

SEVERN

TRENT

# Corporate Responsibility Report 2007



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### The structure of this report

With the focus of the business now on water we will be producing a single Corporate Responsibility Report instead of separate ones for Severn Trent Plc and Severn Trent Water.

The opening pages of this report focus on our strategy from which corporate responsibility performance across the business stems. We have decided to report against the corporate responsibility progress of Severn Trent Water and Water Technologies and Services separately. This allows us to report in a much more transparent way, as the progress and impacts linked to corporate responsibility are very different within the two businesses. In each of the business sections we have reviewed our 2006/07 performance and talked about some of the projects that have been implemented in this reporting period, including some of the key corporate responsibility challenges facing each company for the coming year and key performance data.

Our progress against the targets we set ourselves as a Group to March 2007 are reported at the rear of this report.

### Feedback and further information

Throughout the report we point you to further information available on our corporate responsibility websites;

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

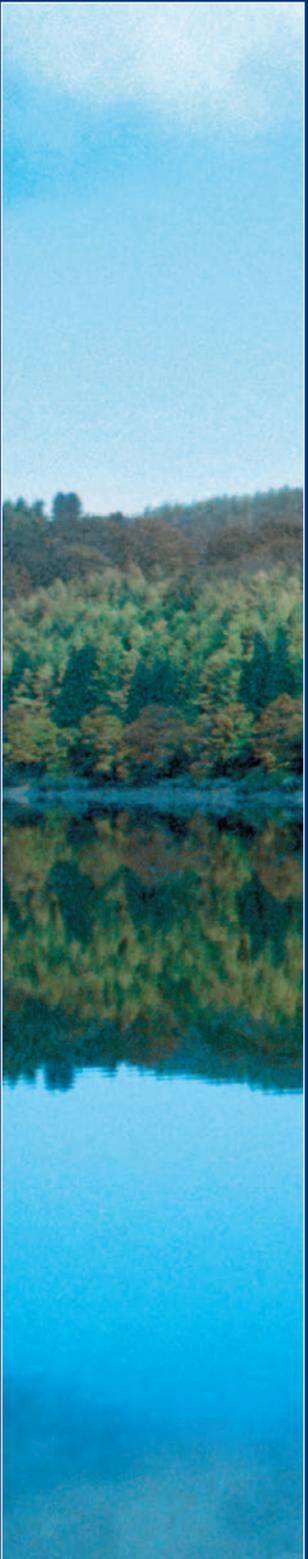
[www.stwater.co.uk/corporateresponsibility](http://www.stwater.co.uk/corporateresponsibility)

We welcome your comments regarding our corporate responsibility programmes and performance. Email [corporate.responsibility@severntrent.co.uk](mailto:corporate.responsibility@severntrent.co.uk)

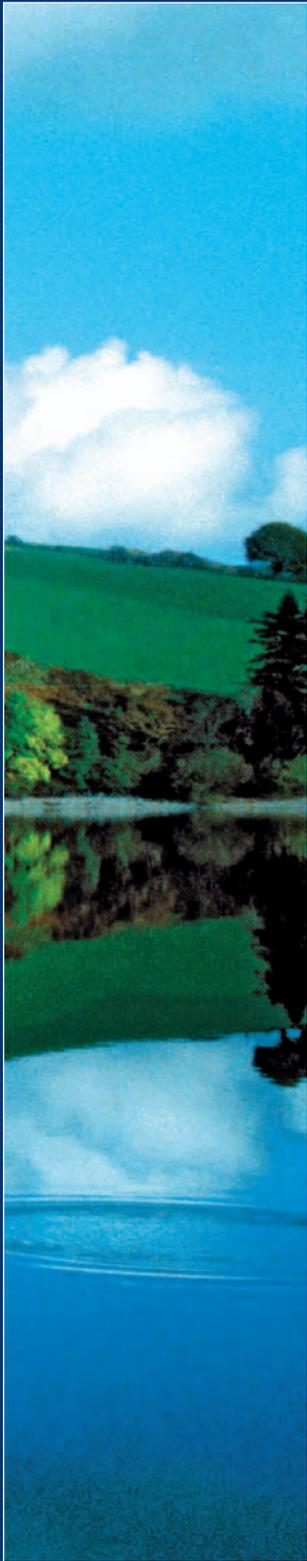
### Guide to Symbols

This report is accompanied by information provided via our websites. Throughout the report links to further information are indicated by the following symbol:

 Refers to information held on our websites.



# Severn Trent Plc



# Chairman's and Group Chief Executive's introduction



Sir John Egan  
Chairman

2007 marks the implementation of our focus on our water business strategy following the demerger of Biffa in October, the sales of Severn Trent Property in November and US Laboratories in December 2006.

Our new focus on water means our corporate responsibility strategy remains at the very heart of our business.

Corporate Responsibility underpins the very foundations of any good company and by meeting these commitments we can be confident we are operating a successful company. To ensure this integration right through the business we have identified issues which we feel are 'non-negotiable' for any FTSE100 company and these are shown in the diagram on page 8. In addition, we have identified other 'non negotiable' issues which are particularly important for the water industry, and will help us obtain our goal of being an industry leader in corporate responsibility.

Over 2006/07 we carried out a comprehensive review of every aspect of Severn Trent Water's current performance, benchmarking against companies both within and outside of our own sector. We identified major opportunities for improvement and consequently drew up a detailed action plan defining 20 Key Performance Indicators (KPIs) for achieving these improvements.

## Business standards

Last year contained significant challenges in the form of our own internal investigations, and enquiries by Ofwat and the Serious Fraud Office, of reporting irregularities in Severn Trent Water. We are still waiting to learn the conclusions of these investigations.

At the very heart of corporate responsibility is the necessity to get core business standards right. We believe you will see from the work outlined in this Corporate Responsibility Report what we have achieved so far – and the work that we are still determined to do.

## Environment

2006/07 saw us devote greater resources to leakage control. We employed more people when required, invested in new technology and fixed approximately 8,000 more leaks than in the previous year. By the end of the year this work was showing encouraging results, and for the months of March through to May 2007 we achieved a level of leakage commensurate with the Ofwat target for the year.

We are pleased that we have been able to maintain the level of renewable energy generated within Severn Trent Water. We now have Combined Heat and Power (CHP) plants installed at works (46 in all) where this process can be undertaken economically. We are now focusing on maximising the efficiency of these plants along with investigating other renewable energy sources. We have also continued our work on Carbon Management. Following the structural changes within the Group we have taken the opportunity to update our 2005 Carbon Management Report, undertaken with the support of the Carbon Trust. We will use this report as we plan for PRO9, and the next 25 years, to ensure our technology choices are informed by both greenhouse gas (GHG) emissions and projected energy costs.

#### Health and safety

We have continued to improve our health and safety performance, with a concerted drive towards reducing incidents. We are pleased to report that our 2006/07 health and safety Reportable Injuries, Diseases

and Dangerous Occurrences Regulations (RIDDOR) performance was 26% better than the previous year. Health and safety is vitally important at a personal level, because every safety incident and every day lost has a human impact. But it is also critical at a corporate level. The skills and attention to detail that achieve higher safety standards are the same as those that achieve higher operational and environmental standards and productivity.

#### Looking forward

We believe that to satisfy our customers and to be cost effective we must raise professional standards across the entire business. We consider our corporate responsibility strategy to be intrinsically linked to this and it will play a significant part in helping us achieve our aims. Other industries have demonstrated that higher quality and continuous improvement leads to lower costs. This report looks at some of the major opportunities for improvement that have been identified to best satisfy our customers, regulators, employees and shareholders.



**Colin Matthews**  
Group Chief Executive

**Sir John Egan**  
Chairman

**Colin Matthews**  
Group Chief Executive

# Corporate Responsibility direction and strategy – Severn Trent Plc

<b>Group turnover</b>
£1,480.2 million
<b>Group employees</b>
8,372

Severn Trent Plc is a FTSE100 Group focused on water. It serves over 3.7 million household and business customers in England and Wales, and provides water and waste water solutions in the UK and overseas.

<b>Severn Trent Water Turnover</b>
£1,218.1m

<b>Employees</b>
5,289

Severn Trent Water provides high quality water and sewerage services to over 3.7 million household and business customers in England and mid-Wales. We deliver nearly 2 billion litres of water a day to homes and businesses through 46,000km of pipes. A further 54,000km of sewers take waste water away to over 1,000 sewage works.

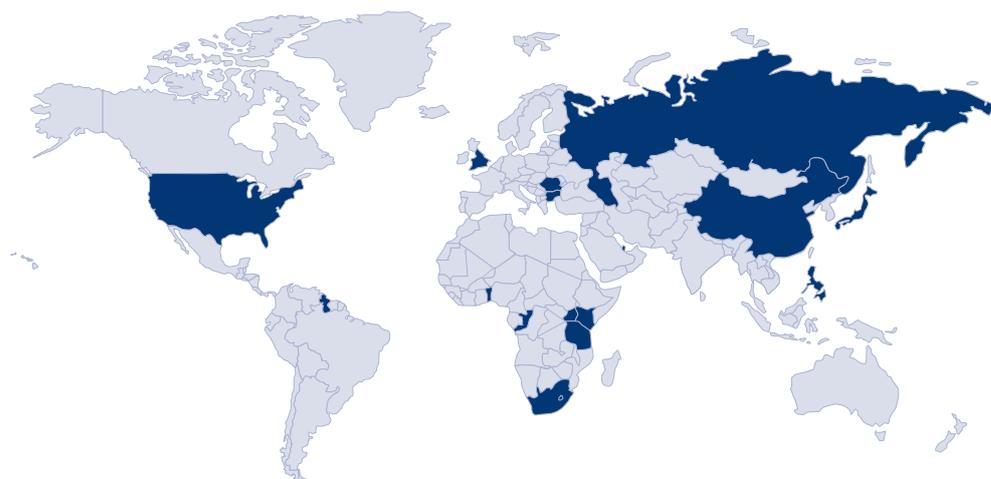


<b>Water Technologies and Services Turnover</b>
£288.9m

<b>Employees</b>
2,984

Water Technologies and Services is one of the worlds leading suppliers of water and waste water treatment solutions.

Headquartered in the US, working across the globe it has three main businesses: Water Purification, Operating Services and Analytical Services.



■ Countries in which WTS has undertaken work in 2006/07

You can find out more about Severn Trent Plc at [www.severntrent.com](http://www.severntrent.com)

### What is corporate responsibility?

To us corporate responsibility means understanding and managing the environmental, social and broader economic impacts of our core business. This can include controlling and seeking to reduce a negative output such as waste disposal, or further improving positive outputs such as working with local suppliers, providing a high level of service for our customers and jobs for our employees.

### The role of corporate responsibility in our sector

The water industry in England and Wales invests more than £3 billion a year and employs over 27,000 people. There are ten water and sewerage companies in England and Wales and sixteen water supply companies. The water sector delivers a basic but fundamental service, without which our communities could not function. However, there are impacts associated with supplying clean water and treating sewage safely, especially as the demand for water continues to rise. These impact not just Severn Trent Water but the whole of the UK water sector. The water shortages particularly experienced in the south of the country over the last couple of summers have raised awareness to the challenges that are faced in meeting demand, and it is an increasing challenge. We are seeing the impacts of a changing climate coupled with an increasing population and lifestyles that now demand, in many cases, more water. As a sector we recognise we must work together to tackle these problems. For example, through our industry association 'Water UK' the industry tackles policy and strategy issues of common interest at a local, national and European level. Through initiatives such as funding 'Waterwise', a UK non-

governmental organisation (NGO) focused on decreasing water consumption in the UK by 2010, we are able to work with all the communities we serve. Each year an industry progress report is produced that details progress towards sustainability and this allows Severn Trent Water to benchmark itself against its peers (benchmarking data is available on the Severn Trent Water website<sup>1</sup>).

### Corporate responsibility governance

The Corporate Responsibility Committee of the Board is chaired by a non-executive Director, Bernard Bulkin, and also includes the Chairman of the Board, Sir John Egan, the Group Chief Executive, Colin Matthews, and is attended by the Managing Directors of Group Businesses. The Committee has delegated responsibility from the Board for areas such as environmental performance, health and safety, diversity, supply chain assessment, and growth opportunities arising from corporate responsibility. The Committee also has responsibility for the final sign off of this Corporate Responsibility Report.

Over the last year the frequency of committee meetings has been increased to bimonthly and a more structured approach has been introduced to review all areas of our corporate responsibility strategy. Performance against corporate responsibility targets and objectives are reported to the Committee on a quarterly basis to ensure they can monitor progress and challenge our Managing Directors if required.

