction £m	Raw water transport £m	Raw water storage £m	£m	£m	£m
Operating expenditure							
Power	–	9.6	2.6	–	27.4	8.3	47.9
Income treated as negative expenditure	–	(0.2)	–	–	–	–	(0.2)
Service charges / discharge consents	6.5	–	–	–	0.3	–	6.8
Bulk supply / bulk discharge	–	7.6	–	–	4.1	–	11.7
Other operating expenditure[1]	0.1	16.6	1.9	1.0	53.1	160.6	233.3
Local authority rates	–	3.2	1.1	1.6	4.7	34.6	45.2
Total operating expenditure excluding third party services	6.6	36.8	5.6	2.6	89.6	203.5	344.7
Third party services	–	2.2	–	–	1.6	1.3	5.1
Total operating expenditure	6.6	39.0	5.6	2.6	91.2	204.8	349.8
Capital expenditure							
Maintaining the long term capability of the assets - infra	–	–	–	–	–	–	–
Maintaining the long term capability of the assets - non-infra	–	5.9	1.3	0.3	63.9	48.8	120.2
Other capital expenditure - infra	–	–	7.9	–	0.6	44.1	52.6
Other capital expenditure - non-infra	–	7.0	3.3	–	36.1	9.5	55.9
Total gross capital expenditure excluding third party services	–	12.9	12.5	0.3	100.6	102.4	228.7
Third party services	–	–	–	–	–	–	–
Total gross capital expenditure	–	12.9	12.5	0.3	100.6	102.4	228.7
Grants and contributions (price control)	–	(0.1)	–	–	(0.1)	(21.0)	(21.2)
Totex	**6.6**	**51.8**	**18.1**	**2.9**	**191.7**	**286.2**	**557.3**
Cash expenditure							
Pension deficit recovery payments	–	1.2	0.1	–	2.8	3.0	7.1
Totex including cash items	**6.6**	**53.0**	**18.2**	**2.9**	**194.5**	**289.2**	**564.4**

	Ml	Ml	Ml	Ml	Ml	Ml
Unit cost information (operating expenditure)						
Licenced volume available	1,559,693					
Volume abstracted		738,526				
Volume transported			738,526			
Average volume stored				228,950		
Distribution input					669,419	669,419
Unit cost (£/Ml)[2]	**4.25**	**52.89**	**7.56**	**11.24**	**136.15**	**305.99**

[1] Other operating expenditure includes net infrastructure renewals expenditure of £78.3m.

[2] The unit cost for each upstream service within tables 4D and 4E is calculated by dividing the total operating expenditure by the respective volumes. The calculation uses total operating expenditure values at 3 decimal places therefore the unit cost per service disclosed will differ from the unit cost calculated using the numbers above.

4E - Wholesale totex analysis (wastewater)

Year ended 31 March 2016

	Sewage collection			Sewage treatment				Sludge	Total
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	£m
Operating expenditure									
Power	6.8	0.5	0.7	28.4	1.4	–	(11.1)	–	26.7
Income treated as negative expenditure	–	–	–	–	–	–	(14.8)	(1.3)	(16.1)
Service charges / discharge consents	1.5	0.1	0.1	7.4	–	–	–	–	9.1
Bulk supply / bulk discharge	–	–	–	–	–	–	–	–	–
Other operating expenditure[1]	75.2	10.2	11.2	69.2	0.8	14.5	24.1	16.1	221.3
Local authority rates	4.1	0.3	0.4	18.1	1.8	0.1	4.4	0.1	29.3
Total operating expenditure excluding third party services	87.6	11.1	12.4	123.1	4.0	14.6	2.6	14.9	270.3
Third party services	0.3	–	–	–	–	–	–	–	0.3
Total operating expenditure	87.9	11.1	12.4	123.1	4.0	14.6	2.6	14.9	270.6
Capital expenditure									
Maintaining the long term capability of the assets - infra	–	–	–	–	–	–	–	–	–
Maintaining the long term capability of the assets - non-infra	19.3	2.8	2.8	82.0	–	1.1	27.7	1.8	137.5
Other capital expenditure - infra	49.8	5.6	5.6	–	–	–	–	–	61.0
Other capital expenditure - non-infra	6.0	0.4	0.4	20.8	–	–	1.5	–	29.1
Total gross capital expenditure excluding third party services	75.1	8.8	8.8	102.8	–	1.1	29.2	1.8	227.6
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	75.1	8.8	8.8	102.8	–	1.1	29.2	1.8	227.6
Grants and contributions (price control)	(34.2)	(2.2)	(2.2)	–	–	–	–	–	(38.6)
Totex	**128.8**	**17.7**	**19.0**	**225.9**	**4.0**	**15.7**	**31.8**	**16.7**	**459.6**
Cash expenditure									
Pension deficit recovery payments	1.5	0.1	0.1	2.5	0.1	0.5	0.9	0.6	6.3
Totex including cash items	**130.3**	**17.8**	**19.1**	**228.4**	**4.1**	**16.2**	**32.7**	**17.3**	**465.9**

