Severn Trent Plc

Remuneration Policy

Remuneration Policy

Development of Policy report

The Committee sets the Remuneration Policy for Executive Directors and other senior executives, taking into account the Company's strategic objectives over both the short and the long term and the external market. The Committee addresses the need to balance risk and reward. The Committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long term and sustainable performance. The Committee believes that the incentive plans are appropriately managed and that the choice of performance measures and targets does not encourage undue risk taking by the Executives so that the long term performance of the business is not compromised by the pursuit of short term value. The plans incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall Company performance.

Linkage to all-employee pay

The Committee reviews changes in remuneration arrangements in the workforce generally as we recognise that all our people play an important role in the success of the Company. Severn Trent is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions to ensure that they are aligned on an ongoing basis. We believe that employees throughout the Company should be able to share in the success of the Company. The annual bonus scheme is cascaded throughout the organisation and all employees may participate in the HMRC tax-advantaged Save As You Earn ('SAYE') scheme.

As part of our commitment to fairness, we have a section in this report (see page 108) which sets out more information on our wider workforce pay conditions, our Gender Pay statistics and our diversity initiatives. Whilst we recognise there is always an opportunity to improve in relation to these issues, we believe that transparency is an important first step.

Shareholder views

The Committee engages proactively with the Company's major shareholders and is committed to maintaining an open dialogue. The Committee reviews any feedback received from shareholders as a result of the AGM process. Committee members are available to answer questions at the AGM and throughout the rest of the year. The Committee takes into consideration the latest views of investor bodies and their representatives, including the Investment Association, the Pension and Lifetime Savings Association and proxy advice agencies such as Institutional Shareholder Services.

Salary

Purpose and link to strategy: To recruit and reward Executive Directors of a suitable calibre for the role and duties required.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from 1 July. • Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size), Company performance, affordability, the wider economic environment and internal relativities. • In addition, when the Committee determines a benchmarking exercise is appropriate it will also consider salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking. • The Committee intends to review the comparators periodically and may add or remove companies from the Group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year.	• Details of the current salary levels for the Executive Directors are set out in the Annual Report on Remuneration on page 110. • Any increase to Executive Directors' salaries will generally be no higher than the average increase for the UK workforce. However, a higher increase may be proposed in the event of a role change or promotion, or in other exceptional circumstances. • The Company, where appropriate, may set salary levels below the market reference salary at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	No changes.

Benefits

Purpose and link to strategy: To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• A car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. • The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Therefore, additional benefits such as relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. • Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	• The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically.	No changes.

Pension

Purpose and link to strategy: To provide pension arrangements comparable with similar companies in the market to enable the recruitment and retention of Executive Directors.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• The Company maintains a defined contribution scheme and/or cash supplement in lieu of pension.	• For current Executive Directors, the company contribution to a pension scheme and/or cash allowance will be up to a maximum of 25% of salary. • For any new recruit, the contribution will be up to a maximum of 15% of salary.	• No change for current Executive Directors. New appointments will have a maximum pension contribution of 15% of salary (25% of salary currently). • This change aligns pension contribution quantum for new Executive Directors with pension contribution for the wider workforce.

Directors' remuneration report continued

Remuneration

Annual bonus

Purpose and link to strategy: To encourage improved financial and operational performance and align the interests of Executive Directors with shareholders through the partial deferral of payment in shares.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• Bonuses are based on financial, operational, customer and personal performance over a performance period of one financial year. No more than 20% of the bonus will relate to personal contribution for any Executive Director. • 50% of the bonus is paid in cash and 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting). There are no further performance targets on the deferred amount. • The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead. Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. • The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Therefore, performance targets and performance achieved will be published at the end of the performance period so shareholders can fully assess the basis for any pay-outs under the Plan. • Malus and clawback mechanisms also apply to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct. • Any exercise of discretion by the Committee will be communicated to shareholders in full in the following year's Directors' Remuneration Report. • Cessation of employment and change of control provisions apply as set out in the notes to the Policy table.	• The maximum annual bonus payment will equal 120% of salary for maximum performance. For threshold performance, 0% of maximum opportunity will be paid. On target performance: 50% of maximum opportunity will be paid. • The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy. • In exceptional circumstances the Committee retains the discretion to: a) Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and b) Make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance.	No changes.

