

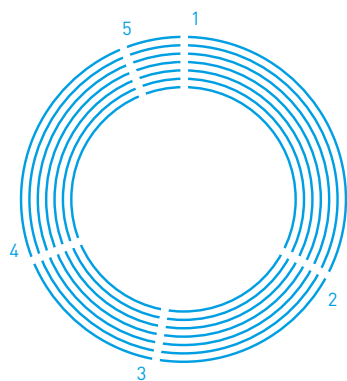
Governance

Chairman's introduction to governance



Andrew Duff
Chairman

Board Focus 2018/19



1. Finance & Risk (Specific Finance items and CFO's report)	33%
2. Strategy (Items for discussion/approval)	20%
3. Governance (Governance items, Company Secretary's report, and Committee reports)	16%
4. Performance Review (Standing items – excluding CFO's report)	25%
5. Other (Procedural Business)	6%
TOTAL (Mins)	100%

Documents available at severntrent.com

Severn Trent Plc Articles of Association
Matters Reserved to the Board
Non-Executive Director Letters of Appointment
Terms of Reference for Board Committees
Board Diversity Policy Statement
Tax Strategy and Tax Report
Group Conflicts of Interest Policy
Non-Audit Services Policy

Dear Shareholder

I am pleased to introduce our Governance report for 2019, on behalf of your Board and in accordance with the 2016 UK Corporate Governance Code (the 'Code'). This report outlines how we have ensured that best practice and effective corporate governance procedures are in place to help support the creation of long-term value for the mutual benefit of all of our stakeholders.

As highlighted in my Chairman's statement on page 16, this has been an exceptionally busy period for the Board, and specifically the Audit Committee, with a significant amount of time being spent finalising our PR19 business plans. I would like to convey the Board's thanks to John Coghlan for his continued dedication and support to the Board as Chairman of the Audit Committee during this time.

The year saw continued evolution of our corporate governance arrangements, with time being spent refining our processes and procedures in readiness for implementation of the new 2018 Code, which will apply to us next year.

To ensure the long-term success of your business, Directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders, taking account of and responding to their views. These relationships will only be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, we want to promote a culture of integrity and openness, which values diversity and is responsive to the views of shareholders and wider stakeholders.

The Board has also embraced Ofwat's principles for Board leadership, transparency and governance with its emphasis on the importance of strong board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service.

Company purpose and culture

The Board recognises the importance of its role in setting the tone for Severn Trent's culture and making sure that it is embedded throughout the Group. Our Code of Conduct, 'Doing the Right Thing', sets out clearly defined values and standards of behaviour that we expect from everyone who works for, and with, Severn Trent.

More information about our company or the Company's purpose and culture can be found on page 75.

As discussed on page 82, we are committed to diversity and inclusion in all its forms, and during the year we were pleased to see the Company's progress continue to receive external recognition. Severn Trent was acknowledged as a role model by the Women and Equalities Select Committee on gender inclusion and recognised for the female representation within our Executive Committee and direct reports team, being placed in the top four among FTSE100 companies by the 2018 Hampton-Alexander Review.

Workforce engagement

Engaged people are the key to the success of Severn Trent, which is why one of our five key strategic goals is to create an awesome place to work. Your Board recognises the importance of understanding the views of the workforce and considers that our Employee Forum is an excellent means of making sure that views from across the organisation are considered in Board discussions and decision making. Additional details on our workforce engagement activities can be found on page 108.

Engagement with our other stakeholders

Severn Trent's success also depends on your Board taking decisions that deliver mutual benefit to our customers, communities and shareholders.

While the Board meets with stakeholders throughout the year, the AGM is a key event which gives us the opportunity to engage with you in person and answer your questions on the performance of your business.

Further details on how we have engaged with all of our stakeholders over the year can be found on page 73.

Board effectiveness

This year the Board undertook an internal evaluation. The results of this review can be found on page 77. I am pleased to report that your Board, its Committees and individual Directors continue to operate effectively.

Looking ahead

Maintaining the highest standards of corporate governance across the Group is integral to the delivery of our strategy, and we remain focused on creating sustainable long-term value for the mutual benefit of our customers, communities and shareholders.

In July 2018 the FRC published the 2018 Code, which will apply to our financial year ending 31 March 2020. As you will see within this report, the Board has carefully considered the 2018 Code and implemented many of the new principles earlier than required. This will allow new processes and procedures to fully embed ahead of our 2020 Annual Report and Accounts.

Board succession

The Board and the Nominations Committee have fully considered Board succession during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide constructive challenge and promote diversity. Additional detail can be found within the Nominations Committee report on page 84.

As mentioned in my Chairman's statement on page 16, I believe this is the right moment to step down and allow a new Chair to lead the Board into the next phase for Severn Trent. The Nominations Committee, led by Senior Independent Director Kevin Beeston, is overseeing the process ahead of making a formal recommendation to the Board. The Nominations Committee is in the initial stages of succession planning and further detail can be found on page 84. Kevin Beeston chaired the Committee when it met to discuss this matter.

I hope you find this report useful and I would like to encourage our shareholders to attend our AGM. We welcome the opportunity to meet with you and I hope you will give us the pleasure of doing so this year.



Andrew Duff
 Chairman
 20 May 2019

UK Corporate Governance Code Compliance Statement

Compliance with the 2016 UK Corporate Governance Code (the 'Code')

In respect of the year ended 31 March 2019, Severn Trent Plc was subject to the 2016 Code (available from www.frc.org.uk). The Board is pleased to confirm that Severn Trent Plc applied the principles and complied with all of the provisions of the 2016 Code throughout the year.

Further information on compliance with the 2016 Code can be found as follows:

Leadership	66–71
The role of the Board	
Division of responsibilities	
The Chairman	
Non-Executive Directors	
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Commitment	
Development	
Information and support	
Evaluation	
Re-election	
Accountability	85–92
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Procedure	
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Constructive use of general meetings	

Disclosure Guidance and Transparency Rules

We comply with the corporate governance statement requirements pursuant to the FCA's Disclosure Guidance and Transparency Rules by virtue of the information included in this Governance section of the Annual Report together with information contained in the Information for shareholders section on page 199.