	Ml	Ml	Ml	Tonnes	Tonnes	m3	ttds	ttds
Unit cost information (operating expenditure)								
Volume collected foul	991,049							
Volume collected surface water drainage		75,616						
Volume collected highway drainage			98,453					
Biochemical Oxygen Demand (BOD) sewage				228,610				
Ammonia volumes treated[2]					2,957			
Sludge volume transported						1,995,662		
Sludge treatment dried solid mass treated							224.463	
Sludge disposal dried solid mass disposed								158.016
Unit cost (£/unit)	**88.60**	**148.16**	**126.46**	**538.00**	**1,358.92**	**7.33**	**12,127.85**	**93,944.91**

[1] Other operating expenditure includes net infrastructure renewals expenditure of £47.7m.

[2] BOD volumes have not been disclosed for imported sludge liquor treatment as BOD is not used in the treatment process. Volume of ammonia treated is considered more appropriate to use in the calculation of unit cost information.

4F - Operating cost analysis (household retail)

Year ended 31 March 2016	Household unmeasured				Household measured				Total
	Water only £m	Waste water only £m	Water and waste water £m	Total unmeasured £m	Water only £m	Waste water only £m	Water and waste water £m	Total measured £m	£m
Operating expenditure									
Customer services	1.1	3.4	12.7	17.2	0.9	1.9	9.7	12.5	**29.7**
Debt management	0.3	0.8	3.0	4.1	0.2	0.4	2.3	2.9	**7.0**
Doubtful debts	0.8	2.3	8.6	11.7	0.6	1.3	6.5	8.4	**20.1**
Meter reading	–	–	–	–	0.3	0.8	3.5	4.6	**4.6**
Other operating expenditure	0.8	2.5	9.4	12.7	0.6	1.4	7.3	9.3	**22.0**
Total operating expenditure excluding third party services	3.0	9.0	33.7	45.7	2.6	5.8	29.3	37.7	**83.4**
Depreciation	0.1	0.2	1.1	1.4	0.1	0.4	1.5	2.0	**3.4**
Total operating costs excluding third party services	**3.1**	**9.2**	**34.8**	**47.1**	**2.7**	**6.2**	**30.8**	**39.7**	**86.8**

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale:

	£m
Demand-side water efficiency - gross expenditure	**0.9**
Demand-side water efficiency - expenditure funded by wholesale	**(0.1)**
Demand-side water efficiency - net retail expenditure	**0.8**
Customer-side leak repairs - gross expenditure	**1.3**
Customer-side leak repairs - expenditure funded by wholesale	**–**
Customer-side leak repairs - net retail expenditure	**1.3**

4G - Wholesale current cost financial performance

Year ended 31 March 2016	Water £m	Wastewater £m	Total £m
Revenue	678.6	707.6	1,386.2
Operating expenditure	(271.6)	(222.9)	(494.5)
Capital maintenance charges	(213.8)	(248.6)	(462.4)
Other operating income	1.1	1.9	3.0
Current cost operating profit	194.3	238.0	432.3
Other income	0.9	2.3	3.2
Interest income	0.4	0.5	0.9
Interest expense	(97.2)	(108.7)	(205.9)
Interest expense related to the unwinding of discounted liabilities	(6.6)	(7.4)	(14.0)
Profit before tax and fair value movements	91.8	124.7	216.5
Fair value gains/(losses) on financial instruments	1.9	2.1	4.0
Profit before tax	**93.7**	**126.8**	**220.5**

4H - Financial metrics

Year ended 31 March 2016

	Units	Metric
Financial indicators		
Net debt	£m	4,820.5
Regulated equity	£m	3,008.4
Regulated gearing	%	61.6%
Post tax return on regulated equity	%	8.2%
RORE (return on regulated equity)[1]	%	8.3%
Dividend yield	%	10.2%
Retail profit margin - Household	%	3.0%
Retail profit margin - Non household	%	2.2%
Credit rating	n/a	BBB+
Return on RCV	%	6.0%
Dividend cover	d.p	1.0
Funds from operations (FFO)	£m	592.2
Interest cover (cash)	d.p	4.2
Adjusted interest cover (cash)	d.p	2.4
FFO / Debt	d.p	0.1
Effective tax rate	%	18.1%
Free cash flow (RCF)	£m	286.2
RCF / capex	d.p	0.7
Revenue and earnings		
Revenue (actual)	£m	1,512.6
EBITDA (actual)	£m	791.6
Borrowings		
Proportion of borrowings which are fixed rate	%	54.8%
Proportion of borrowings which are floating rate	%	20.4%
Proportion of borrowings which are index linked	%	24.8%
Proportion of borrowings due within 1 year or less	%	8.0%
Proportion of borrowings due in more than 1 year but no more than 2 years	%	10.2%
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	11.5%
Proportion of borrowings due in more than 5 years but no more than 20 years	%	51.6%
Proportion of borrowings due in more than 20 years	%	18.7%