LTIP

Purpose and link to strategy: To encourage strong and sustained improvements in financial performance, in line with the Company's strategy and long term shareholder returns.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• Awards are granted annually and will be subject to one or more performance conditions which will be assessed over three years. • A two year holding period will apply following the three year vesting period for LTIP Awards granted to the Executive Directors. • Currently, LTIP awards require the Company's RoRE to outperform the target set out in Ofwat's Final Determination. A sliding scale of targets is set. Different targets and/or performance measures may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time. • Using RoRE to assess long term performance reflects the focus of Ofwat in AMP6 and is consistent with our aim to deliver efficient returns to shareholders. RoRE measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt. The Committee believes that the use of RoRE provides a strong alignment between the long term financial and operational performance of the Group and the reward delivered to management. • No material change will be made to the type of performance conditions without prior shareholder consultation. • The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting. The award may be structured as a conditional share award (awards may also be settled in cash in certain circumstances). • Malus and clawback mechanisms apply to allow the recoupment of incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross negligence, fraud or gross misconduct. • Cessation of employment and change of control provisions apply as set out in the notes to the Policy table.	• Maximum limit is 200% of salary. Up to 25% of an award may vest for threshold performance. • The Committee will review the targets before each grant to ensure they remain appropriate. The Committee may change the balance of the measure, or use different measures for subsequent awards, as appropriate. • The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy. • In exceptional circumstances the Committee retains the discretion to: a) Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and b) Make downward or upward adjustments to the amount earned resulting from the application of the performance measures, if the Committee believes that the LTIP outcomes are not a fair and accurate reflection of business performance. In addition, for any awards to vest, the Committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the Group. If the Committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%).	Increase in maximum LTIP opportunity: • CEO – 200% of salary (currently 150%) • CFO – 150% of salary (currently 100%) The Committee will ensure that the increased opportunity is reflected in the level of challenge in the LTIP targets and has introduced a stretch target based on UQ performance. The Committee's rationale for increasing the maximum LTIP opportunity is as follows: • The Executive Directors were inexperienced at the time the current Policy was introduced and incentive levels reflected this. The Committee believes that the Executive Directors are now fully embedded in the business and over the past three years they have performed successfully in their roles, demonstrating an exceptional level of commitment in executing the business strategy for the benefit of our shareholders, customers and the wider community. The Committee wants to provide an appropriate level of incentive opportunity to deliver a competitive total remuneration package that retains and motivates a truly exceptional management team for the rest of this AMP and into the next. • The Committee is keen to ensure that there is an appropriate level of incentive opportunity in the remuneration to reflect the greater focus of Ofwat on the relative performance of water companies and the tougher regulatory context during AMP7. • Introduction of a two year holding period which will continue to operate post cessation of employment to enhance long term alignment between shareholders, customers and executive's interests.

All-employee share plans

Purpose and link to strategy: To encourage widespread employee share ownership to enable employees to share in the success of the business, and to align their interests with those of shareholders.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• The Executive Directors are able to participate in HMRC tax advantaged all-employee share plans on the same terms as other eligible employees.	• The maximum limits under the plans are as set by HMRC.	No changes.

Directors' remuneration report continued

Remuneration

Shareholding requirements

Purpose and link to strategy: To encourage strong shareholder alignment.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 AGM and rationale
• The Company operates shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company. • The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. • Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirements have been met. • The Committee retains the discretion to increase the shareholdings requirements as appropriate.	n/a	Increase in minimum shareholding requirement: • CEO – 300% of salary (currently 200%) • CFO – 200% of salary (currently 150%) The Committee considers that higher shareholder requirements will ensure greater long term alignment between the shareholders and Executive Directors in the light of the higher quantum of LTIP awards.