### Our corporate responsibility strategy

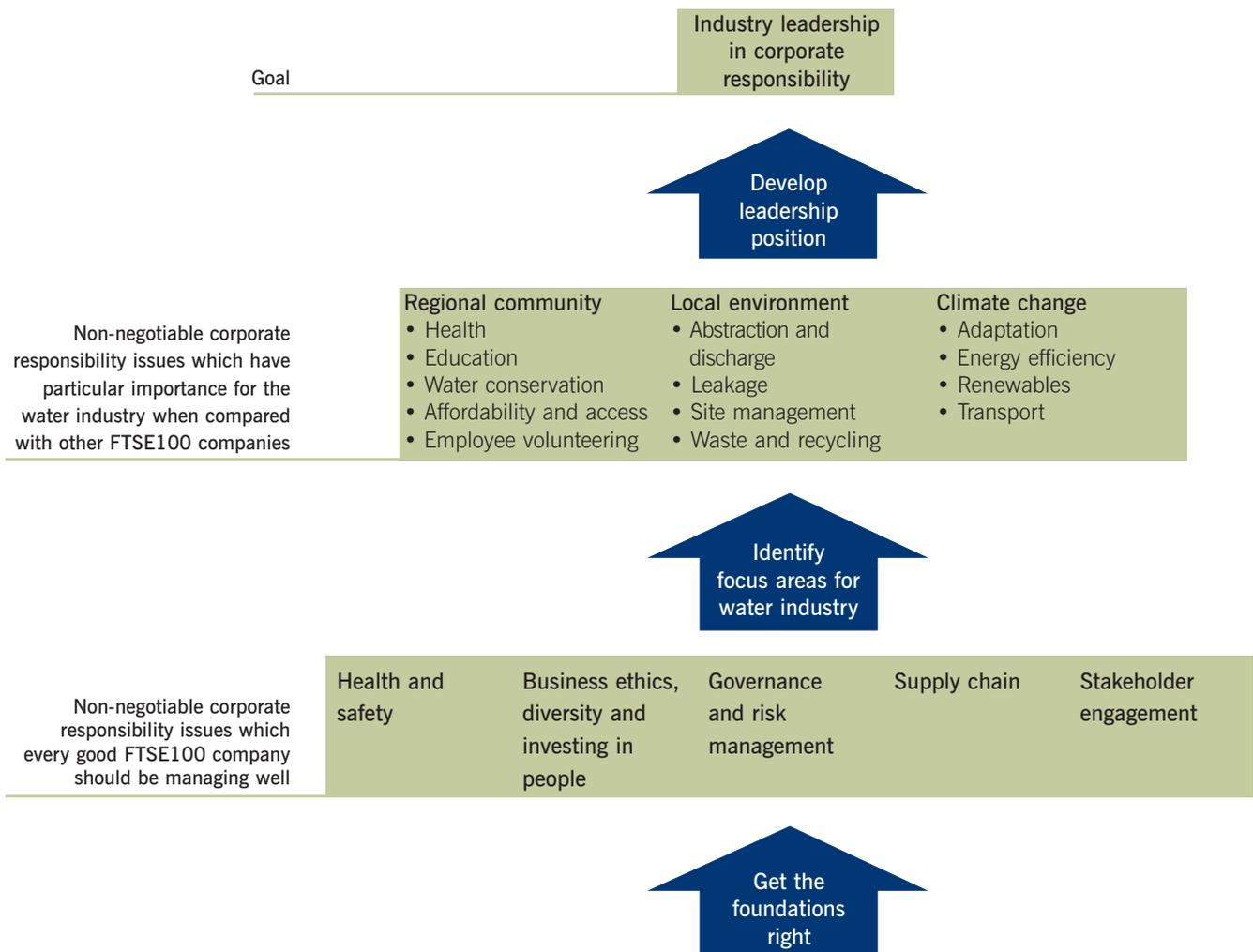
Last year we informed you on the future focus of our corporate responsibility strategy. With a new water focused business we must get the foundation, 'non negotiable', issues

 [www.stwater.co.uk/corporateresponsibility](http://www.stwater.co.uk/corporateresponsibility)

right. These underpin good corporate responsibility performance for any FTSE100 company and include health and safety and business ethics. In addition there are other 'non negotiable' issues which are particularly important for the water industry such as climate change and the regional community. We are now able to implement this strategy fully across Severn Trent. One step in achieving this was the integration of the Severn Trent Plc and Severn Trent Water corporate responsibility teams.

We now have a strong, focused team able to support and drive corporate responsibility achievements within the Group. The team has specialists focusing on community impacts, education, water efficiency, stakeholder education, the environment and conservation.

As part of Severn Trent Water's aim to improve performance and raise standards, 20 KPIs have been adopted, by which we will measure performance and set



targets. These are detailed on page 14–15. Many of these indicators link directly to the corporate responsibility strategy, ensuring corporate responsibility is embedded at the very core of business activities, driving performance forward and ensuring all areas remain focused. Additional objectives have been set in the remaining areas to further drive performance and are detailed in the Severn Trent Water performance review section starting on page 16.

Within Water Technologies and Services corporate responsibility targets have been adopted and action plans put in place, focusing on its core business. Due to the regional and business differences between Severn Trent Water and Water Technologies and Services, corporate responsibility in Water Technologies and Services is not as developed as it is in Severn Trent Water. For this reason a much smaller set of targets have been established this year (2007/08) within Water Technologies and Services.

### **Our corporate responsibility policy and progress in 2006/07**

We have a corporate responsibility policy which defines how we behave as a water focused company, ever conscious of our regional, national and international impact. Our policy is available to view on the Severn Trent Plc website.<sup>1</sup>

Our progress against the targets we set as a Group to 2007 are reported at the rear of this report. Some of these have been adapted so they remain relevant to the Group following the demergers in 2006. We are pleased with the progress that has been made against these targets over this period of change, providing us with a platform on which to build in the coming year.



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

### **Stakeholder engagement**

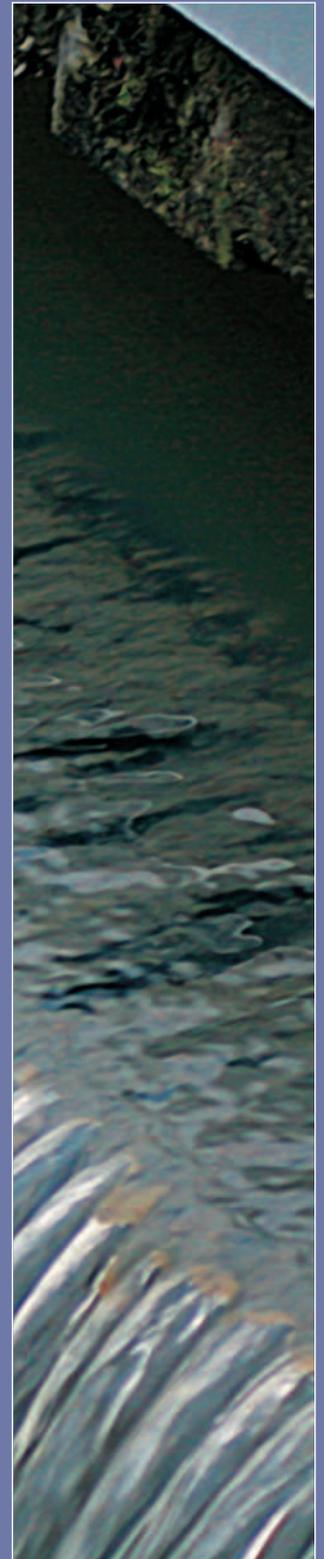
Severn Trent is a member of several networks which assist businesses to understand the corporate responsibility challenges they face and facilitate working together to develop solutions. We also engage with a number of NGOs to help us shape our Group corporate responsibility programmes, supporting progressive environmental and sustainable development policy in the UK, and internationally. At a local level Severn Trent Water engages with a number of organisations and groups such as the Consumer Council for Water (CCW), and more specifically with customers, when new capital schemes are being planned through local councils and community groups. Additional information about Severn Trent Water is available on the website.<sup>2</sup> Water Technologies and Services operates in many different countries and, because of this, stakeholder engagement can be quite varied. A more detailed report on Water Technologies and Services stakeholder engagement is included later in this report.



[www.stwater.co.uk/stakeholderengagement](http://www.stwater.co.uk/stakeholderengagement)



# Focus on Severn Trent Water



# Managing Director's introduction



**Tony Wray**  
Managing Director  
Severn Trent Water

Severn Trent Water supplies water and waste water services to over 3.7 million household and business customers in England and Wales. Our region covers some 21,000 square kilometres in the Midlands and mid-Wales and we employ over 5,000 people. What we do and how we do it affects all those households, all those square kilometres and all those people. It's a huge responsibility and one that we take very seriously.

Being a responsible business means we aim to integrate corporate responsibility into all of our activities and operations. We aim to deliver sustainable environmental improvements and to make a difference to the social and economic welfare of the communities in which we operate, now and in the future.

Our strategy on driving for excellence by achieving high standards in our business applies equally to corporate responsibility and has led us to integrate a range of corporate responsibility issues into Severn Trent Water's core business planning. In 2006/07 we adopted 20 Key Performance Indicators (KPIs), which we now use to measure performance and set targets. A number of these indicators, for example health and safety performance, leakage, net energy use, pollution incidents and employee motivation, link directly to the Severn Trent corporate responsibility strategy, making it absolutely integral to how we manage the business.

The Corporate Responsibility Committee has introduced a more structured approach to reviewing our corporate responsibility performance, and the integration of the Group and Severn Trent Water corporate responsibility teams has strengthened this framework and focus. I believe these changes have invigorated our approach to corporate responsibility and made it more rigorous.

In this Severn Trent Water section we report on our new programme and achievements, but also acknowledge where our performance has

not been what we would have expected. In some cases our achievements result from the work of an individual, or a small team, who have used their initiative to galvanize others to make corporate change. This is a symbol of cultural change in our company, of the sense of individual engagement that we promote and individuals taking responsibility.

We have also included more detailed articles of what we believe are sizeable challenges to us and how we are addressing them. These include climate change, security of supply, business ethics, and pricing and vulnerable customers. All of them will be right at the heart of our business planning over the coming months and years.

I would also like to mention the extreme weather conditions that we saw in Gloucestershire and Worcestershire in July this year. The whole incident was unprecedented. The scale of the operation went far beyond our previous experience, or indeed that of any other water company. For 17 days Mythe Water Treatment Works was out of action, and we recognise that many communities in our region have suffered significantly during this period. We have made available up to £3.5 million to support these communities in recovering from the incident. We are now undertaking a significant project to ensure that the whole water industry and other utilities can learn from our experiences.

I hope you see through this report that progress has been made and that we have significant plans in place to continue improving over the coming year, providing not only our customers but all our stakeholders with a level of service which they deserve.

A handwritten signature in blue ink, appearing to read 'Tony Wray', with a horizontal line underneath.

**Tony Wray**  
Managing Director, Severn Trent Water

# Measuring our performance

## Our strategy in practice

Our strategy takes into account the needs of many different stakeholders. Our plans for higher standards will help us satisfy the expectations of all the different groups. For example, greater operational efficiency will help us keep charges to customers low, meet our regulators' standards and targets, create a safe and motivating environment for our employees, and produce good returns for shareholders.

Our goal is to have highest standards, lowest charges and great people. Phase one of achieving that goal was to restructure the Group so we could focus on water. With that done, we have moved into phase two – the drive to achieve higher standards and continuous improvement in all we do.

## Radical plans for improvement

Over and beyond these basic requirements, management is fully engaged in implementing plans for fundamental improvement across all areas of the business. The successful execution of these improvement activities will radically change our business over a period of years.

We have already effected organisational improvements. In addition to the integration of the head office and Severn Trent Water Executive teams we have changed the divisional structure in Severn Trent Water. In place of our previous 'functional' structure, which had distinct teams working on planning, engineering and operations, we have created integrated teams, one focused on clean water, one focused on waste water and one focused on customer relations. This new structure is designed to raise standards and drive greater efficiency.

It also aligns the organisation with the processes that matter to our customers.

During 2006/07 we examined every aspect of Severn Trent Water's current performance. We benchmarked it against companies in the water and sewerage sector, and also in other sectors. The benchmarking exercise was detailed and thorough. We used a range of publicly available and internally generated data to identify the population that we should compare ourselves to. This process involved a number of judgements being exercised to ensure that we used appropriately comparable data points for each measure.

We have identified 20 critical success factors against which we will measure our performance and progress. We have chosen these indicators with great care, because they represent what we believe are the key concerns for our customers, regulators, employees and shareholders. These 20 factors will be represented by 20 KPIs. In all but two cases, we have defined our actual performance based on our benchmarking exercise and we propose to use these as a basis for assessing our performance going forward. Two KPIs are new (first time job resolution and capital process quality) and we need time to assess our current performance and define our objectives. For all other KPIs, we have shown where our starting point is on a relative scale based on the results of our benchmarking exercise.

For each indicator, we have set ourselves ambitious targets for the coming years, and drawn up action plans for achieving them. Some improvements will be effected relatively quickly and easily; others are longer term, going beyond the current AMP4 period.