Governance of subsidiaries

The membership of the Board of the listed Company, Severn Trent Plc, is the same as that of Severn Trent Water Limited. This structure was implemented in 2007 to make sure that the highest standards of corporate governance are applied at the regulated subsidiary level and to foster greater visibility and supervision by the Severn Trent Plc Board.

Severn Trent Water Limited complies with the Code, and Hafren Dyfrdwy Cyfyngedig complies with the Code where it is practical to do so.

Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig comply with Ofwat's principles of leadership, transparency and governance to ensure the highest standards of governance.

A more detailed explanation of the Governance Framework and company structures which apply to each of our regulated subsidiaries can be found in their Annual Reports, available on their respective websites.

Abbreviated terms used throughout this governance report

Hafren Dyfrdwy	Hafren Dyfrdwy Cyfyngedig
Severn Trent Water	Severn Trent Water Limited

Board of Directors

Leadership & Effectiveness



1. Andrew Duff BSc, FEI

Appointed: Non-Executive Director on 10 May 2010, Chairman on 20 July 2010

Membership: (N)(C)(R)

Andrew's extensive experience of international and regulated business, strategic management and customer service in high profile, dynamic environments has equipped him well for the role of Chairman of the Severn Trent Group. Andrew spent 16 years at BP Plc in marketing, strategy and oil trading. He joined National Power in 1998 and the Board of Innogy Plc upon its demerger from National Power in 2000. He played a leading role in its restructuring and transformation through the opening of competition in energy markets culminating in its subsequent sale to RWE in 2003. He became Chief Executive Officer of the successor Company and a member of the RWE Group Executive Committee until his retirement in 2010. He was a Non-Executive Director of Wolseley Plc from July 2004 until November 2013. Andrew was appointed Non-Executive Deputy Chairman of Elementis Plc on 1 April 2014 and became Non-Executive Chairman of Elementis Plc on 24 April 2014. He is the Senior Trustee of Macmillan Cancer Support.

Other roles

- Member of the CBI President's Committee
- Fellow of the Energy Institute
- Senior Trustee of Macmillan Cancer Support

2. Olivia Garfield BA (Hons)

Appointed: Chief Executive on 11 April 2014

Membership: (C)(E)(D)

Olivia (Liv) brings to the Board a wealth of experience managing customer service delivery and complex infrastructure and organisations in a regulated environment. Before joining Severn Trent, Liv was Chief Executive Officer of Openreach, part of the BT Group, where she spearheaded and oversaw the commercial roll-out of fibre broadband to two-thirds of the country. She joined BT in 2002 and held the pivotal roles of Group Director of Strategy and Regulation, Managing Director Commercial and Brands, Global Services and UK Customer Services Director. From 1998 to 2002, Liv worked for Accenture as a consultant in the Communications and High Tech Market Unit, designing and implementing business change solutions across a number of industry sectors.

Other roles

- Member of The 30% Club
- Director of Water UK
- Member of Take Over Panel – Hearings Committee
- Director of Water Plus Limited – joint venture with United Utilities

3. James Bowling BA (Hons) Econ, ACA

Appointed: Chief Financial Officer on 1 April 2015

Membership: (D)(T)(E)

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

4. John Coghlan BCom, ACA

Appointed: Independent Non-Executive Director on 23 May 2014

Membership: (A)(T)(N)

John has a wealth of experience in financial and general management. He spent 11 years at Exel PLC as Chief Financial Officer and ultimately as Deputy Chief Executive Officer until retiring in 2006. Since then, he has been a Director of publicly-quoted and private companies across several sectors. Currently, John is also Non-Executive Director and Audit Committee Chairman of Associated British Ports Holdings Limited and Clarion Housing Group, and is Non-Executive Director of O.C.S. Group Limited.

John has recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales.

Other roles

- Chairman of Freight Transport Association Ireland Limited
- Chairman of Hafren Dyfrdwy Cyfyngedig, the Group's licensed entity in Wales

Committee membership as at 31 March 2019

(A) Audit Committee	(C) Corporate Responsibility Committee
(N) Nominations Committee	(E) Executive Committee
(R) Remuneration Committee	(D) Disclosure Committee
(T) Treasury Committee	● denotes Committee Chair

5. Dame Angela Strank DBE, FRS, FEng, CEng, FICChemE, DSc, PhD

Appointed: Independent Non-Executive Director on 24 January 2014

Membership: (C) (N) (R)

Angela brings a wealth of strategic, technical and commercial experience to the Board. Angela is Head of Downstream Technology and Group Chief Scientist at BP Plc. She is a member of the Downstream Executive Leadership Team. Angela is responsible for enabling delivery of the Downstream strategic agenda through the development of differentiated technology advantage across the refining, fuels, lubricants and petrochemicals businesses. Since joining BP in 1982, she has held many senior leadership roles around the world in business development, commercial and technology, including in 2012, as Vice President and Head of the Chief Executive's Office. In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology recognising pioneering UK women in business and industry. Her track record and experience in strategy, operations, technology and transformational change are a complementary addition to the Board's skill set. In June 2017, Angela was recognised in the Queen's Birthday Honours List with the title Dame Commander of the Most Excellent Order of the British Empire ('DBE') for services to the Oil and Gas Industry and encouraging women into STEM careers.

Other roles

- Board Governor, The University of Manchester
- Member of the Royal Society's Science, Industry & Translation Committee

6. The Hon. Philip Remnant CBE FCA MA

Appointed: Independent Non-Executive Director on 31 March 2014

Membership: (R) (A) (T) (N)

Philip is a senior investment banker and brings substantial advisory and regulatory experience to the Board. A chartered accountant, he is Senior Independent Director of Prudential Plc, Deputy Chairman of the Takeover Panel and Chairman of City of London Investment Trust Plc. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010. He served on the Board of Northern Rock Plc from 2008 to 2010 and from 2007 to 2012 was Chairman of the Shareholder Executive.