External directorships

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

Approach to recruitment and promotion

The Company's approach is for the remuneration of any new Director to be assessed in line with the principles applied to the Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short term or long term incentive payments as well as giving consideration to the appropriateness of any performance measures associated with an award.

Item	Policy
Salary, Benefits and Pension	• These will be set in line with the Policy for existing Executive Directors.
Annual Bonus	• Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 120% of salary.
LTIP	• Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 200% of salary.
Maximum Variable Remuneration	• The maximum variable remuneration which may be granted is 320% of salary.
'Buyout' of incentives forfeited on cessation of employment	• Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: the proportion of the performance period completed on the date of the Executive Director's cessation of employment; the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and any other terms and condition having a material effect on their value ('lapsed value'). • The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation Policies	• In instances where the new Executive Director is required to relocate or spend significant time away from his/her normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance, disturbance allowances and schooling.
Internal promotions	• In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted. These would be disclosed to shareholders in the remuneration report for the relevant financial year.

The Company's Policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors, which is set out on page 127.

Service contracts for Executive Directors

Name	Date of service contract	Nature of contract	Notice period	Termination payments
Liv Garfield	10.04.14	Rolling	12 months	Payments for loss of office comprise a maximum of 12 months' salary and benefits only
James Bowling	01.04.15			

Copies of the service contracts of the Executive Directors and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

Policy on Payments for Loss of Office

The remuneration related elements of the current contracts for Executive Directors are shown in the table below, together with details of the treatment on cessation of employment. No changes from the 2015 Policy are proposed.

Element	Treatment on Cessation of Employment	
General	The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.	
Salary, Benefits and Pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.	
Annual Bonus	Good Leaver Reason[i]	Other Reason
Cash Awards	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year.	No bonus will be payable for year of cessation.
	Discretion	
	The Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether to pro-rate the bonus to time. The Remuneration Committee's normal policy is to pro-rate for time. It is the Committee's intention only to use discretion not to pro-rate in circumstances where there is an appropriate business case, based on the circumstances of the Executive Director's departure. Use of discretion will be explained in full to shareholders; and • The bonus would be paid at the same time as for the other Executive Directors and, if the Executive has left employment by that date, it may be paid solely in cash.	
Annual Bonus	Good Leaver Reason[i]	Other Reason
Deferred Share Awards	All subsisting deferred share awards will vest on the dealing day after such termination.	All subsisting deferred share awards will vest on the dealing day after such termination with the exception of summary dismissal of the participant, when any deferred share award held by the individual shall lapse immediately on such termination.
	Discretion	
	The Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To vest deferred shares at the end of the original deferral period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation. The Committee's normal policy is not to pro-rate awards for time. The Committee will determine whether or not to pro-rate where there is an appropriate business case, based on the circumstances of the Executive Director's departure. Use of discretion will be explained in full to shareholders.	

(i) Good leavers are defined under the Annual Bonus Scheme Rules and the LTIP Rules as an "individual whose employment is terminated by the Company as a result of injury, ill-health or disability, redundancy or retirement (in each case, as determined by the Committee) or whose employment terminates automatically by reason of their death". As stated above, the Committee also retains an overall discretion to determine that an individual is a good leaver.