# Key performance indicators

*This table and the notes accompanying it are as reported in our Annual Report and Accounts 2007.*

Key area	Objective	Basis
Employee	Provide a safe working environment	MAT
	Develop a confident and productive workforce	Annual Survey
Customer	Provide a high quality product	MAA
	Quality interaction with the customer	MAT
		MAT
		MAT
	Provide a high standard of operational service	
	Development of a sustainable service	
Financial	Asset base enhancement	MAT
	Manage trade debt	
	Management of cost base	MAT
		MAT
Environment	Minimise environmental impact	MAT
		MAT
		MAT
	Optimise use of resources	MAA
		MAT

The table above sets out our actual performance for the period under review. Based on our benchmarking exercise, our performance is shown in one of three categories, of what we consider to be lower quartile performance, upper quartile performance or median (representing 2nd and 3rd quartile) performance.

For a number of KPIs, we have only commenced capturing the data and measuring our performance during the

current financial year and therefore corresponding amounts for the previous financial year are not available.

For others, the corresponding amounts are available and these are as follows;

- Water quality 99.95%
- Customer written complaints 10.04
- Unplanned interruptions 4.5
- Properties at risk of low pressure 0.10
- Capex vs. final determination 6%
- Debtor days 31.76
- Opex vs. final determination £446.5m
- Cost to serve per property £219.56

Measure	Performance		
	Lower quartile	Median	Upper quartile
CR KPI Lost time incidents per 100,000 hrs worked <sup>1</sup>			0.50
CR KPI Employee motivation <sup>2</sup>			76%
CR KPI Water quality (mean zonal compliance) <sup>3,4</sup>			99.98%
Customer written complaints per 1,000 properties <sup>3</sup>	19.06		
First time call resolution for billing <sup>5</sup>			80%
Unplanned interruptions per 1,000 properties <sup>3</sup>	6.95		
Properties at risk of low pressure per 1,000 properties <sup>3,6</sup>			0.09
First time job resolution <sup>7</sup>	To be determined		
Performance against regulatory obligations <sup>5,8</sup>			26%
Capex (gross) vs final determination <sup>3,9</sup>			2.7%
Capital process quality <sup>7</sup>	To be determined		
Debtor days <sup>6,9</sup>			37.5
Opex vs final determination £m <sup>9</sup>	479.1		
Cost to serve per property £ <sup>10</sup>			226.93
CR KPI Pollution incidents per 1,000 properties <sup>3,4</sup>			0.08
Sewer flooding – other causes per 1,000 properties <sup>3</sup>			0.16
Sewage treatment works – breach of consents <sup>3</sup>			0.00%
Raw water storage <sup>5,6</sup>			90%
CR KPI Net energy use Kwh/MI <sup>5</sup>			618
CR KPI Leakage MI/d – current DMA <sup>11</sup>	446		

## Notes:

All measures are for the period to 31 March 2007, except as stated.

**MAT** Moving Annual Total

**MAA** Moving Annual Average

1 Actual performance across all employees and agency staff.

2 Performance based on annual all employee survey and quarterly survey of 10% of permanent employees.

3 As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 15 June 2007.

4 Measure for calendar year to 31 December 2006.

5 Actual performance based on internal data.

6 Measure as at 31 March 2007.

7 Measure and relative performance to be determined.

8 Measure for quarter ended 31 March 2007.

9 Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2007.

10 Actual performance based on audited UK GAAP financial statements and regulatory accounts for the year ended 31 March 2007.

11 DMA leakage performance measured monthly. Month of March 2007 DMA performance disclosed in table. Annual measure is MLE leakage the calculation of which has not been completed as at 5 June 2007.

- Pollution incidents 0.11 to move with it. We will report on these measures in future results announcements.
- Sewer flooding incidents 0.14
- Sewage treatment works breach of consents 0.31%

It is not statistically realistic to expect any company to be at the top of every single league table, but nevertheless, we aim to achieve upper quartile performance over the next 3 to 5 years. Of course, the goal posts will move, as companies in our sector or elsewhere redefine what upper quartile means, so we expect our targets

Of these 20 KPIs 6 have been identified as being directly linked to our corporate responsibility strategy and, as such, progress will be reported to our Corporate Responsibility Committee.

An additional set of corporate responsibility objectives has been identified to further drive performance and these are detailed in the Severn Trent Water section of this report.

# Performance review 2006/07

## Severn Trent Water

### Environment

We have a responsibility to act as stewards of the natural environment, which we do by focusing on reducing the potentially harmful environmental impacts of our business activities. A key focus of our strategy is based around adapting to, and mitigating the impacts of, climate change.

#### Pollution incidents and prosecutions

The total number of pollution incidents (Category 1,2 & 3) was 530 in 2006 (calendar year), which was lower than 2005, but still too high. We have taken positive steps by developing an action plan to deliver pollution reductions during the current year and through to the end of the current AMP period.

In the 2006/07 period we received four prosecutions, an increase from the previous year.

#### Climate change

Climate change<sup>1</sup> has serious implications for Severn Trent Water's operations and strategic development. The weather events of the last few years, such as the hose pipe bans in the south and south-east during the summer of 2006 and the flooding that we saw over the recent period, have caused growing concern for water supply, flooding and the consequences of climate change.

One of our key strategies is to lessen our impacts affecting climate change, which predominantly stem from the purchase of grid electricity. In 2006/07 we reduced net normalised GHG emissions by almost 9%. Our energy use per megalitre (MI) of water supplied has reduced by 3% and our energy use per MI of sewage treated has reduced by 16%. We have set energy use per MI of fluid handled as one of our KPIs to ensure we continue to manage energy use.

A key part of our climate change programme is energy efficiency. In 2006/07 we completed site energy reviews of our top 407 sites which account for 85% of our electricity usage. This has resulted in individual site energy management plans (SEMPs) for 330 sites.

Net emissions take into account offsets from our renewable energy generation. We generate 17% of our own electricity requirements from renewable energy.

 [www.stwater.co.uk/climatechange](http://www.stwater.co.uk/climatechange)

The bulk of this is derived from sewage gas CHP generation, and by the end of 2006/07 we had a generating capacity of 155,000MWh. We plan to maintain this leading position in 2007/08 with further investment and research into renewable technology.

We are updating the Carbon Management Report which was first published in July 2005 to take into account focused strategic direction. The new report will project our GHG emissions to 2020 and will be used to aide our planning process for the PR09 review. We hope to make this available later this year.

#### Resource efficiency

We have a twin track approach to resource efficiency. First, we help our customers to manage resources by managing water supplies, and secondly we aim to minimise our own consumption of resources.

Chemicals are a necessary part of our water and sewage treatment operations and we are continually looking for ways to optimise the use of chemicals in our processes. In the water treatment process disinfection and coagulation chemicals are predominantly used, all of which have an environmental impact through their production and subsequent transportation to our sites. In our waste water treatment processes ferric and ferrous based chemicals are used. These have their own problems as the supply of iron is becoming at risk. The water industry has increased requirements to remove phosphorous, which uses iron in the process, and other industries are also increasing their use of ferric and ferrous based products. We have therefore been building on

existing expertise to reduce dependence on chemical usage. For instance, in the area of waste water treatment we have been rolling out a nutrient removal<sup>2</sup> programme that focuses on biological treatment rather than chemical. In 2006/07 this aided in sewage treatment chemical use decreasing by 25%.

#### Water resources<sup>3</sup>

In 2006/07 our raw water storage levels were monitored at acceptable levels, despite a dry summer. We did not impose a hosepipe ban during the year and storage levels at year end were normal. However, we remain aware that climate change will continue to have an impact on the resources available to us.

Leakage<sup>4</sup> is at the forefront of our water resource planning. This year was always going to be challenging as we started the year 24Ml/d above our target leakage profile but, with increased focus and investment in 2006/07, found and fixed some 37,000 leaks, approximately 8,000 more than the previous year. This effort has reduced our leakage this year, but it was not until March 2007 that we attained a monthly level of leakage commensurate to our Ofwat annual target. Reducing leakage will remain a priority in 2007/08 and we are determined to maintain the good progress we have made in the second half of 2006/07.

We have committed to delivering and bettering a 17Ml/d reduction in leakage over the AMP4 period. However, our analysis to 2030 shows there is a potential need for new strategic water resource developments and further leakage reductions to counter the effects of climate change.

 [www.stwater.co.uk/materials](http://www.stwater.co.uk/materials)

 [www.stwater.co.uk/waterresources](http://www.stwater.co.uk/waterresources)

 [www.stwater.co.uk/leakage](http://www.stwater.co.uk/leakage)

**Additional Corporate Responsibility objective**

Increase water efficiency

**Target**

**0.5Ml/d**

Reductions in our current water resources are due to environmental pressures and areas requiring more water due to population movements. We therefore aim to carry out work during AMP4 and AMP5 to better understand these impacts.

In light of the continued focus on the water resource situation in England and Wales the efficient use of water<sup>5</sup> is an important priority for us. In 2006/07 we increased distribution of cistern displacement devices by 47% and installation by 144%. We have also continued to support this with the distribution of self-audit guides and water butts.

A more detailed report on ensuring security of supply which includes all of these issues and more is on page 34.

**Waste**

Excavated construction material from our capital projects continues to make up the majority of our generated waste. In 2006/07 593,720 tonnes of excavated construction material was disposed of to landfill. We have therefore set a reduction objective for 2007/08 to focus on reducing the amount of excavated material that goes to landfill. Our engineers ensure that all schemes have a materials management plan so all disposal options are considered right from project inception.

Recycling of our other significant waste streams remains high. 95% of networks spoil from pipe laying activities is

currently recycled and over 78% of sewage sludge is diverted from landfill to agriculture with the remaining sludge being incinerated or used for land reclamation.

**Biodiversity**

Owning almost 22,000 hectares of land puts us in a unique position to protect, and often enhance, the biodiversity<sup>6</sup> of our region, particularly its aquatic ecosystems. We are continuing to work with Natural England to ensure that Sites of Special Scientific Interest (SSSIs) on our land holdings meet the UK target for 95% of SSSI to be in 'favourable' or 'recovering' condition by 2010. An assessment of our English SSSIs by Natural England in 2006 shows 60.2% are already in a favourable or recovering condition. With the remedies currently in place we should meet the target by 2010, though our biggest hurdle is diffuse pollution, which lies out of our control.

We have been resurveying the ecological value of our operational sites for five years, suggesting beneficial ways of enhancing their biodiversity. In 2007 we have decided to change our approach to allow more focus to be paid to sites where biodiversity gains can be made and monitored more accurately. We aim to focus on 400 sites above 0.2ha that have not yet been assessed, surveying approximately 50 per year. In parallel, we will develop a Grassland Grounds Maintenance Compliance Audit procedure and implement this on all our top biodiversity sites, adding more each year, while maintaining our Baseline Grassland Monitoring Survey Programme.

 [www.stwater.co.uk/waterconservation](http://www.stwater.co.uk/waterconservation)

 [www.stwater.co.uk/crbiodiversity](http://www.stwater.co.uk/crbiodiversity)

### Case Study

#### How ammonia controls are reducing energy consumption at our sewage treatment works

At our sewage treatment works, the aeration of activated sludge plant (ASP) modules is a major source of energy consumption. Severn Trent Water's Sewage Treatment Field Services team believed that controlling the amount of air used to regulate ammonia levels in these modules could result in significant power savings, so they set up a pilot study at Finham, Coventry.

Finham has three identically sized ASP modules. In one of those modules, the project team installed an ammonia probe and modified the aeration controls so that the ammonia reading had the facility to override the normal controls. The idea was to prevent excess air being used when ammonia levels were low. Various safety features were built into the control system, to ensure there was no greater risk of exceeding consent standards than when operating under the existing controls. The team then monitored power usage over one two-week period in summer, and one two-week period in winter. The summer period showed an average saving of 20% on power usage, and the winter period an average saving of 10%, giving an average saving of 15%.

As a result of the trial, Severn Trent Water has decided to install ammonia controls at a number of large sewage works. This is currently ongoing, with controls already installed at ten sites, in addition to Finham.



*"In my view, Severn Trent Water's positive attitude and commitment towards improving the condition of its SSSIs has made it one of the top achievers in delivering biodiversity restoration in the East Midlands Region in 2006. As a result of its continuing investment in site management and its intuitive approach, the designated features on its SSSIs (that are in unfavourable condition) are now beginning to show real signs of recovery. Indeed, recent surveys of the fen and marginal habitats around its reservoir SSSIs in Charnwood have been very encouraging, with several rare and uncommon species reported, some after an absence of many years."*

Ian Evans, East Midlands Conservation Officer,  
Natural England

**Case Study**  
**Engineering the landscape after a reservoir discontinuance**

The discontinuance of Lightwood Reservoir near Buxton shows one of the ways in which we minimise the amount of waste sent to landfill from our capital schemes. It also shows how a capital scheme can make a positive contribution to biodiversity in a sensitive landscape – in this case, the upland Peak District landscape.