Philip has recent and relevant financial experience as a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles

- Director and Trustee of St Paul's Cathedral Foundation

7. Dominique Reiniche MBA

Appointed: Independent Non-Executive Director on 20 July 2016

Membership: (C) (N)

Dominique has a wealth of operational experience in Europe and has international consumer marketing and innovation experience. Dominique is Independent Chair of CHR Hansen Holdings A/S and also a Non-Executive Director of Mondi Plc and PayPal (Europe). Dominique started her career

with Procter & Gamble AG before moving to Kraft Jacobs Suchard AG as Director of Marketing and Strategy where she was also a member of the Executive Committee. Dominique previously held a number of senior roles at Coca-Cola Enterprises and at Coca-Cola Company, including President – Western Europe, President – Europe and Chairman – Europe. Dominique was a Non-Executive Director of Peugeot-Citroen SA until December 2015 and was a Non-Executive Director of AXA SA until April 2017.

8. Kevin Beeston FCMA

Appointed: Independent Non-Executive Director on 1 June 2016, Senior Independent Non-Executive Director on 20 July 2016

Membership: (A) (R) (N)

Kevin has a wealth of commercial, financial and high level management experience. Kevin is Chairman of Taylor Wimpey Plc and Elysium Healthcare and also a Non-Executive Director of the Football Association Premier League Limited and Marston Corporate Limited. Previously, Kevin spent 25 years at Serco Plc, where he held the roles of Finance Director, Chief Executive and finally Chairman until 2010. Kevin was previously Chairman of Domestic & General Limited, Partnerships in Care Limited and Equiniti Group Plc, and was a Non-Executive Director of IMI Plc.

Kevin has recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants and was previously Finance Director at Serco Plc.

Board and Committee meeting attendance 2018/19

The following table shows the attendance of Directors at scheduled Board and Committee meetings during the year:

Director	Position	Board	Audit Committee	Nominations Committee	Remuneration Committee	Treasury Committee	CR Committee
Attended/scheduled							
Andrew Duff	Chairman	7/7	–	4/4	4/4	–	4/4
Kevin Beeston	Senior Independent Director	7/7	4/4	4/4	4/4	–	–
James Bowling	Chief Financial Officer	7/7	–	–	–	5/5	–
John Coghlan	Non-Executive Director	7/7	4/4	4/4	–	5/5	–
Liv Garfield	Chief Executive	7/7	–	–	–	–	4/4
Dominique Reiniche	Non-Executive Director	7/7	–	4/4	–	–	4/4
Philip Remnant	Non-Executive Director	7/7	4/4	4/4	4/4	5/5	–
Dame Angela Strank	Non-Executive Director	7/7	–	4/4	4/4	–	4/4

All meetings are structured to allow open discussion. At each Board meeting the Directors are made aware of the key discussions and decisions of the five Board Committees by the respective Committee Chairmen. Minutes of Board and Committee meetings are circulated to all Directors after each meeting. Details of the Board's activities during the year are set out on page 72.

In the event a Director is unable to attend a meeting, they still receive related papers in advance of the scheduled meeting and any input they have provided is fully considered.

Executive Committee

Leadership & Effectiveness

1.



1. Olivia Garfield BA (Hons)
Appointed: Chief Executive on 11 April 2014
Please see full biography on page 66.

2.



2. James Bowling BA (Hons)
Econ, ACA
Appointed: Chief Financial Officer on 1 April 2015
Please see full biography on page 66.

3.



3. Dr. Tony Ballance BSc (Hons), MA (Econ), PhD
Director of Strategy and Regulation
Membership: (E) (D)

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

Other roles

- Member of Water UK Council
- Senior Independent Director of the National Forest Company
- Chairman of the Corporate Advisory Panel of the Regulatory Policy Institute

4.



4. Sarah Bentley BSc (Hons), Management Science with Computing
Chief Customer Officer
Membership: (E)

Sarah is responsible for Customer Retail and Network operations, Group Technology and Transformation. Previously Sarah worked for Accenture as Managing Director of their digital business in UK and Ireland, focused on digital marketing, mobility and analytics for customers, employees and the enterprise. Prior to Accenture, Sarah was CEO of Datapoint, an Alchemy backed company delivering CRM services, and Senior Vice President of eLoyalty, a global CRM and marketing consultancy. She was SVP of the European Business, led the sales and operations activity in North America and ran eLoyalty Ventures L.L.C. working in Silicon Valley, Austin and New York.

Other roles

- Non-Executive Director of Lloyds Bank Plc and Bank of Scotland Plc
- Director and Secretary of Twizzletwig Limited

5.



5. Martin Kane BSc, CEng, CEnv, MICE, MIWEM, FIW
Special Advisor
Membership: (E)

Martin has held various senior roles giving him an extensive and unique understanding of the design, construction and operation of water and waste water treatment plants, water distribution networks and sewerage systems. Martin was Director of Customer Relations, Severn Trent Plc, from May 2006 until January 2012, and Chief Executive Officer of Severn Trent Services until July 2014.

Other roles

- Chairman of the Board of Trustees of International Society for Trenchless Technology
- Chairman of Panton McLeod Limited
- Chairman of the Coventry and Warwickshire Growth Hub

6. Bronagh Kennedy BA (Hons)
Group General Counsel and Company Secretary
Membership: (E) (D)

Bronagh joined Severn Trent in 2011 as Group Company Secretary and General Counsel. She is also responsible for compliance and assurance and the Group's Corporate Social Responsibility programme. During her career she has worked across several sectors including finance, leisure and hospitality and she has a broad range of corporate experience, having led FTSE100 company HR, communications, insurance, risk and health, safety and wellbeing functions. She has also been a Non-Executive Director on industry bodies such as the British Hospitality Association. Prior to moving in-house she was a senior associate solicitor in Allen & Overy's banking and insolvency group.

Other roles

- Chairman, HR and Remuneration Committee and Non-Executive Director of British Canoeing
- Member of the GC100 Group

Committee membership as at 31 March 2019

- | | |
|----------------------------|--|
| (A) Audit Committee | (C) Corporate Responsibility Committee |
| (N) Nominations Committee | (E) Executive Committee |
| (R) Remuneration Committee | (D) Disclosure Committee |
| (T) Treasury Committee | ● denotes Committee Chair |

7.