Directors' remuneration report continued

Remuneration

Element	Treatment on Cessation of Employment	
LTIP	Good Leaver Reason[i]	Other Reason
	Pro-rated to time and performance in respect of each subsisting LTIP award.	Lapse of any unvested LTIP awards.
	Discretion	
	The Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine to pay cash in lieu of shares; • To measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; • To determine whether to vest shares at the end of the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to pro-rate the maximum number of shares to the time from the start of the performance period to the date of cessation. The Committee's normal policy is to pro-rate awards for time. In circumstances where there is an appropriate business case based on the circumstances of the Executive Director's departure, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders.	
Holding periods	Where cessation of employment occurs during any holding period the LTIP award will continue as normal. However, the Committee retains discretion to allow the award to vest when cessation of employment occurs in certain circumstances, such as: • Where the reason for departure is death, disability or ill-health; • Where there are extenuating factors which impact at the time of departure (such as unforeseen changes to personal circumstances); or • Any other reason, permitted by Committee in its absolute discretion in any particular case, except where termination is for dishonesty, fraud, misconduct or other circumstances justifying summary dismissal (in which cases it is very likely any outstanding LTIP awards would lapse on cessation regardless).	
Other	There are no other historical contractual provisions other than those set out above.	

(i) Good leavers are defined under the Annual Bonus Scheme Rules and the LTIP Rules as an "individual whose employment is terminated by the Company as a result of injury, ill-health or disability, redundancy or retirement (in each case, as determined by the Committee) or whose employment terminates automatically by reason of their death". As stated above, the Committee also retains an overall discretion to determine that an individual is a good leaver.

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

Change of control

The change of control policy for the new Remuneration Policy is set out below. No changes to 2015 Policy are proposed.

Element	Purpose and link to strategy	Operation
Annual Bonus Cash Awards the Year of the Change of Control	Pro-rated to time and performance to the date of the change of control (formula included in rules).	The Committee has discretion regarding whether to pro-rate the bonus to time. The Committee's normal policy is that it will pro-rate the bonus for time. In circumstances where there is an appropriate business case, the Committee may use discretion and not pro-rate. Use of discretion will be explained to shareholders.
Annual Bonus Deferred Share Awards	Subsisting deferred share awards will vest on a change of control.	The Committee has discretion regarding whether to pro-rate the awards to time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the change of control.
LTIP	The number of shares subject to subsisting LTIP awards will vest on a change of control, pro-rated to time and performance. The holding period will not apply on change of control.	The Committee has discretion regarding whether to pro-rate the LTIP awards to time. The Committee's normal policy is that it will pro-rate the LTIP awards for time. In circumstances where there is an appropriate business case, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders. Shares subject to a holding period will vest on change of control.

Chairman and Non-Executive Directors

The Remuneration Policy for Non-Executive Directors, other than the Chairman, is determined by the Chairman and Executive Directors. The fee for the Chairman is determined by the Remuneration Committee (without the Chairman present). No changes to the 2015 Policy are proposed.

Element	Purpose and link to strategy	Operation	Maximum Opportunity
Fee	To recruit and retain Non-Executive Directors of a suitable calibre for the role and duties required.	Board fee with additional fees paid for the Senior Independent Director and chairmanship of the Board Committees. The Chairman receives a total fee in respect of his Board duties. Fees are paid monthly. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon. The fees for the Non-Executive Directors and Chairman are set taking into account the time commitment of the role and market rates in comparable companies. The fees are normally reviewed annually (but not necessarily increased) effective from 1 April. The Company retains the flexibility to pay fees for the membership of committees. In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside normal duties. Non-Executive Directors do not participate in any variable remuneration or receive any other benefits.	Details of the current fee levels for the Directors are set out in the Annual Report on Remuneration on page 110. The fee levels are set subject to the maximum limits set out in the Articles of Association.