The project involved draining an existing reservoir, leaving behind the brick and concrete lining and dam walls. We had to break out the old concrete and brick liners and demolish the water tower and valve chambers. Arisings from the dams were then used to reprofile the sides of the reservoir to form a natural valley shape, with a stream at the base feeding four pools, created to encourage wildlife and aquatic vegetation. Severn Trent Water’s landscape architects, supported by a local ecologist, ensured that the reprofiled banks were as close to the natural habitat of the area as possible. By the end of the project, all of the materials arising from the earthworks, including the concrete and brick, were buried on site; leaving no material to be disposed of to landfill.



## Workplace

Our activities regarding the workplace encompass a wide range of issues, including health and safety, employee development, diversity and human rights.

### Business standards

Over the past two years we have written much about our work to strengthen our internal business culture and ethics<sup>1</sup>. This work continued in 2006/07 ensuring a more open and transparent culture.

A more detailed report on our work surrounding business ethics is on page 30.

### Health and safety

Health and safety is a key priority for Severn Trent Water. At a business level, it is an important indicator of quality. At a workplace level, the physical wellbeing of our employees is paramount. Severn Trent Water reported a 13% reduction in the RIDDOR incident rate per 1,000 employees in 2006/07. This was an improvement on our performance from the previous year.

Behavioural change and individual engagement are important aspects of improving safety and general business performance. We encourage our employees to share and debate their ideas about safety, and to put these ideas into practice. Towards the end of 2005/06 Severn Trent Water began to develop a system called SUSA (Safe and Un Safe Acts). This is a one-to-one work based observation

and discussion process in which SUSA trained managers talk regularly with their team members about the way in which they, and their team, do their job. By the end of 2006/07, over 80% of managers had received SUSA training.

### Diversity

A diverse workforce is important to the success of the company and we promote this in our working practices. There is always scope to improve our diversity performance. Our measures to do this include monitoring diversity profiles, targeted recruitment initiatives, and benchmarking our policies and practices against best practice organisations.

### Employee development and motivation

Severn Trent Water aims to promote the development of employees at all levels. During 2006/07 we continued to work towards strengthening our internal business culture and ethics, making our culture open and transparent and removing barriers to evaluating performance, whether good or bad. We extended the 2006 apprentice recruitment campaign and received 1,000 applications for 40 roles. The apprentices chosen joined 49 other trainees in distribution and sewerage

**Additional Corporate Responsibility objective**  
**Promote ethical behaviour at work**

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**Additional Corporate Responsibility objective**  
**To encourage and improve diversity in our workforce**

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<sup>1</sup> [www.stwater.co.uk/businessstandards](http://www.stwater.co.uk/businessstandards)

who began their development programmes earlier in the year.

Each year we monitor our employees motivation and opinions through a staff survey – QUEST. For the first time we also carried out mini surveys throughout the year to increase the amount of employees who take part in this vital engagement process. In 2006/07 81%

of employees completed the survey. We were happy to see that 75% of employee responses gave a favourable score to the question ‘I would recommend Severn Trent Water as a good place to work’.

### Human rights

More information on the Severn Trent commitment to human rights can be seen on the website<sup>2</sup>.

### Case Study Developing Talent

In 2006/07 Severn Trent Water launched the Developing Talent programme, a structured and inclusive development plan for people with high potential. Unlike its predecessor, the old graduate scheme, it is open to internally recruited participants for whom no specified qualifications are required (as well as externally recruited graduates).

*‘The Developing Talent Programme has afforded me many opportunities. I have attended a number of business awareness sessions which have enabled me to gain a better understanding of other areas of the business and extend my network of contacts. There have also been team working and personal development sessions which have helped me understand the way in which I work and how it can impact on others.*

*Over the past 10 months my confidence has improved considerably. Moving forwards I would like to develop my leadership skills and further improve my knowledge and understanding of the business and the people within.’*

**Hayley O’Malley (Senior Advisor Water Quality Regulation)  
Developing Talent Programme 2006/07**



 [www.stwater.co.uk/humanrights](http://www.stwater.co.uk/humanrights)

### Case Study

#### Reducing the risk of highway accidents by making vehicles more visible

Staff were concerned about the risk of being struck by vehicles as they carried out work on the highways. One of the ideas put forward during discussions about this was the possibility of changing the appearance of Severn Trent Water's commercial vehicles. The suggestion was that, if vehicles parked on or by the highway were more visible, there would be less likelihood of the operators themselves being struck while they worked on the road.

The issue was investigated in more depth, and it was concluded that making commercial vehicles more visible could lead to a reduction in accidents involving operators working on the highway. A trial was set up with a number of vans marked with chevrons, and operators and managers asked for feedback. Based on this, Severn Trent Water's management team decided to extend the programme across the company. We are now retrofitting commercial vehicles with high-visibility markings, and have added the markings to the new build specifications for vehicles below 3.5 tonnes that work on the highway.



## Community

Our relationship with the regional community is part of our wider corporate responsibility strategy. Our engagement takes several forms: community investment; community liaison; and educational initiatives.

### Additional Corporate Responsibility objective

Increase employee volunteering

### Target

1,125 volunteer hours/  
1,000 (FTE) employees

### Community investment

In 2006/07, Severn Trent Water spent approximately £845,000 on community investment. This includes our education programme, donations to WaterAid and our local partner charities, and our staff volunteering programme.

Our investments benefit our local communities in a number of ways. Our partner charities all play a part in improving both the environment and the lives of local people. Stonebridge City Farm, for instance, has used our donation to fund their 'VegeBox' scheme which involves teaching vulnerable people about organic gardening whilst providing fresh produce to low income families. Crash IT, another of our partners, delivered IT skills development programmes for disabled people whilst at the same time diverting almost 2,000 pieces of IT equipment from landfill.

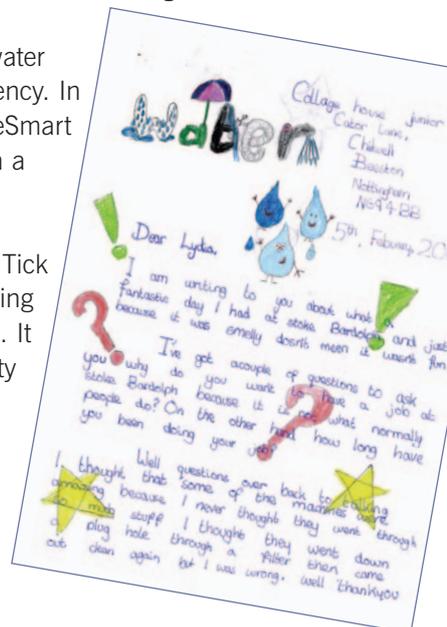
### Employee volunteering

We actively encourage our employees to engage with the local community, while some support other community initiatives<sup>1</sup>. We believe volunteering benefits our own business, as well as

the community, by providing opportunities for teambuilding and teamworking across the organisation. In 2006/07 our employees donated almost 5,300 hours of staff time to community projects with around 527 staff taking part.

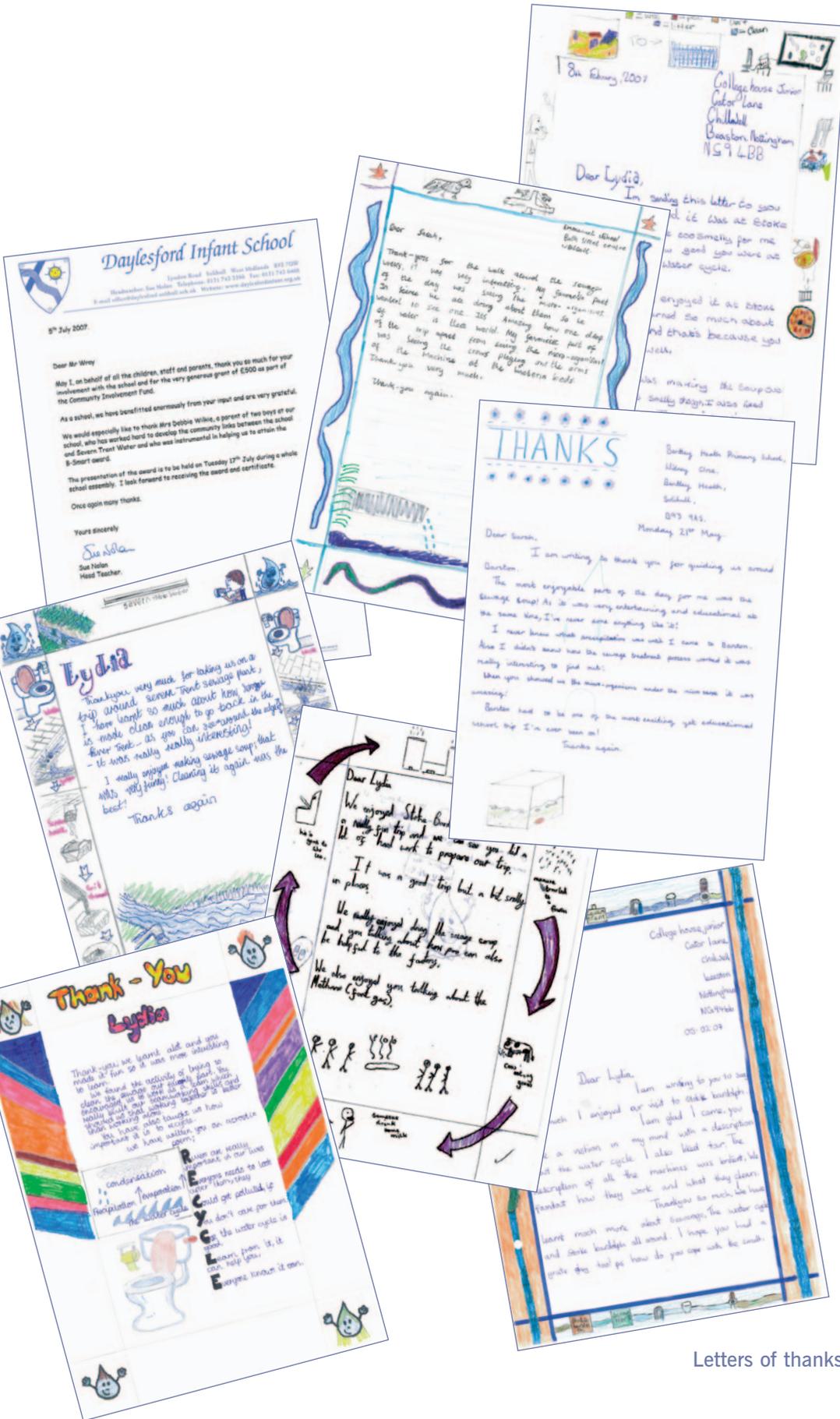
### Education

We continued to develop and promote our education programme via our two main initiatives: our education centres and the award winning BeSmart<sup>2</sup> scheme. In 2006/07 around 25,000 children visited our education centres, while 46 schools took part in BeSmart. BeSmart aims to raise awareness amongst school children of the importance of water and water efficiency. In 2006/07 the BeSmart programme won a West Midlands Business in the Community Big Tick award for investing in young people. It also won a Utility Week Award for best community initiative.



<sup>1</sup> [www.stwater.co.uk/employeevolunteering](http://www.stwater.co.uk/employeevolunteering)

<sup>2</sup> [www.stwater.co.uk/educationinitiatives](http://www.stwater.co.uk/educationinitiatives)



Some comments from teachers whose classes have taken part in our BeSmart Award:

*"The scheme has been brilliant to take part in, it has been enjoyable, and the children have been SO enthusiastic!! Work can be tailored to fit almost any subject"*

**Teacher, St. Bernadette's School**

*"We will send home our ideas for saving water. This will try to meet the environmental needs of the community."*

**Teacher, Catherine Junior School**

*"The children's learning was driven by their own questions."*

**Teacher, Herrick Primary**

*"The award has been a seed for creating a creative curriculum for the whole school. It has added impetus and meaning to the curriculum."*

**Headteacher, Cam Everlands Primary**

*"There have been many positive consequences across the school. It has given real purpose for the children's learning."*

**Headteacher, Newnham St Peters Primary**

*"As the children started to drink more water rather than pop, I saw a significant improvement in their focus and concentration throughout the day."*

**Teacher, Steam Mills Primary**

Letters of thanks

## Marketplace

In 2006/07 Severn Trent Water delivered a good financial performance, profit before interest, tax and exceptional items (PBIT) was up by 3.1% on the previous year to £413 million. A number of factors impact PBIT including increased energy costs caused by rising energy prices, additional expenditure on leakage reduction and customer services.

### Drinking water quality

The water industry is monitored by government appointed regulators who report each year on standards and progress. Drinking water quality is regulated by the Drinking Water Inspectorate (DWI). Our customers' top priority is the safety and reliability of their drinking water supply. In 2006 we achieved 99.98% mean zonal compliance, an improvement from 99.95% in 2005.