7. Helen Miles CIMA
Capital Delivery and Commercial Director

Membership: (E)

Helen joined Severn Trent in November 2014 as the Chief Commercial Officer. Helen brings with her a breadth of commercial experience having worked within regulated businesses and sectors across Telecoms, Leisure and Banking. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business. Helen is Non-Executive Director of the Royal Navy and an experienced finance professional. Helen was previously Chief Financial Officer for Openreach, part of BT Group Plc, and has extensive experience of delivering major business transformation across the Group. Prior to BT Group, Helen worked in a variety of sectors and organisations such as Bass Taverns, Barclays Bank, Compass Group and HSBC.

Other roles

- Non-Executive Director of the Royal Navy

8.



8. Andy Smith BTech (Hons)
Managing Director, Business Services

Membership: (E)

Andy was appointed to the role of MD, Business Services on its creation in 2014 having previously been responsible for the drinking water business within Severn Trent Water. Andy brings to the role a broad range of executive and operational expertise gained from diverse sectors. Currently, Andy is also a Non-Executive Director of Diploma Plc. He has worked in the UK and overseas with global businesses such as BP, Mars and Pepsi in both engineering, HR and operational management roles. Previously, he has served as a member of the Board at Severn Trent Plc and at Boots Group Plc.

Other roles

- Non-Executive Director, Chairman of the Remuneration Committee and member of the Audit and Nominations Committees of Diploma Plc
- Director of Water Plus Limited – joint venture with United Utilities

9. Neil Morrison BSc (Hons), FCIPD

Director of Human Resources

Membership: (E)

Neil joined Severn Trent in August 2017 as Director of Human Resources. Neil started a career in HR management in 1996 and for the subsequent 12 years he worked in a variety of HR roles within FTSE100 companies, including Rentokil Initial and GUS (which latterly became Home Retail Group). Before joining Severn Trent, Neil worked at Penguin Random House taking responsibility for strategic people issues across their publishing and distribution offices in the UK, APAC, India and South Africa. He was one of the main leads in helping to steer and finalise the global merger between Random House and Penguin.

9.



10. Dr. James Jesic BEng (Hons), PhD, MChemE, CEng
Managing Director of Production

Membership: (E)

James is a chartered chemical engineer who joined Severn Trent on its graduate programme in 2003 and was appointed as Managing Director of Production in 2017. During his time with the business, James has had full accountability for the management of the operational multi-billion pound asset base, being responsible for producing and supplying drinking water and collecting and treating waste water for millions of customers across the Midlands. As part of that role, he has delivered industry-leading customer service performance, as well as driving sector-leading environmental results. He has a PhD in Chemical Engineering from the University of Birmingham and attended Harvard Business School.

11. Dr. Bob Stear MEng (Hons), PhD, MCIWEM, CWEM, FIWater
Chief Engineer

Membership: (E)

Bob was appointed Chief Engineer in November 2018 and is a chartered Environmental Engineer who joined Severn Trent in 1997 as a process technician. He has worked his way up through the Company via operational, engineering, strategic and innovation roles. In particular Bob played a key role in the transformation of the waste water business and successfully governed a £1.2bn capital programme. In 2013, Bob worked alongside the Government on the implementation of the 2014 Water Act. He has a PhD in waste water treatment.

Governance

Board composition and roles

As at 31 March 2019, our Board comprised the Chairman, five Non-Executive Directors and two Executive Directors.

The details of their career background, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 66 to 67. Further detail on the role of the Chair and members of the Board can be found below.

The Chairman, Senior Independent Director and Non-Executive Directors are appointed for a three-year term,

subject to annual re-election by shareholders following the annual Board effectiveness evaluation process. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. The current Letters of Appointment are available on the Severn Trent Plc website.

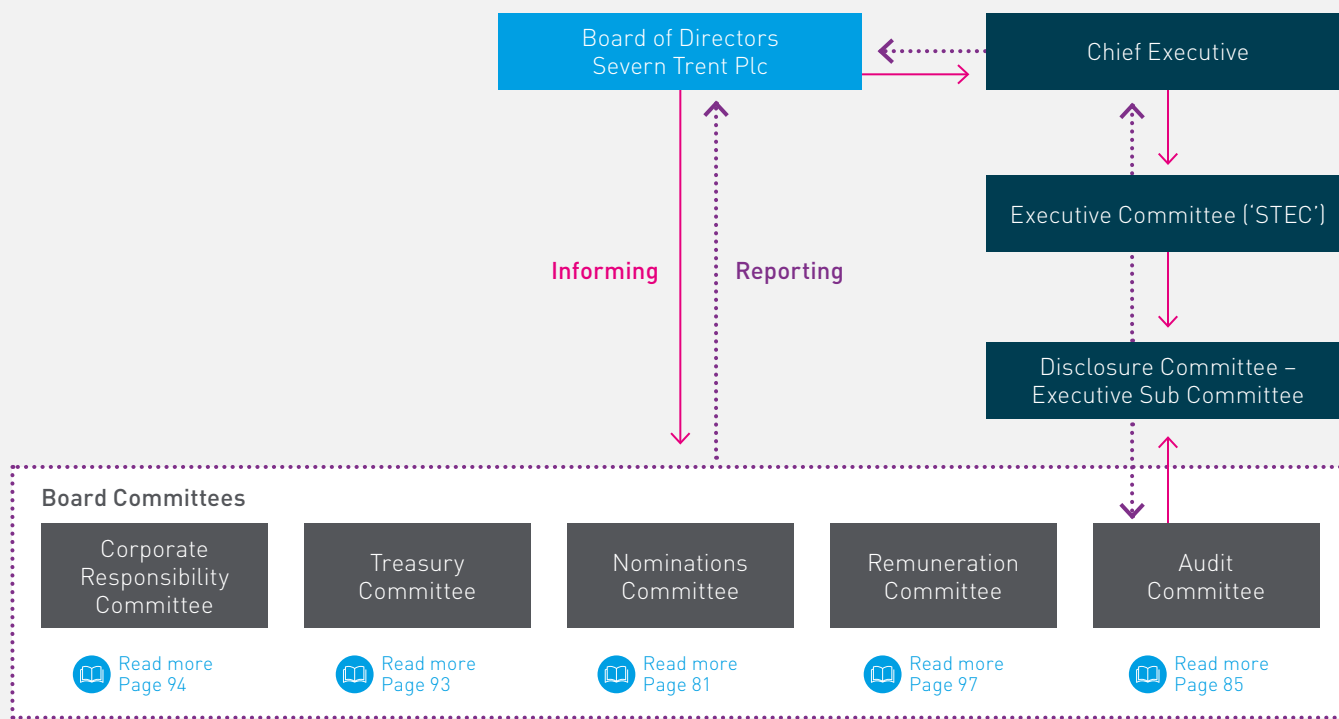
The composition and effectiveness of the Board is subject to regular review by the Nominations Committee which, in particular, considers the balance of skills, experience and independence of the Board, in accordance with the Board