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

Directors' remuneration report continued

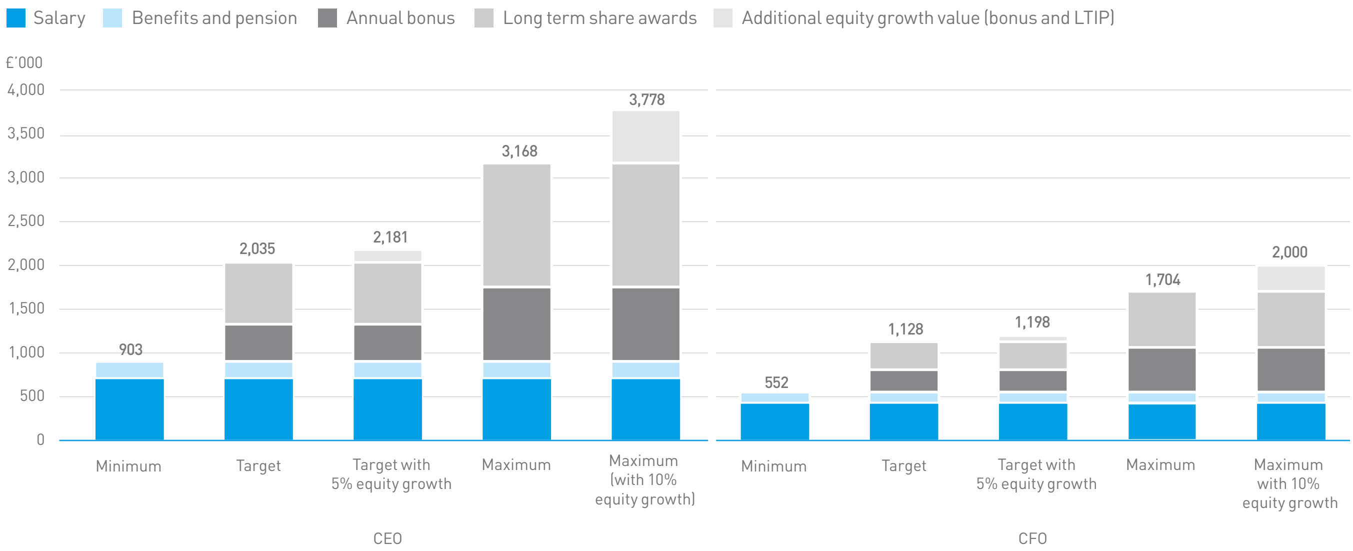
Remuneration

Application of the Remuneration Policy

The charts below provide an illustration of what could be received by each of the Executive Directors under the new Remuneration Policy for 2018/19. These charts are illustrative as the actual value will depend on business performance in the year 2018/19 (for the annual bonus) and in the three year period to 2020/2021 (for the LTIP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Plan and LTIP awards in 2021.

The on-target and maximum scenarios include an additional bar which shows the impact of share price growth over the relevant performance period to show how the package value is aligned to shareholders. We have used share price growth of 5% p.a. for on target performance and 10% p.a. for maximum performance. It is a key part of our Remuneration Policy to align interests of the Executive Directors and shareholders through the provision of a substantial element of remuneration in shares. Increases in the value of remuneration through an increase in share price are evidence of the direct link between the interests of the two.

Remuneration scenarios



Note: Minimum pay is fixed pay only (i.e. salary + benefits + pension). On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for both the CEO and the CFO) and 50% vesting of the LTIP awards (with grant levels of 200% of salary for the CEO and 150% of salary for the CFO). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards. All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2018. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2018. The Executive Directors are also permitted to participate in HMRC tax advantaged all-employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Philip Remnant
Chairman of the Remuneration Committee
22 May 2018

Design and production by **Radley Yeldar** www.ry.com

This report has been printed on Galerie Satin, a paper which is certified by the Forest Stewardship Council®. The paper is made at a mill with ISO 14001 Environmental Management System accreditation.

Printed by CPI Colour using vegetable oil based inks, CPI is a CarbonNeutral® printer, certified to ISO 14001 Environmental Management System and registered to EMAS, the Eco Management and Audit Scheme.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C016486

Severn Trent Plc
Registered office:
Severn Trent Centre
2 St John's Street
Coventry CV1 2LZ

Tel: 02477 715000
www.severntrent.com

Registered in England and Wales
Registration number: 2366619