### Customers

We provide water and sewerage services to around 3.7 million household and business properties in England and mid-Wales. It is already well documented that in recent years we have not reached high enough customer service standards. In June 2006 Ofwat issued a notice under S22A (4) of the Water Industry Act, stating its intention to fine Severn Trent Water for failure to meet customer service standards under the Guaranteed Standards Scheme. We are currently awaiting the

outcome of investigations but in the meantime we have done much to improve current customer service standards. The result of the work is steady improvement. Customer service performance in the first eight months of 2006/07 remained unsatisfactory, while figures for the final four months showed improvement.

Interaction with customers is not just about how we perform in terms of specific figures and measures. It is also about fitting in with different customers' ways of life, and giving them flexibility in how they contact us. We provide alternative formats of our printed communications, such as large print and Braille, to ensure that all of our customers can gain access to information<sup>1</sup>.

We continued with our customer tracking research, collecting information on perceptions of our business and activities, in July 2006 and January 2007. Tracking research will be developed in 2007/08 to

 [www.stwater.co.uk/customer-care](http://www.stwater.co.uk/customer-care)

reflect changing business needs and to include the measures of willingness to pay. It will continue to be a valuable tool in measuring customer satisfaction and in identifying areas where we need to make improvements.

### Supply chain management

We have been working to develop our supply chain processes for the last two years. Significant contractors and suppliers (as per our risk assessment criteria) have been required for some years to provide information on their health and safety performance and their environmental qualifications and performance. We recognised that this needed to be built on in 2006/07. Severn Trent Water began

developing a new standardised risk based approach to supply chain assessment, focusing not just on health and safety and environment, but also on human rights, bribery and corruption.

### Research and development

Our 2006/07 expenditure on research and development was £5.3 million. We have continued our work on improving water quality and consistency from major water treatment works. We have increased research and development surrounding leakage reduction and have continued our environmental research and development work into technologies that may enable us to generate more power from sewage sludge.

### Additional Corporate Responsibility objective

To minimise risk through our supply chain

### Target

Applies to all contracted suppliers:

- All suppliers and contractors to confirm that they will abide by the Code of Conduct and Practices regarding Ethical Behaviour At Work in all their dealings with, or on behalf of, Severn Trent Water.
- Relaunch the health, safety and environment risk assessment tools and adapt the Group human rights, bribery and corruption risk assessment tool and apply to all contracted suppliers. All suppliers defined as high risk in these areas to be analysed to check that the correct systems and culture are in place, or being put in place, to manage these risks.

### Case Study

#### A project to help hearing impaired customers



People with hearing impairments face many obstacles in their daily lives. We wanted to make it easier for such customers to communicate with our staff, especially when they have urgent problems such as supply interruptions or leaks. Therefore, we decided to deliver basic sign language and deaf awareness training to some of the Severn Trent Water staff who communicate directly with customers, for example reception staff and field workers. By the end of March 2007, approximately 175 people had completed the training. The course

aimed to give staff an appreciation of the communication difficulties that hearing-impaired people may face. They were also taught some sign language and to spell the alphabet using finger spelling.

Many of the employees who attended the courses were initially concerned that they would not be able to learn the signs. However, feedback from the participants was very positive and many were surprised at their own ability and how valuable the course was to them.

# Performance data

Environment		2004/05	2005/06	2006/07
<b>Climate change</b>				
Purchased electricity	MWh	850,600	846,180	821,202
	tCO <sub>2</sub> e	365,758	363,857	353,117
Process emissions	tonnes	4,040	3,819	2,542
	tCO <sub>2</sub> e	39,700	36,959	13,282
Gas and oil	MWh	78,546	65,520	69,060
	tCO <sub>2</sub> e	23,084	25,769	21,329
Transport	million km	49	52	47
	tCO <sub>2</sub> e	14,128	15,740	19,028
Total emissions	tCO <sub>2</sub> e	442,670	442,326	406,756
Total renewable electricity generated	MWh	112,115	155,221	154,641
	tCO <sub>2</sub> e	48,209	66,745	66,496
Net total emissions	tCO <sub>2</sub> e	394,461	375,580	340,260
Normalised net total emissions	tCO <sub>2</sub> e/£mt turnover	389	326	279

Energy use		2004/05	2005/06	2006/07
Total energy use	GJ	3,944,091	4,100,928	4,018,087

## Notes

1 Emissions from sludge incineration and Grafham Carbons.

2 Process emissions and indirect emissions (liquid fuels plus electricity and gas).

3 The fluctuation is due to the dominance of construction material. The quantity of material excavated is very dependent on the capital schemes being undertaken in a year.

Air quality (direct & indirect emissions)		2004/05	2005/06	2006/07
NOx: Process emissions <sup>1</sup>	tonnes	18	19	18
NOx: Total emissions <sup>2</sup>	tonnes	1,101	1,123	1,089
SOx: Process emissions <sup>1</sup>	tonnes	3	4	3
SOx: Total emissions <sup>2</sup>	tonnes	834	838	806

Waste generated		2004/05	2005/06	2006/07
Total waste generated <sup>3</sup>	tonnes	1,214,866	2,065,783	1,043,734
Total waste recycled/recovered/diverted	tonnes	428,466	634,695	406,160
Total sludge generated	tonnes	128,306	146,580	146,986
Total sludge recycled/recovered/diverted	tonnes	127,488	146,580	146,986

Workplace		2004/05	2005/06	2006/07
<b>Employees</b>				
Total number of employees (annual average)	headcount	5,106	5,188	5,289
Employee turnover	%	10	13	12
Total spend on training	£'000	1,900	1,250	1,830

**Workplace (continued)**

	2004/05	2005/06	2006/07
<b>Diversity (all figures year end)</b>			
Proportion of total employees who are female	28	28	28
Proportion of total employees who are from ethnic minorities	6	6	6
Total number of Managers	1,155	1,359	864
Proportion of Managers who are female	20	21	24
Proportion of Managers who are from ethnic minorities	3	3	4
Total number of Senior Managers	71	66	47
Proportion of Senior Managers who are female	6	6	6
Proportion of Senior Managers who are from ethnic minorities	0	0	0

**Health & Safety**

	2004/05	2005/06	2006/07
Total number of RIDDORs	56	57	51
Days lost per 100,000 hours worked	17.4	13.3	19.2

**Community**

	2004/05	2005/06	2006/07
<b>Community investment</b>			
Donations/cash contributions	£ 98,270	237,556	218,165
In-kind (employee volunteering during paid working hours)	£ 35,450	461,964	196,725
In-kind (product or service donations, project/partnerships)	£ 95,000	246,369	378,653
Management costs <sup>4</sup>	£ 1,565,000	20,513	53,344
Leveraged	£ 146,426	85,262	166,945
<b>Total community investment</b>	<b>£ 1,793,720</b>	<b>966,402</b>	<b>846,886</b>

**Marketplace**

	2004/05	2005/06	2006/07
<b>Operational indicators</b>			
Mean zonal compliance of drinking water samples	% 99.96	99.95	99.98
Proportion of sewage treatment works compliant with WRA LUT consents	% 100	99.86	99.86

**Crime**

	2004/05	2005/06	2006/07
Convictions for environmental offences	5	3	3
Environmental fines (inc costs imposed)	£ '000 45.0	40.8	50.4
Convictions for other offences	0	0	0
Enforcement notices served against the Company	0	0	0

*Notes*

*4 Following advice from the LBG (London Benchmarking Group) we reallocated the costs of our education programme from management costs to in-kind donations.*

*For figures on economic value generated and economic value distributed please visit [www.stwater.co.uk/economicvalue](http://www.stwater.co.uk/economicvalue)*

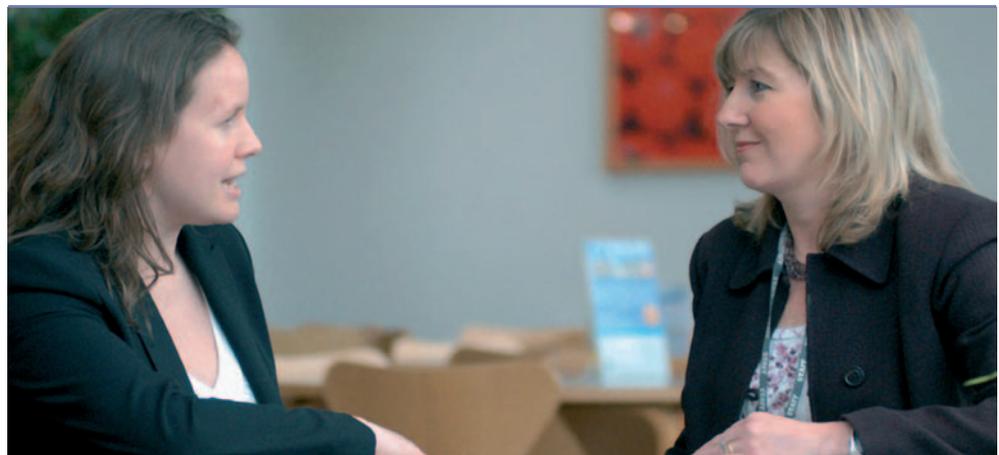
# Challenges looking forward

## Ethics and business culture

We have taken, and will continue to take, all actions we think appropriate to ensure the maintenance of both high ethical and professional standards, combined with resilient and effective controls throughout the company.

Changes to structure and controls were largely implemented before 2006/07, but we have continued to make organisational changes that will help improve our culture and controls. For example, the integration of Severn Trent Plc and Severn Trent Water teams will cut a number of management layers. We have set up a new technical operational audit function called Safety, Quality and Standards. This team will independently assess the quality of our operations against technical and safety best practice, and will also report to Severn Trent's Corporate Responsibility Committee. The objective is to bring continuous improvement to our technical and operational reporting.

Alongside structural change we have a programme of behavioural change. This aims to create a business culture based on openness and evaluation of all aspects of performance, bad as well as good, where every member of staff practises good business ethics. In 2006 we began to put in place a wide-ranging cultural change programme, including leadership development for the executive team, senior and middle managers, and strengthening the training we give to new managers. Working with the Institute of Business Ethics, we also developed a new training programme on business ethics. By the end of March 2007 over 550 Severn Trent Water managers had taken part in this training programme.



The training programme, “Between a Rock and a Hard Place”, gives managers a set of principles and tools to deal with ethical challenges in their day-to-day work. It is based on interactive workshops using case studies and real scenarios. All workshops are facilitated by staff from Severn Trent Water, who have been trained by the Institute of Business Ethics amongst others. We chose this format because we believe our own staff are in the best possible position to understand the ethical challenges faced

by their colleagues, and to help them deal with them.

We recognise that to regain, and maintain, the confidence of regulators, investors and other stakeholders, our focus on our culture and business ethics must not be allowed to diminish. We will continue to take all actions we think appropriate to ensure the maintenance of both high ethical and professional standards and resilient and effective controls throughout our companies.

#### Case Study Developing Talent

“Developing the Rock and a Hard Place workshops was a very sensible response to the problems Severn Trent had identified in their culture. I think a lot of people have been able to talk about issues that perhaps they might not have done otherwise.

The nature of the course, with its interactive approach, far removed from the old ‘chalk and talk’ style training, is innovative. We are now applying the approach in the training we do for other companies, using it as a benchmark. So, as well as helping Severn Trent to create a more open culture, the development of the workshop has had a qualitative impact on learning in other companies too.”

**Philippa Foster Back OBE**  
Institute of Business Ethics



## Climate change

Climate change rose up the political and public agenda in 2006/07, and there is now widespread acceptance in the UK of the need to reduce greenhouse gas emissions.

Severn Trent Water welcomes this growing awareness of climate change. We have already been engaged in planning for a changing climate for a number of years, and we have built a leading reputation in this area with key stakeholders like the Carbon Trust.

In March 2007 the government published its draft Climate Change Bill. As this issue rises up the regulatory agenda, companies in our sector need to have a firm understanding of GHG emissions arising from our activities, for environmental and financial risk management and reputation purposes. It is also clear that, in future Ofwat price reviews, water companies will be expected to be fully conversant with carbon management and to be able to demonstrate robust plans to make emission reductions.

Severn Trent Water is already dealing with that challenge. Over a number of years we have worked on projects with the Carbon Trust, developing scenario models to forecast our emissions through to 2020. This year we are updating our 2005 Carbon Management Report, and plan to publish this towards the end of the year. This will follow the production of our key strategic issues report which

will guide our business planning over the coming years.

We are also one of the leaders in our industry in renewable energy generation. In 2006/07 our in-house renewable energy produced was over 154,000MWh. This represents 17% of total electricity used by Severn Trent Water.

Nevertheless, the water sector faces the prospect of increasing emissions of greenhouse gases over the coming years. For example, implementation of regulations such as the Urban Wastewater Directive and the Water Framework Directive will increase our energy requirements. In order to offset this, we have intensified our focus on the two key elements of our work to mitigate our climate change impact: our renewable energy generation activities; and our energy management programme.