Diversity Policy. The Board Diversity Policy Statement is available on the Severn Trent Plc website.

Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on Appointments are a matter reserved to the Board). Further information on the work of the Nominations Committee can be found on pages 81 to 84.

Director	Responsibility
Chairman Andrew Duff	<ul style="list-style-type: none"> Leads our unified Board and is responsible for its effectiveness. Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with CEO, CFO and Company Secretary. Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board effectiveness evaluation process. Facilitates contribution from all Directors and ensures that effective relationships exist between them. Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision-making.
CEO Liv Garfield	<ul style="list-style-type: none"> Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, suppliers and the communities we serve. Develops and implements the Group's strategy, as approved by the Board. Sets the cultural tone of the organisation. Facilitates an effective link between the business and the Board to support effective communication. Responsible for overall delivery of commercial objectives of the Group. Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our strategic framework and values. The CEO's review can be found on page 21.
CFO James Bowling	<ul style="list-style-type: none"> Manages the Group's financial affairs. The CFO's review can be found on page 48. Supports the CEO in the implementation and achievement of the Group's strategic objectives. Oversees Severn Trent's relationships with the investment community. Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, suppliers and the communities we serve.
SID Kevin Beeston	<p>In addition to his responsibilities as a Non-Executive Director, Kevin also:</p> <ul style="list-style-type: none"> Supports the Chairman in the delivery of his objectives. Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chairman, CEO or CFO. Leads the appraisal of the Chairman's performance with the Non-Executive Directors. Undertakes a key role in succession planning for the Board, together with the Board Committees, Chairman and Non-Executive Directors.
NEDs John Coghlan Dominique Reiniche Dame Angela Strank Philip Remnant	<ul style="list-style-type: none"> Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. Satisfy themselves that internal controls are robust and that the external Audit is undertaken properly. Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company. Constructively challenge and assist in the development of strategy. Have a key role in succession planning for the Board, together with the Board Committees, Chairman and SID. Serve on various Committees of the Board.
Company Secretary Bronagh Kennedy	<ul style="list-style-type: none"> Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best-practice corporate governance developments. Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements. Ensures compliance with Board procedures and provides support to the Chairman. Co-ordinates the performance evaluation of the Board in conjunction with the Chairman. Provides advice and services to the Board.

Governance Framework



Our Board

The Board's role is to ensure the long-term success of Severn Trent. Maintaining the highest standards of governance is integral to the effective delivery of our strategy and ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our shareholders, customers, employees and the communities we serve.

The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. This enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between the Directors. Trust and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the benefit of the Company in full consideration of the impact on all stakeholders.

Responsibility to all of our stakeholders for the approval and delivery of the Group's strategy and for creating and overseeing the framework to support its delivery sits with the Board. The requirements of the Board are clearly documented in the Severn Trent Plc Articles of Association, Schedule of Matters Reserved to the Board and Charter of Expectations. These are available on the Severn Trent website.

As outlined on page 70, there is a clear division of responsibilities between the roles of Chairman and CEO. To allow these responsibilities to be discharged effectively, the Chairman and CEO maintain regular dialogue outside the Boardroom, to ensure an effective flow of information.

The Non-Executive Directors have direct access to senior management at all times. Informal as well as formal contact with the wider business is encouraged to develop a deeper understanding of Severn Trent's operations and requests for further information are welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly.

Governance Framework

The Board is supported by the Severn Trent Governance Framework, which is set out above. The Governance Framework comprises the Board, STEC and their respective Committees.

In line with the Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their Terms of Reference. The Board regularly reviews the Terms of Reference of each Committee, which are available on the Severn Trent website. The Governance Framework is also subject to periodic review to ensure that it continues to remain fit for purpose.

Severn Trent Executive Committee

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive who is supported by STEC. More information on our STEC members can be found on pages 68 to 69.

Governance

Leadership & Effectiveness

Main topics discussed by the Board during the year

Regular Updates

- Reports from Committee Chairs
- CEO Review
- CFO Review
- Operational performance reviews – separate reports for the Regulated Business and Business Services
- Reports from the Employee Forum
- Corporate governance developments and legal affairs reports
- Commercial and Capital Delivery reports

Financing Strategy

- Budget
- Dividend approval
- Draft results and associated presentations to analysts
- Pension Schemes updates
- Annual Report and Accounts for Severn Trent Plc and Severn Trent Water Limited
- Annual Performance Report for Severn Trent Water Limited
- Group financing

Governance and Stakeholders

- Board Effectiveness evaluation
- Preparations for the 2018 UK Corporate Governance Code
- AGM documentation approval and discussion of AGM voting results
- Investor relations strategy and updates
- Presentations from Ofwat, DWI, CCW, Chair of Customer Forum

Regulatory

- PR19
- Annual Report and Accounts/Annual Performance Report
- Water Resources Management Plan
- Scheme of Charges and New Connections Charging
- Renationalisation
- GDPR
- Market Abuse Regulations
- Modern Slavery Act