[1] The RORE has been calculated in line with the OFWAT definition of the RORE metric. This differs from the RORE disclosed in the statutory accounts which has been calculated in line with the LTIPS performance metric.

4I - Financial derivatives

Year ended 31 March 2016

	Nominal value by maturity (net)			Total value		Total accretion	Interest rate (weighted average)	
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	£m	Payable %	Receivable %
Interest rate swap (sterling)								
Floating to/from fixed rate	–	–	293.1	293.1	(152.8)	–	4.19%	1.53%
Floating to/from index linked	–	–	–	–	–	–	–	–
Fixed to/from index linked	–	–	–	–	–	–	–	–
Total	**–**	**–**	**293.1**	**293.1**	**(152.8)**	**–**		
Cross currency swaps								
USD	–	–	98.4	98.4	10.4	–	2.10%	3.69%
EUR	–	–	11.4	11.4	9.8	–	1.10%	4.20%
YEN	–	–	8.5	8.5	7.9	–	1.10%	2.61%
Other	–	–	–	–	–	–	–	–
Total	**–**	**–**	**118.3**	**118.3**	**28.1**	**–**		
Total	**–**	**–**	**411.4**	**411.4**	**(124.7)**	**–**		

Details of energy swaps are listed below:

Period to maturity	Average contract price £/MWh	Notional contracted amount MWh	Fair value £m
Less than 1 year	49.8	21,960	(0.4)
1-2 years	43.6	66,272	(0.8)
2-5 years	48.5	227,221	(2.0)
		315,453	(3.2)

Supplementary disclosures

Year ended 31 March 2016

Information in respect of transactions during the year with any other business or activity of the appointee or any associated company

a) Borrowings and intercompany lending

Sums borrowed and repaid by the appointee during the year from associated companies in cash were as disclosed in the table below:

	Borrowed/repaid during year	£m	Interest rates	Balance as at 31 March 2016	£m
Severn Trent Plc	Borrowed	122.0	LIBOR +0.6%	Payable	53.0
Severn Trent Plc	Repaid	96.0	LIBOR +0.6%		–

b) Transfer of assets/liabilities, omissions, waivers, guarantees

There were no transfers of assets or liabilities to associated companies, no guarantees were issued in favour of associated companies. There were no rights omitted to be exercised resulting in a reduction in the value of net assets of the company and no waivers of any consideration, remuneration, or any other payment receivable by the company.

c) Supply of services

Services supplied by the appointee to associated companies are outlined in the table below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Records Management	Severn Trent Data Portal Limited	1.428	Cost	0.642
Water supply and waste disposal	Severn Trent Services Defence Limited	44.848	Third party	0.389
Sale of crops	Severn Trent Green Power Limited	7.088	Cost	0.654
Sale of property	Midland Land Portfolio Limited	3.025	Market tested	2.304
Pass through of management charges	Severn Trent Plc	-	Cost	5.187
Pass through of management charges	Severn Trent Green Power Limited	7.088	Cost	1.196
Pass through of management charges	Severn Trent Wind Power Limited	1.395	Cost	0.107
Pass through of management charges	Etwall Land Limited	-	Cost	0.063
Pass through of management charges	Midland Land Portfolio Limited	3.025	Cost	0.099
				10.641

Services supplied to the appointee by associated companies are outlined in the table below.

Service	Company	Turnover of associate in the period £m	Terms of supply	Value £m
Insurance services	Derwent Insurance Limited	3.123	Market tested	2.303
Support services	Severn Trent Services Operations UK Limited	38.755	Costs	1.253
Supply of electricity	Severn Trent Green Power Limited	7.088	Market tested	2.587
Supply of electricity	Severn Trent Wind Power Limited	1.395	Market tested	0.718
Pass through of management charges	Severn Trent Plc	–	Costs	1.382
				8.243

For more information:

Call **0345 7 500 500**

Textphone **0800 328 1155**

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Calls to 0800 numbers are free from UK landlines. Calls to 0345 numbers are charged at a local rate and when phoning from a mobile, may be included in your free minutes package.

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