On renewable energy generation, we have an ongoing programme to increase the total number of sewage treatment works with Combined Heat and Power (CHP) units, and to optimise biogas production at sewage treatment works with such units. Our target is to expand renewable energy production to 175,000MWh, an increase of 13% over the actual production for



2006/07. We are also looking at new opportunities, including biomass energy crops, micro-generation, wind turbines and extending hydropower.

On energy management, in 2006/07 we completed site energy reviews of all of our top 407 sites, which account for 85% of our electricity use. The review has resulted in individual SEMP's for 330 sites. These include local actions to optimise plant and processes, and to identify potential 'spend to save' opportunities for reducing energy consumption. We believe the SEMP's will enable Severn Trent Water to save approximately 10,000MWh of electricity during 2007/08. The review has also identified generic approaches required to manage energy on the remaining sites.

Unfortunately, however far we develop our renewable energy generation and energy management activities, the uncertainties and challenges of climate

change still confront us. In terms of government and regulatory policy, this area is in its infancy. We will need to follow, and seek to influence, the development of potential cap and trade systems or other controls that may apply to the water sector, for these could impact our future planning in this area. There is also a continuing risk that tightening environmental controls in one area (such as water and waste water quality) will lead to increases in emissions. We need to monitor such unintended consequences and work with our regulators to ensure they are considering all environmental implications.

Whatever actions are taken over the coming years to reduce emissions, it is clear that climate change already has serious implications for our operations and strategic development. We therefore need to understand the impacts of climate change on areas such as water supply, water usage, and sewerage, and to develop adaptation strategies.

## Security of supply

Maintaining the security of water supplies is one of our fundamental duties. It's not just the day-to-day business of delivering clean water to our customers' taps; it's about making sure we can meet customers' demand for water over the next quarter of a century, at times of both normal and low rainfall. This is one of the major challenges facing Severn Trent Water.

Our planned level of service to customers is that a regionwide hosepipe ban may be required, on average, no more than three times per century. Our plans for how we achieve that level of service are set out in our Water Resources Plan<sup>1</sup>. This plan includes a strategic water resources investment plan for the AMP4 period and a development plan going up to 2030.

As well as covering investment to increase the amount of water available for supply, it also covers aspects like reducing leakage and promoting the efficient use of water. Alongside the Water Resources Plan, we have a Drought Contingency Plan<sup>2</sup>, which sets out the actions and measures we take during periods of drought.



<sup>1</sup> [www.stwater.co.uk/waterresources](http://www.stwater.co.uk/waterresources)

<sup>2</sup> [www.stwater.co.uk/droughts](http://www.stwater.co.uk/droughts)

The current position on ensuring long-term security of water supply is challenging. Ofwat monitors our performance using a Security of Supply Index (SOSI). This measures the difference between the amount of water each company has available and how much it must put through its network to meet customer demand in a dry year, known as 'headroom'.

At the beginning of AMP4 we anticipated a shortfall against target headroom in a number of our resource zones. We also anticipated that, without investment in AMP4, the likelihood of hosepipe bans would become unacceptably high. Therefore, our AMP4 investment plan includes a number of schemes to ensure security of supply in the Birmingham and Severn zones.

Work on a Birmingham groundwater scheme has already increased water available for use, and we are on course with our headroom targets there. However, delays to other schemes in the first two years of the AMP period mean we currently have a deficit in three parts of our region: East Midlands; Oswestry; and Severn zones. In order to bridge this deficit we will continue to work on our existing AMP4 schemes which we aim to complete within the AMP period.

Our intensified focus on leakage control will reinforce our work to ensure security of supply. Having reported disappointing results in this area in 2005/06, we made great progress in the second half of 2006/07 on reducing leakage and replacing ageing water mains. In March, April and May 2007 Severn Trent Water achieved a leakage level commensurate with achieving

our Ofwat target. At the present rate of improvement our 12 month rolling leakage performance will be back on target before the winter period of 2007/08.

Promoting water efficiency to our customers will also support our water resources planning. Our Ofwat target for reducing customer demand in AMP4 equates to a reduction of 839.5MI/year by 2010, or 2.3MI/d. Having made excellent progress on water conservation activities in 2005/06 and 2006/07, we are ahead of target, with a total saving of 1.61MI/d already made. To meet the target water saving, we need to deliver an additional saving of 0.69MI/d over the next three years.

Despite the fact that delays to our water resources investment plan affected our performance on Ofwat's SOSI in 2006/07, our approach to ensuring security of water supply remains both robust and holistic. This is evident in our Water Resources Plan and our Drought Contingency Plan. Nevertheless, Severn Trent Water, like every other water company in the UK, faces one further challenge on water supply, the uncertainty around the effects of climate change on the supply and demand balance for water.

Our investment programmes for AMP4 and AMP5 are not influenced by climate change. However, it is clear that some adaptation to climate change may be necessary in the longer term. Our current strategy is to undertake environmental impact assessments and planning feasibility work required for our future strategic resource development, and to carry out work to improve our understanding of the potential climate change impacts.

## Pricing and vulnerable customers

**Our customers' water bills rose by an average of 4p a day from April 2007, taking the average bill from £267 a year to £283. We are sensitive to issues of affordability in our region and provide a number of payment options to help prevent customers accumulate debt.**

Average water prices in our region and in England and Wales generally rose by more than the rate of inflation in April 2007. We appreciate that many households in England and Wales are under financial strain and we are sensitive to the need to keep prices down for our customers. We believe that water bills in our region represent good value for money.

One of the ways in which we help our customers pay water bills is to let them do so in ways that suit their individual circumstances. We offer a range of ways to pay, including monthly Direct Debit, or through instalments, helping customers budget for their water bills. We also offer free water meters, which can help customers monitor their water use and costs. Leaflets and a calculator on our website help customers determine whether they would be better off on a meter.

Severn Trent Water's WaterSure scheme<sup>1</sup> (formerly called the Vulnerable Household Charge scheme) is a capped charge intended to help metered customers who

 [www.stwater.co.uk/ourcharges](http://www.stwater.co.uk/ourcharges)

are experiencing difficulties as a result of high water usage or low income. If a member of a household is in receipt of a benefit and has a medical condition that makes the household use more water, or has three children under the age of nineteen, they may also be eligible.

We also make a substantial annual grant to the Severn Trent Trust Fund<sup>2</sup>, totalling £3.6 million per year. The Trust was established in 1997 to help customers who face genuine economic distress get back on their feet. It is registered as an independent charity, and policy and grant making is overseen by independent trustees.

The Trust's assistance is limited to Severn Trent Water's region, but it is not limited to paying water bills. Applicants may receive grants to pay other utility bills, council tax or rent, or to buy essential household items. Since 1997 it has received over 57,000 applications, and made grants to over 37,000 households. Total donations received by the Trust since 1997 amount to over £22 million,

 [www.stwater.co.uk/yourbill](http://www.stwater.co.uk/yourbill)



and grants made or designated include: £17.1 million paid to individuals and families, and £1.89 million to support organisational funding, including to organisations dealing with money advice and debt handling. The results of the Trust's work are encouraging, with up to 70% of those helped paying off their outstanding water bills over time.

Preparations are underway for Ofwat's next price review for water companies in England and Wales, in 2009. Throughout the price review process we will consult with our own customers and with the CCW, about their views and priorities. At all times, we remain conscious of the need to deliver value for money to our customers.



# Focus on Water Technologies and Services



## Managing Director's introduction



**Len Graziano**  
President and Chief  
Executive Officer  
Water Technologies  
and Services

Water Technologies and Services' objective is to deliver high quality services to our customers, whilst meeting the highest standards of business conduct and minimising our environmental impact.

As you read through the Water Technologies and Services section of this report, the differences between Severn Trent Water and Water Technologies and Services in terms of location, size and integration of corporate responsibility issues in our businesses are apparent. Acknowledging these differences, as well as the similarities between the two businesses, provides the foundation for a focused approach to corporate responsibility issues in Water Technologies and Services. By working with our colleagues in Severn Trent Water, we can use their experience to help us develop and firmly fix corporate responsibility within our business, as it is within Severn Trent Water. The variety of water related business activities within Water Technologies and Services also provide a diverse group of individuals and approaches which have the potential to strengthen both organisations efforts to be responsible corporate citizens.

We welcome the integration of the Group and Severn Trent Water corporate responsibility teams as we can now work even more closely with them. This can only serve to help us progress towards embedding corporate responsibility firmly within Water Technologies and Services. We have appointed a Director of Corporate Responsibility within our Health, Safety and Environment team to ensure we have a key point of contact

within Water Technologies and Services for these issues.

As we have acknowledged that Water Technologies and Services is at a different level to Severn Trent Water, we have decided that this year we will adopt a smaller set of KPIs than Severn Trent Water. These indicators will cover the four areas of the Group corporate responsibility strategy that we consider to be the core issues facing us, namely Health and Safety, Climate Change, Supply Chain and Business Ethics. Targets and action plans have been set in each of these areas which will provide a solid base on which, in future years, we can build and progress our corporate responsibility performance.

One of the main challenges facing Water Technologies and Services as we progress our corporate responsibility agenda is the variety of activities our businesses undertake across the globe. Our close working relationship with Severn Trent Water and a structured, focused approach provides the encouragement that we will achieve our objectives whilst bringing new ideas to the Group which will potentially benefit all involved. Whilst this is a challenge it is one that I feel we are in a good position to tackle and I welcome the opportunities it presents going forward.

A handwritten signature in blue ink that reads "L. Graziano". The signature is fluid and cursive.

**Len Graziano**  
President and Chief Executive Officer  
Water Technologies and Services

# Performance review 2006/07

## Water Technologies and Services

### Environment

As an international company whose operations are closely linked to the environment, the management of our own environmental impacts is a key part of Water Technologies and Services operations. The environmental work we do is focused on mitigating our climate change impacts whilst being aware of, and seeking to improve, our environmental performance in other key areas.

#### Climate change

In 2006/07 our net normalised GHG emissions were 207 tonnes of carbon dioxide (CO<sub>2</sub>) equivalent per £million of turnover. The bulk of this comprising purchased electricity.

As a result 568 water saving devices were installed and C2C has reduced consumption by 51%.

#### Water resources

Water Technologies and Services does not have the same influence on water resources as Severn Trent Water. However, we are able to play a part in water resource management through operating the sites we run efficiently and by developing technologies that can be used by the water industry to help it understand resource issues better.

On another major MOD site a leakage reduction programme was undertaken. Having identified that the site received nearly 1 million m<sup>3</sup>/year of water, of which 0.5 million m<sup>3</sup> was leakage, repairs were instigated on many external and internal leaks. The result was an initial leakage reduction of 0.25 million m<sup>3</sup>/year. At a time when water resources are particularly vulnerable, this leakage reduction project demonstrates a very positive contribution to minimising water wastage.

C2C, a UK non-regulated water and waste water operation, is working on a contract to deliver clean and waste water services to the Ministry of Defence (MOD). C2C identified a major MOD site where water conservation measures would be cost effective.

Metering Services leads the industry in solid state electronic metering of domestic premises. We further developed our position in 2006 with the design and launch of a new concentric SmartMeter™, which is suitable for outdoor installation

(our existing meters were primarily for indoor use). The new meter also has the capability to help detect leaks, clearly an important part of the UK strategy for water management.

#### Waste

Water Technologies and Services generated 2,669 tonnes of waste in 2006/07 (excluding sludge), of this 6% was recycled.

During 2006 Integra, our water meter installation and maintenance group, invested in cardboard balers at all of its sites. This proved cost effective, since the actual number of cardboard waste skips required has been halved. Through 2007 Integra also intends to evaluate the use of reusable trays for meter deliveries in order to further reduce packaging.



## Workplace

### Our workplace activities encompass a wide range of issues including health and safety, employee development, diversity and human rights.

#### Business standards

Work to raise business standards has been taking place across Water Technologies and Services to ensure our culture remains transparent and open.

Throughout 2006/07 1,500 employees and managers worldwide took part in Ethical Behaviour at Work training, which concentrated on the Severn Trent Code of Conduct, business ethics, and whistleblowing. In addition, in the US, over 230 managers and employees also received Fair Treatment training, covering issues like harassment, sexual harassment and business ethics.

#### Health and safety

The health and safety of the Water Technologies and Services workforce is key to our operations. We continued our work to improve our health and safety performance in 2006/07 and are pleased to report that our incident rate per 1,000 employees (as defined under the UK's RIDDOR) was reduced by over 50%, a significant improvement in our performance.

Three Water Technologies and Services facilities in the UK and US, and a US waste water treatment facility operated by Water Technologies and Services, were

awarded Five Star Health and Safety Awards from the British Safety Council. Additionally, in our US Operating Services (OS) division, we received the Texas Water Utilities Association Safety Program Award. The Award recognises a Texas water utility, or a particular department, division, or portion of a water utility that has an exceptional safety programme or which demonstrates significant improvement in its safety programme for its employees over prior years.