Strategy

- People Strategy
- Talent development and succession planning
- Innovation update
- Tax Strategy
- Board Strategy day – further detail can be found on page 75.
- Health, Safety and Wellbeing
- Board diversity

Culture and Values

- Company purpose and culture
- Training Academy development
- Annual employee survey results – QUEST
- Employee recruitment and retention
- Review and approval of various Group policies to support Severn Trent's culture of Doing the Right Thing

Risk Management

- Cyber risk
- Whistleblowing updates
- Regulatory updates
- Enterprise Risk Management Reports
- Review of the Group Authorisation Arrangements
- Brexit
- Defence update
- Review of Effectiveness of Risk Managements and Internal Controls

Environment

- Environmental leadership
- Supply Chain ESG engagement strategy
- Climate change
- Environmental and water quality updates
- Review of environmental deep dives including Biodiversity, Energy Management and Carbon

Stakeholder and Shareholder engagement

We are proud to be the only utility working as a pathfinder company with the Purposeful Company Task Force. As part of our pathfinding role, the Board is committed to engaging effectively and working constructively with all of our stakeholders.

The Board recognises the importance of considering all stakeholders in its decision-making, as set out in section 172 of the Companies Act, and the positive impact this has in promoting the success of the Company as a whole. The table below sets out details of key stakeholder engagement undertaken by the Board during the year.

Board Engagement and Activities	
Shareholders/ Investors 	<ul style="list-style-type: none"> • Board approval of the half year and full year results. Board attended results presentations. • Board approval of the Annual Report and Accounts. • Full Board attendance at the 2018 AGM. • Investor meetings: Executive and Non-Executive Directors undertook investor engagements in the year. • Investor feedback presented to the Board, through monthly reports and regular broker notes. • Investor roadshows to Australia, US, Canada and Europe. • Investor Relations strategy agreed by the Board. • Chairman attended the Capital Markets Day. Read more on page 74.
Customers 	<ul style="list-style-type: none"> • Customer-shareholders had the opportunity to meet the Board at our AGM and ask questions. • Customer Delivery Performance Report tabled at every Board meeting. • Extensive customer research considered regularly by the Board in relation to the PR19 plan and submission. • Board attended some of our PR19 customer research sessions.
Communities 	<ul style="list-style-type: none"> • Employees who live and work in our communities meet the Board at the Employee Forum, AGM and site/operational visits. • Corporate Responsibility reports regularly discussed at Board meetings, including an update on community activities. • Board received updates on the Group's volunteering programme during the year. • Board consideration of the community dividend, developed to fund projects in our community. • Immersive Board session on the 'Wonderful Water Tour' – our new innovative educational tour to inspire and educate children in our communities. • Volunteering update considered by the Board. • Board site visit to Lake Vyrnwy Reservoir and Visitor Experience Site.
Employees 	<ul style="list-style-type: none"> • Employee-shareholders had the opportunity to meet the Board at our AGM and ask questions. • CEO Employee roadshows and senior leader events. • Board attended a Company Purpose and Culture session with employee representation and discussion of the QUEST survey results. • Board meetings held at a variety of sites, including operational sites. Directors met a number of employees at these events. • Board site visits outside of the Board meeting calendar, where Directors met employees and discussed matters with them. • Chairman, Non-Executive Director and Executive Director attendance at the Employee Forum, including an opportunity to meet employees across the Group. Individual Directors provide feedback to the Board following Forum attendance. • Internal blogs by Executive Directors. • Regular senior leader engagement with Executive Directors. • Talent development considered by the Board. • Dedicated People Strategy discussion at Board Strategy day.
Regulators/ Government 	<ul style="list-style-type: none"> • Renationalisation reports considered by the Board. • Regulatory matters regularly considered at Board meetings, including PR19, Water Resources Management Plan and Scheme of Wholesale Charges. • Regulatory stakeholder attendance at Board meetings during the year. • Chairman met with Jonson Cox, Ofwat. • Engagement with DWI lead inspector, EA, CCW and the Pension Trustees for the Company's defined benefit pension schemes. • Regulatory consultation updates provided to the Board, including Severn Trent's proposed response.
Suppliers/ Contractors 	<ul style="list-style-type: none"> • Commercial Performance Report tabled at every Board meeting, including an update on relationships with suppliers and associated performance. • Chairman and Executive Director attendance at the Employee Forum, including attendance by suppliers.

Stakeholder and Shareholder engagement continued

Institutional shareholders and analysts

The Board recognises the importance of representing and promoting the interests of its shareholders and other stakeholders. Various mechanisms have been put in place to ensure the Board remains in touch, with key activities set out below:

- monthly update reports on the key shareholder engagement activities undertaken by the Executive Committee and the Investor Relations Team;
- monthly report of our shareholder register, outlining the significant buyers and sellers of Severn Trent Plc shares; and
- regular summaries of sector research notes, allowing the Board to understand the key opinions being communicated to investors by sell-side analysts.

Investor engagement

The Board has an active Shareholder Engagement strategy, the main elements of which are set out below.

Presentations are made to shareholders and city analysts following the release of the half year and full year results. In this key year of our regulatory cycle, additional presentations were made following the submission of our business plans for 2020-25, and Ofwat's initial assessment of our plans. This year we held a Capital Markets Day, which focused on the key areas of the Severn Trent Water plan.

The Chief Executive and Chief Financial Officer regularly meet shareholders during the year, often with other members of the Executive Committee. The Chairman and Senior Independent Director also offer to meet with our largest shareholders without the Executive Directors once every year and are available to meet with investors at any other time upon request.

In line with the UK Corporate Governance Code, we recognise that the Board has overall responsibility for ensuring that a satisfactory dialogue with shareholders takes place. The Chairman, Chief Executive and the Chief Financial Officer report shareholder views on Severn Trent Plc to the Board at every meeting.

An Investor Relations strategy was agreed by the Board during the year. This sets out our approach to identification of, and engagement with, the Company's shareholders, sell-side analysts and debt investors.