#### Diversity

With worldwide operations it is important to us that the diversity of our workplace mirrors the local communities in which we operate. Water Technologies and Services programmes, such as Affirmative Action in North America and other action plans around the world, are ensuring that managers have a diverse applicant pool. One-fifth of the global Water Technologies and Services employee population is represented by ethnic minorities and over one-quarter of the population is female.

#### Employee development

Water Technologies and Services is committed to enhancing individuals' skills and promoting employee development. Our training programmes have two focal



points; understanding core business values and developing individuals own skills.

A Manager Training Programme was introduced in North America. The three-year training series is targeted at middle and senior level management, and is intended to enhance individual skills and behaviours that support our identified core competencies.

In Analytical Services, our environmental testing organisation, the Severn Trent Laboratories (STL) Technical Excellence Programme (STEP) was designed to identify

tomorrow's technical experts. Successful applicants receive a personal development plan and time away from their current role to develop technical capabilities that support the needs of the business. Each individual chosen to take part in the programme is supported and guided through their development by a technical mentor and a Leadership Team sponsor.

#### Human rights

More information on the Severn Trent commitment to human rights can be seen on the website<sup>1</sup>.

 [www.stwater.co.uk/humanrights](http://www.stwater.co.uk/humanrights)

## Community

In Water Technologies and Services our community work involves local, national and international communities. We are aware that we can have a major influence on community development through our investment and education initiatives.

### Community investment

Water Technologies and Services and its employees support WaterAid, an international non-profit organisation committed to bringing safe drinking water and improved sanitation to impoverished people in developing countries.

In 2006/07 Water Technologies and Services has continued to support humanitarian aid projects following natural disasters around the world. In the summer of 2006, an earthquake struck Java leaving more than 500,000 people homeless. Water Technologies and Services responded promptly to the need for the worldwide water industry to help, supplying five Capital Controls Advance Series 200® chlorine gas feeders to enable potable water to be disinfected. Following Hurricane Katrina, Water Technologies and Services supplied equipment capable of treating up to 10,000 gallons of water per day. In addition employees raised over \$50,000 to be donated to affected employees devastated by the hurricane.



WaterAid – Abir Abdullah



### Education

Education is an important aspect of working with communities. We recently designed a programme for teaching fourth-grade pupils in the US about the importance of water conservation around the home. The programme was successfully piloted with 70 elementary school pupils in Pennsylvania, and it is now being rolled out to other municipalities where we manage and operate water and waste water treatment facilities. By working with school children, we not only teach them about environmental issues, we are also building a dialogue with our future generations of stakeholders.

## Marketplace

**In 2006/07 Water Technologies and Services profit before interest, tax and exceptional items was £19.7m, an increase of 15.2% mainly achieved through improved operation performance.**

### Drinking water and waste water quality

As with water resources we can have an impact where we operate sites, by ensuring we supply drinking water and treat waste water to a high standard, and also through research and developing new technologies.

In the US, where our OS manage and operate over 460 water and waste water facilities serving approximately 2.1 million customers, we achieved 100% compliance

with our drinking water standards and 99.69% compliance with our waste water standards in 2006/07.

Our Water Purification business also has a positive impact on delivery of high quality water. One example is our SORB 33<sup>®</sup> arsenic removal technology and Bayoxide<sup>®</sup> E33 arsenic removal media, which has been permitted for use by a number of health and environmental agencies throughout the US.



### Customers

With customers around the globe our client base is diverse. At Water Technologies and Services we want to ensure that we provide all our customers with the level of service they deserve and expect. Our personnel work together with customers from around the world to achieve compliance, minimise and treat waste, reduce the use of toxic and hazardous materials and conserve resources. At STL in Coventry, we have confirmed our commitment to customer service by joining the Institute of Customer Service (ICS). By working with the ICS we have been able to enhance our service by sharing good practice, benchmarking performance and advancing staff through formal and informal development programmes.

Water Technologies and Services created the Environmental Leadership Alliance (ELA) Award to recognise select customers who have successfully met their environmental challenges. Since 2001, eight awards have been presented.

### Supply chain management

In 2006/07 Water Technologies and Services began to implement a programme to ensure that at least 60% of current suppliers (by spend) undergo a basic corporate responsibility assessment. Each business unit was asked to determine the extent of their supplier assessment programme; to determine what percentage of suppliers they expected to complete a basic corporate responsibility assessment in 2006/07; and to outline their action plan for achieving the 60% target.

### Corporate responsibility targets and objectives 2007/08

CR Area	Target/ Objective
H&S	Reduce lost time incidents per 100,000 hours worked by 15%.
Climate change	Install approximately 250 electricity meters at facilities identified by the MOD; and establish a data collection and reporting process for flow and power in major facilities (water and waste water treatment facilities greater than 1 million gallons per day (MGD)) by 31 March 08.
	Improve data collection activities for calculation of vehicle emissions and reduce combined emissions from US OS and Integra by 3%, adjusted for growth, by 01 April 08.
	Improve the accuracy of energy data collected by US OS to establish a baseline of power usage that is controllable by US OS (i.e. waste water treatment facilities with design flows greater than 1MGD); and implement a focused energy management programme with objectives and targets by 01 April 08.
Supply chain	Ensure that risks are managed through assessment of high risk suppliers' policies, procedures and management systems, with assessment visits or verification where appropriate by 01 April 08.
Business ethics and diversity	To promote ethical behaviour at work.
	To encourage and improve diversity in our workforce.

## Performance data

<b>Environment</b>		2004/05	2005/06	2006/07
<b>Climate change</b>				
Purchased electricity	MWh	76,733	102,475	89,846
	tCO <sub>2</sub> e	32,995	44,064	38,634
Gas and oil	MWh	5,213	24,025	30,307
	tCO <sub>2</sub> e	1,243	4,960	5,847
Transport	km (million)	40	50	45
	tCO <sub>2</sub> e	15,342	17,027	15,385
Total emissions	tCO <sub>2</sub> e	49,580	66,051	59,866
Normalised net total emissions	tCO <sub>2</sub> e/£m turnover	208	220	207
<b>Energy use</b>				
Total energy use	GJ	516,546	696,648	650,215
<b>Air quality (direct &amp; indirect emissions)</b>				
NOx: Total emissions	tonnes	145	212	211
SOx: Total emissions	tonnes	75	100	87
WTS have no process emissions				
<b>Waste generated</b>				
Total waste generated <sup>1</sup>	tonnes	994	3,244	2,669
Total waste recycled/recovered/diverted <sup>1</sup>	tonnes	180	195	157
Total sludge generated	tonnes	57,647	64,524	51,997
Total sludge recycled/recovered/diverted	tonnes	8,462	12,105	11,257
<b>Workplace</b>		2004/05	2005/06	2006/07
<b>Employees</b>				
Total number of employees	headcount	NDA	2,966	2,984
Employee turnover	%	NDA	NDA	24
Total spend on training (Training spend is for UK operations only)	£'000	NDA	NDA	192

### Notes

<sup>1</sup> In 2006/07 the STS business C2C reported liquid waste figures relating to a specific one-off contract for removal of liquid waste that have not been included here. They were 7,092m<sup>3</sup> of contaminated water classified as industrial waste; and 5,264m<sup>3</sup> of contaminated water classified as hazardous waste.

## Workplace (continued)

	2004/05	2005/06	2006/07
<b>Diversity (all figures year end)</b>			
Proportion of total employees who are female	NDA	NDA	27
Proportion of total employees who are from ethnic minorities			20
Total number of Managers			606
Proportion of Managers who are female			18
Proportion of Managers who are from ethnic minorities			13
Total number of Senior Managers			42
Proportion of Senior Managers who are female			14
Proportion of Senior Managers who are from ethnic minorities			2

<b>Health &amp; Safety</b>			
Total number of RIDDORs	40	29	13
Days lost per 100,000 hours worked	32.2	33.8	25.1

## Community

	2004/05	2005/06	2006/07
<b>Community investment</b>			

Whilst WTS is involved in community projects data is not available for these activities. Data collection processes are being put in place to capture this in the future.

## Marketplace

		2004/05	2005/06	2006/07
<b>Operational indicators</b>				
Compliance with US drinking water standards	%	100	100	100
Compliance with US waste water standards	%	99.6	99.77	99.69

<b>Crime</b>				
Convictions for environmental offences		0	0	0
Environmental fines (inc costs imposed)	\$ '000	0	0	1*
Convictions for other offences		0	0	0
Enforcement notices served against the Company		2	2	2#

### Notes

\* 12/06/06 State of Florida EPA

# State of Florida EPA enforcement action for failure to collect samples; State of Texas Department of Transportation violation

For figures on economic value generated and economic value distributed please visit [www.stwater.co.uk/economicvalue](http://www.stwater.co.uk/economicvalue)

# Challenges looking forward

## Climate change

**Water Technologies and Services' duty to stakeholders includes minimising any negative impacts on the environment. Clearly, this means trying to reduce our contribution to climate change through monitoring and managing our greenhouse gas emissions and energy usage. This challenge is one of our principal corporate responsibility objectives.**

The diverse nature of Water Technologies and Services' business units and geographical coverage requires a multi-faceted approach to climate change. As such, there are no universal solutions or processes for reducing energy usage that we could apply across all our business units or regions.

Our interim objectives in this area therefore comprise a number of approaches, chosen because they are meaningful, measurable and verifiable. In terms of energy usage, our immediate priorities largely involve expanding our data collection activities. By establishing a baseline of power usage in different areas of Water Technologies and Services, we are better placed to implement a wider energy management programme.

Targets for 2007/08 include programmes to install approximately 250 electricity meters at C2C Services sites and to establish a data collection and reporting process for flow and power at upgraded facilities.

We also plan to improve the accuracy of energy data collected by our US OS business in order to establish a baseline of power usage that is controllable by us. We will use this baseline to draw up focused energy management targets and objectives for OS by the end of 2007/08. As well as reducing the environmental impact associated with our activities, this programme will help us reduce the impact of future energy price increases on our financial performance.

In 2007/08 we aim to improve data collection activities for vehicle emissions, and to reduce the combined vehicle emissions from our OS and Integra business units by 3%, adjusted for growth. Planned measures for achieving those aims include purchasing departments providing data from fuel cards; mileage reduction strategies; fleet replacement; and general awareness programmes.



Water Technologies and Services has introduced a web-based service for collecting data in the field. The service enables Water Technologies and Services to collect data through wireless input using mobile phones, PDAs or laptops. The data can then be accessed and managed through internet-connected PC's and laptops. Water Technologies and Services uses the technology to collect data on compliance with environmental regulations, process control, and meter reading. In some areas it reduces the need for operatives to travel to the office,

and has enabled the company to cut mileage and reduce fuel usage. Integra, one of Water Technologies and Services' water purification businesses, currently uses similar technology in 90 of their vehicles operating in the UK. In the Gulf region of Operating Services in Houston, Texas the technology is being used at 135 water plants, 60 waste water plants and over 50 distribution system monitoring locations and Water Technologies and Services expects the service to expand to other facilities in the future. As well as cutting fuel usage, the system has greatly reduced time spent on administration tasks.

## Overseas contracts

Water Technologies and Services has operations around the world, in both developing and developed countries, and our growth strategy includes expanding into new geographical markets. One of the corporate responsibility challenges facing an international business such as ours is to operate ethically, and an important aspect of this relates to supporting human rights. We achieve this by means of strong supply chain management and ensuring we maintain strong business standards in all the countries in which we operate.

How a business approaches human rights is an increasingly important aspect of corporate responsibility. The Severn Trent Group supports the Universal Declaration of Human Rights as a helpful framework within which businesses can explore their connections to human rights<sup>1</sup>. The Group has also expressed support for the United Nations Global Compact. We believe the Global Compact provides a useful platform for dialogue on corporate accountability, and its principles reflect Severn Trent's integrated approach to corporate responsibility. Severn Trent's support for those two documents provide the framework for Water Technologies and Services' approach to human rights and the global marketplace.

We undertake Management Contract and provide Consultancy Services for public and private sector clients around the world. In 2006/07 we worked in Russia, Jordan, Guyana, Bulgaria, Romania, South Africa, Lesotho, Benin, Congo, Kenya, Tanzania, Uganda, China, Qatar and the Philippines. Our 'international management services' are usually funded through international organisations such as the World Bank, the Asian Development Bank, EU funding programmes and/or bilateral government to government aid programmes. We adhere to the principles promoted by our funding partners and don't knowingly undertake services in countries or companies which have a record of

 [www.stwater.co.uk/humanrights](http://www.stwater.co.uk/humanrights)



human rights abuse where to do so would be regarded as support for these activities.

International funding for water and waste water projects, directly or indirectly, focuses on achieving Millennium Development Goals, supporting sector reform and the pro-poor agenda. Institutional reform and training programmes are aligned with infrastructure investment funding to improve both the quality and coverage of services provided to customers. Outreach programmes, which provide new services to underprivileged sectors of society and support economic development, are integral components of our work. Our institutional and organisational reform programmes develop capacity in utility service providers, enabling them to improve services and address major environmental and public health issues for the populations they serve.

In regard to our corporate responsibility objectives in 2006/07 and 2007/08, two areas relate to human rights. First, by the end of March 2007, over half of Water

Technologies and Services employees and managers worldwide had taken part in Ethical Behaviour at Work training, which concentrated on the Severn Trent Code of Conduct, business ethics, and whistleblowing. In the US, over 230 Water Technologies and Services managers and employees also received Fair Treatment training, covering issues like harassment, sexual harassment and business ethics. Both training programmes emphasise the role of individual employees and managers in maintaining the appropriate work environment, and they give staff ideas about what to do if they feel laws or company policies are being breached.

Secondly, in 2006/07 we focused on supply chain management as previously described. Our objective on supply chain assessment in 2007/08 is to ensure that risks are managed through assessment of high-risk suppliers' policies, procedures and management systems, with assessment visits or verification where appropriate.

## Stakeholder engagement

**As an international company Water Technologies and Services engage with many different stakeholders. Wherever and whenever possible, we work closely with these stakeholders to be a positive force for improvement. We also work hard to balance the interests of different stakeholder groups.**

Our stakeholders include regulators, certifying bodies, customers, communities, employees and suppliers in many different countries. Working with those different groups is a sizeable task for our different business units and facilities.

On the regulatory side, we maintain a continual open line of communication with all of our regulators to ensure that we can fulfill all applicable requirements. We regularly attend conferences and workshops sponsored by the Federal Environmental Protection Agency, and other regional, state and local regulators. We also work to a range of voluntary standards and proficiency schemes, such as the ISO 9001, 14001 and OHSAS 18001 standards. Our operations are continually audited by the independent accreditation and certification bodies behind such standards, and we cooperate willingly with their audit processes.

As a leader in water and waste water technology and analytical services, we have the power to influence customers and others in the industry and we take that responsibility seriously. We created the ELA Award to recognise select customers who have successfully met their environmental challenges whilst also realising an economic benefit in their operations. Recipients have included water treatment plants, waste water treatment plants, and municipal water districts.

Water Technologies and Services is an active member in the Water Partnership Council, a not-for-profit organisation that seeks to promote sustainable water quality in the United States. Members are leading providers of operational services for water and waste water treatment facilities in the United States. The Council seeks to partner

with those citizens, local governments, and organisations committed to strengthening water and waste water infrastructure by helping communities and companies operate their water and waste water treatment facilities in the safest, most environmentally sound and cost effective manner possible.

Our employees take an active part in national organisations, such as British Water in the UK, American Water Works Association, Water Environment Federation and the National League of Cities in the US. A number of our employees sit on industry working parties, most notably

assuming the Chair of the British Water's Working Group on Health and Safety, helping to share and promote best practice. We regard such participation as a valuable means of influencing policy and practices in our industry.

Our local communities matter greatly to us, and we aim to be a good neighbour and a good corporate citizen. Many of our employees help local charity organisations, giving both time and money. Water Technologies and Services, and our employees, support WaterAid. We also recognise the role we can play in helping the international response to natural disasters.





# Group progress



# Review of progress against Group targets to March 2007

Environment	
Section	Objective
Climate change	Increase our renewable electricity generation to help control net emissions
	Minimise net normalised greenhouse gas emissions (per £ of turnover)
Resource management	Increase diversion of waste handled for beneficial use
	Increased diversion of waste generated for beneficial use <sup>1</sup>
	Achieve Severn Trent Water's leakage target
Water quality	Achieve Severn Trent Water's water quality targets
Biodiversity	Increase percentage of Group sites covered by biodiversity SEMPS
	Improve management of biodiversity through the existing Group level Environmental Management System (EMS)
	Ensure Group businesses with a significant biodiversity impact have Biodiversity Action Plans in place

Target (to March 2007 unless stated)	Performance / comments
Generate 713GWh through sites under Group control (NB. DEFRA guidelines)	<p>This target could not be achieved following the demerger of Biffa. It represented a 17% increase over 2 years</p> <p>In 2006/07 STW generated approximately 154,000MWh of renewable electricity</p>
Aim to contain Group net normalised greenhouse gas emissions at the 2004/05 level	STW reduced its normalised net greenhouse gas emissions by 8% from 2005/06. This is primarily due to a reduction in purchased electricity
Biffa to achieve a 10% recycling/recovery rate	Not relevant following Biffa demerger
Increase the proportion of Severn Trent Water's waste generated (excluding sewage sludge) diverted for beneficial use by 5%	Achieved. STW diverted 39% of waste generated to beneficial use in 2006/07 compared with 31% in 2004/05
Achieve the leakage targets set by OFWAT over the next two years. This target was reset to 505MI/d falling to 500MI/d in 2008/09	Leakage reduced by 9MI/d during 2006/07 to 524MI/d. New targets have been set and we have agreed to an increased level of expenditure on leakage, repairs and mains replacement for the remainder of the AMP period
<p>Exceed the UK industry average for Mean Zonal Compliance as measured by DWI</p> <p>Exceed 99.5% compliance with STW effluent sanitary (look-up table) consent standards</p>	<p>Severn Trent Water performance: 99.98%</p> <p>Industry Average: 99.96%</p> <p>99.86%</p>
<p>95% of all Severn Trent Water surveyed sites to have management plans prepared</p> <p>Plans to be in place for 80% of Biffa's restored landfills in the UK</p>	<p>Severn Trent Water performance was 89% in 2005/06</p> <p>Not relevant following Biffa demerger</p>
Introduce biodiversity protocol into the Group level EMS	Completed, EMS is currently under review
Maintain Biodiversity Action Plans covering Severn Trent Water and Biffa's UK activities (currently >75% Group turnover)	BAPs for Severn Trent Water have been maintained

## Notes

1 'Beneficial use' defined as: for agricultural use; composting; reuse; recycling; and digestion or combustion (excluding incineration of unsorted wastes) with energy generation.

Notes

- 2 Numbers recalculated in accordance with new Group structure.
- 3 'Basic' corporate responsibility assessment is defined as: having environment or health and safety or human rights clauses included in contracts or pre-qualification questionnaires; or conducting an initial environment or health and safety or human rights assessment on suppliers.
- 4 'Detailed' corporate responsibility assessment is aimed at verifying the claims of significant suppliers regarding environment or health and safety or human rights: conducting or having access to audit reports of supplier sites; agreeing an improvement plan with a supplier; or ensuring that a supplier meets an external standard such as ISO14001, EMAS or SA8000.

Workplace	
Section	Objective
Health and safety	To reduce to minimal levels, then carry on reducing, the number of accidents occurring in the businesses
Code of conduct	To ensure that the updated Code of Conduct is communicated to all employees
Diversity	To encourage and improve the diversity of our workforce

Community	
Section	Objective
Community investment	Maintain leading community investment practice

Marketplace	
Section	Objective
Supply chain	Improve the % of suppliers (by spend) subject to a 'basic' <sup>3</sup> corporate responsibility assessment
	Improve the % of suppliers (by spend) subject to 'detailed' <sup>4</sup> corporate responsibility assessments
	Improve risk management for purchases and business operations in 'countries of concern' <sup>5</sup>

Target (to March 2007 unless stated)		Performance / comments
To reduce the number of RIDDOR* by 15% by March 2006 Target reset to reduce the number of RIDDOR* by 20% by March 2007 (*Incidents that are reportable under the Reportable Injuries, Diseases and Dangerous Occurrences Regulations 1995)	Achieved in March 2006 26% reduction achieved (based on new Group structure) in 2006/07	
Using the British Safety Council International Five Star Safety Audit achieve an average of 4.5 stars across the Group of companies	In 2005/06, across the 18 sites audited the Group achieved an average of 5 Stars <sup>2</sup> In 2006/07, across the 11 sites audited the Group achieved an average of 4.7 stars	
Updated code to be rolled out to all employees by March 2006	Achieved by March 2006. Code of Conduct communicated to all employees	
No target	21% of the 1,559 managers in our business are female and 6.6% are from ethnic minorities	

## Notes

5 'As defined by FTSE4Good (Afghanistan, Algeria, Angola, Brunei, Burma, Cameroon, PR China (excluding Hong Kong), Colombia, DR Congo (Zaire), Egypt, Iran, Iraq, Ivory Coast, Kazakhstan, North Korea, Lebanon, Libya, Oman, Pakistan, Rwanda, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates, Vietnam, Zimbabwe); plus other developing countries as appropriate where risks are identified.

Target (to March 2007 unless stated)		Performance / comments
Maintain community investment at 1% of pre-tax profits or above	In 2006/07 STW spent £846,887 on community investment. This is a reduction on previous years due to a revaluation of our community investment programme. We are now focusing on how we can work with schools and community partners to improve the positive impacts we have in the Midlands, both economically and environmentally	

Target (to March 2007 unless stated)		Performance / comments
65% of Group suppliers (by spend) subject to a basic corporate responsibility assessment	Achieved by STW in 2005/06, 89% of suppliers subject to basic assessment and 75% of suppliers subject to detailed assessment	
32% of Group suppliers (by spend) subject to a detailed corporate responsibility assessment	WTS achieved 56% of suppliers subject to basic assessment in 2006/07. New targets have been set for 2007/08	
Develop a risk management tool, based on SA8000, for use in assessing value chain risks in 'countries of concern' and use within two Group businesses	Tool completed and in use in Severn Trent Water. Inclusion in a second Group business has been delayed by restructure	



# Additional information



# Verification of Severn Trent Plc's Corporate Responsibility Report 2007

**acona** Understanding risk  
Improving performance

## Objectives

Acona Ltd was engaged by Severn Trent Plc to provide an independent review of the information contained within the 2007 Corporate Responsibility Report. The purpose was to verify that data contained within this report is materially accurate and that qualitative statements can be supported by evidence fairly representing activity across the business.

## Responsibility

The information and presentation of information within the report is the responsibility of Severn Trent. This statement is the responsibility of Acona and represents our independent opinion of the content of the report.

## Methodology and Scope

We reviewed mechanisms in place for collecting the 2006/07 data, traced reported figures back to source and examined the calculations behind the performance indicators. Figures from previous years were sampled, ensuring that reported trends were a fair representation of business performance. We also verified the accuracy of substantive statements within the text by obtaining and reviewing evidence to support any claims.

We met with individuals responsible for data provision and had extensive discussions with staff from across the business. We also audited databases and spreadsheets used in the collation of quantitative data. Information subject to third party verification via other means – data included within the annual report and accounts and other regulated information – was outside of our scope.

## Opinion

We welcome the move to reporting separate data for Severn Trent Water and Water Technologies and Services (WTS) - both the additional detail and the greater degree of transparency that this provides.

WTS stood up well to this scrutiny and we are confident in the figures presented within this report. However, in our opinion WTS would benefit from strengthening the systems used to collect data as figures from even the smallest operating company can now have a material impact on reported data.

Within Severn Trent Water we found that data comes from well-founded systems and underlying trends in reported figures are robust. For both parts of the business, any errors found during the verification process were rectified and appropriate adjustments made.

We found all of the material claims in the text of this report to be supported by evidence. The document itself has been subject to a staged process of review and approval by a range of staff in the businesses, including the appropriate senior management and the Corporate Responsibility Committee.

On the basis of our approach, the scope of work and the information provided by Severn Trent staff, it is our opinion that Severn Trent's 2007 Corporate Responsibility Report is materially accurate and a fair description of the company's performance.



**Dr Simon Hodgson**  
Managing Director, Acona Ltd  
14 September 2007

# Glossary

**AMP: Asset Management Plan**

This refers to the water and waste water expenditure programme in a regulatory review period. AMP4 is the current programme, for the years 2005 -2010.

**DWI: Drinking Water Inspectorate**

The Drinking Water Inspectorate regulates public water supplies in England and Wales. The DWI is responsible for assessing the quality of drinking water in England and Wales, taking enforcement action if standards are not being met, and appropriate action when water is unfit for human consumption.

**EA: Environment Agency**

The Environment Agency in relation to the water industry regulate and enforce water abstraction consents and quality standards in inland, estuarial and coastal waters. They also regulate waste disposal activities.

**CCW: Consumer Council for Water**

Consumer Council for Water is the industry watchdog, set up to represent customers of water and sewerage companies in England and Wales and provide a strong national voice for customers.

**CHP: Combined Heat and Power**

CHP is an efficient way to generate electricity and heat simultaneously. Fuels are burnt to release energy which is then harnessed to serve some useful purpose.

**OFWAT: Office of Water Services**

The Water Services Regulation Authority (Ofwat) is the economic regulator of the water and sewerage industry in England and Wales. Their role is to seek value for consumers.

**PRO9: Price Review 2009**

Water and sewerage price limits are set every five years by Ofwat, the financial regulator. The next price review will take place over the period 2007-09, with final price limits announced towards the end of 2009.

**Water UK**

Water UK is the industry association that represents all UK water and waste water service suppliers at national and European level.



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