2018/19 engagement

This has been a pivotal year for investor engagement, with the submission of the Company's business plans in September 2018, and Ofwat's Initial Assessment of the Plans in January 2019. These two events have been the focus of investor interaction during the year. Investors have largely focused on our ability to perform against the three levers of regulatory outperformance – ODIs, Totex and financing – with enquiries centred on our AMP6 performance against these levers, and how this might translate into our AMP7 performance.

Investors have also been keen to understand how the business is preparing for AMP7, and what factors will drive long-term growth for our regulated business. In our non-regulated business, investors have focused on the acquisition of Agrivert in November 2018, and the impact of this on our energy self-generation targets.

At a macroeconomic level, Brexit and renationalisation have been key matters of focus. On Brexit, emphasis has been on the Company's preparedness for a range of outcomes. More can be found on page 61. On renationalisation the focus has centred on how the debate has evolved over the last 12 months, and whether the sentiment amongst politicians and the general public has changed.

Looking ahead to 2019/20

We have an established structured programme for investor engagement, incorporating roadshows to many of the key locations where our shareholders are located, including the UK, North America and Australia. We have also confirmed attendance at a number of industry conferences.

We expect AMP7 readiness, and our ability to perform against the three regulatory levers, to be the key themes for investors throughout 2019/20. We also anticipate investors to be focused on the Group's dividend policy for 2020 onwards, which will be announced following the publication of the Final Determination for both Severn Trent Water and Hafren Dyfrdwy in December 2019. Dialogue with our shareholders on macroeconomic risks is continually maintained.

Primary investor events

May 2018	London Roadshow
June 2018	Europe Roadshow
June 2018	US Roadshow
June 2018	RBS Reverse Roadshow
June 2018	Scott Harris Roadshow
July 2018	Australia Roadshow
July 2018	Scott Harris Roadshow
August 2018	Citi UK Utilities Reverse Roadshow
August 2018	Credit Suisse Reverse Roadshow
September 2018	Morgan Stanley Conference

September 2018	Bernstein Strategic Decisions Conference
September 2018	Capital Markets Day
October 2018	Scott Harris Roadshow
November 2018	London Roadshow
November 2018	Edinburgh Roadshow
November 2018	Switzerland Roadshow
January 2019	Citi European Utilities and Infrastructure Conference 2019
February 2019	London Roadshow
February 2019	US/Canada Roadshow
February 2019	Australia Roadshow
March 2019	Scott Harris Roadshow



Investors attended our Capital Markets Day in September 2018.

Leadership and Effectiveness

The Board in action

The Board in action

The Board sets the strategy, oversees its delivery and maintains the highest standards of governance which are integral to its delivery. The Board also ensures that, in making its decisions, these create sustainable, long-term value for the mutual benefit of stakeholders. In order for the Group to manage risk effectively, the Board monitors financial performance and reporting and also ensures that appropriate and effective succession planning arrangements and remuneration policies are in place.

Page 72 details the main topics discussed by the Board during the year.

Board Strategy Days

In addition to formal meetings at which strategic matters are regularly considered, in June 2018 the Board held a dedicated strategy meeting with the Executive Committee to focus on PR19. This has been a matter of significant focus for the Board during the year. The day focused on the Group's People Strategy, including culture, talent acquisition, talent development, talent management and organisational performance. The Strategy Day also covered the potential for artificial intelligence, data analytics and robotic process automation to improve efficiency and performance across the business – driving quality improvements and minimising the need for manual intervention. The Board was immersed in Strategy Day topics through use of real examples and simulation to demonstrate current and planned interventions. For 2019, a portion of the strategy meeting will focus on AMP7 delivery plans, following Severn Trent Water's plan for the five years from 2020 being fast-tracked by Ofwat.

The Board will also consider the Group's carbon and energy strategies and sector legitimacy, with discussion on key priority areas.

Our Company purpose and culture

The Board is responsible for establishing Severn Trent's purpose, vision and strategy, and satisfying itself that its culture is aligned. Our purpose – to serve our communities and build a lasting water legacy – reflects 'why' we do what we do. Our strategy provides us with 'what' we do. But the 'how' we deliver our purpose and strategy is what differentiates us and sets us apart and that is driven by our culture, values and behaviours.

To support the creation of long-term value for the mutual benefit of our shareholders, employees, customers and communities, we recognise the importance of building and promoting a culture of integrity and openness, where inclusion and diversity is valued. Assessment of companies' organisational culture can sometimes be hard to interpret and, as such, we're working with other companies to develop a new cultural index. This will allow stakeholders to make comparisons against reliable data points, with clear external benchmarks and give greater visibility on companies' progress. The initial measures we are considering are set out in the table below.

At the heart of Severn Trent's culture is a closely held set of values – Doing the Right Thing. These values embody the principles by which the Group operate, and provide a consistent framework for responsible business practices.

These policies codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment.

During the year, the Board has focused on deepening its understanding of the Group's culture even further, through a dedicated company purpose and culture session in January 2019.

The session was centred on the results of the all employee survey 'QUEST' and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus, such as health and safety and gender neutral facilities at operational sites.

The Board routinely interacts with employees as part of their site visit programme. Details of site visits held during the year can be found on page 80. Direct interactions with employees, specifically in relation to culture, allows the Board to understand first-hand the key issues identified by our workforce, and provides an opportunity to feedback specific insights to them.

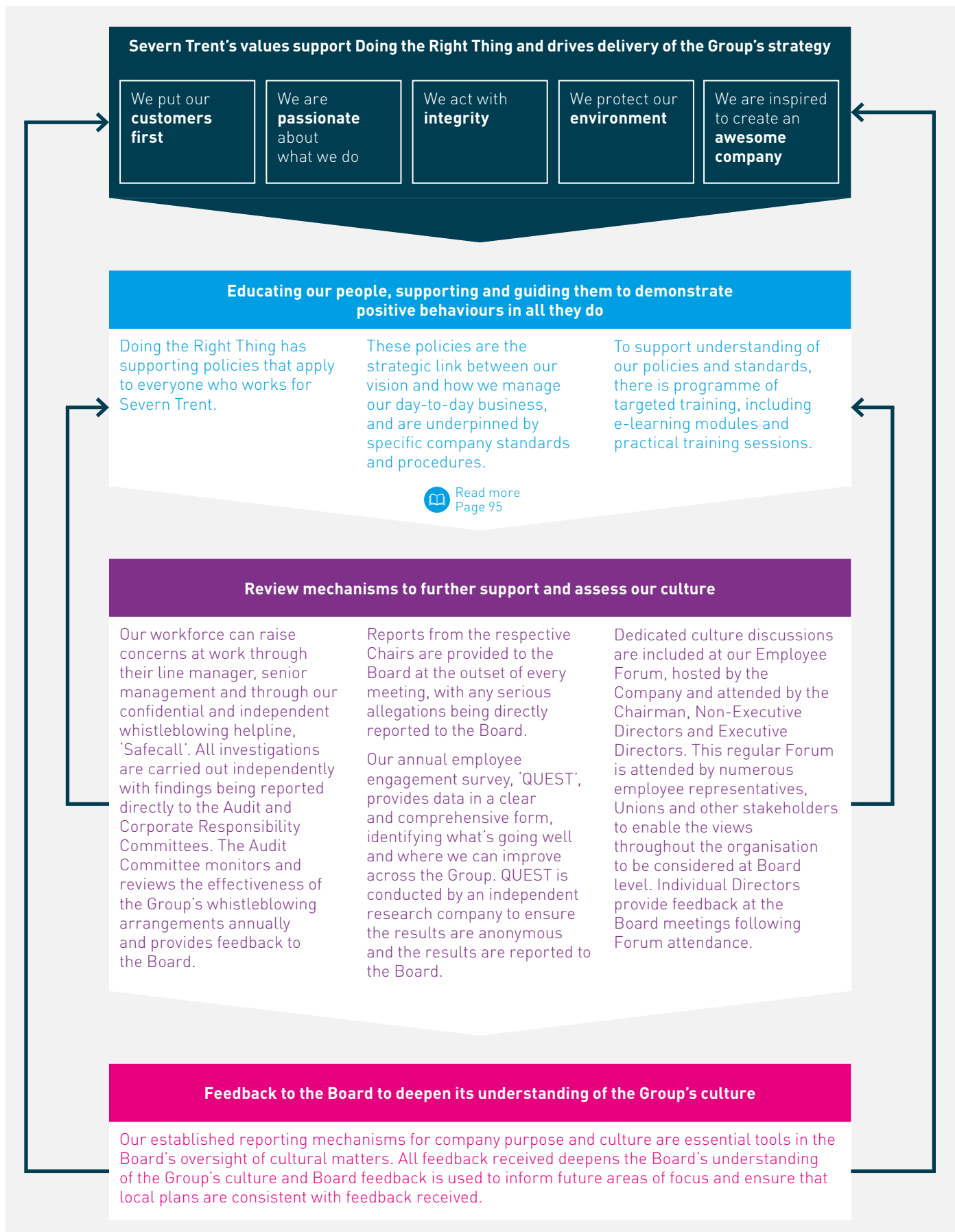
The findings from the culture session are being used to inform future areas of focus for the Board moving forward. As part of this activity the Board satisfied itself that the Group's policies, practices and behaviour throughout the business are wholly aligned with Severn Trent's purpose, vision and strategy.

Cultural Index

Topic	Measures	Benchmark
Engagement	<ul style="list-style-type: none"> Glassdoor Rating Engagement score 	<ul style="list-style-type: none"> Glassdoor Versus UK Average
Fairness	<ul style="list-style-type: none"> Gender Pay Gap CEO Pay Ratio Ethnicity Pay Ratios 	<ul style="list-style-type: none"> Median Versus UK Average (ONS) Versus UK Average TBC when Government standard disclosed
Wellbeing	<ul style="list-style-type: none"> Days lost to mental health issues Employee turnover 	<ul style="list-style-type: none"> Mind – Workplace Wellbeing Index CIPD
Inclusion	<ul style="list-style-type: none"> Gender representation at senior levels Social Mobility Ethnic Diversity 	<ul style="list-style-type: none"> Hampton-Alexander Ranking Social Mobility Index BITC Diversity Index
Skills	<ul style="list-style-type: none"> Training Days Levy Spend 	<ul style="list-style-type: none"> CIPD UK Government

Leadership and Effectiveness

Reinforcing our culture



Leadership and Effectiveness

Board evaluation

The effectiveness of the Board is reviewed at least annually, and conducted according to the guidance set out in the Code and FRC Guidance on Board Effectiveness. An externally facilitated evaluation was last conducted by Manchester Square Partners in 2017/18, with the next externally facilitated session scheduled for 2021.

The 2018/19 evaluation was internally conducted by the Chairman with support from the Company Secretary through a series of one-to-one meetings in January and February 2019. Separate meetings were held to consider the effectiveness of the Chief Executive, led by the Chairman, and of the Chairman, led by the Senior Independent Director.

Following completion of the evaluation process, the Board considered the report's findings and agreed specific actions. It was also agreed that six-monthly reviews on progress against the report's recommendations would be tabled for Board discussion.

Evaluation Process

Step 1. 2018/19 Process planning

The Company Secretary undertook a detailed review of the Board Effectiveness evaluation process and made revisions to incorporate recommendations and areas of focus highlighted in the 2018 Code and FRC Guidance on Board Effectiveness.

A process for comprehensive one-to-one meetings was developed for the Board and its Committees, with interview questions structured on the basis of feedback from the 2017/18 evaluation, including areas for improvement and any additional observations.

Step 2. One-to-one meetings

Board and Committee members participated in comprehensive one-to-one meetings with the Company Secretary, with appropriate time provided to allow detailed discussion to take place.

Step 3. Evaluation and reporting

The Company Secretary compiled the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation was provided to the Chairman for consideration. The Company Secretary and Chairman met to discuss the findings, with the resulting report being tabled to the Nominations Committee and Board in March 2019.

Step 4. Agree actions and monitor progress

The findings of the evaluation exercise were fully considered when making recommendations in respect of the re-election of individual Directors and included an assessment of their independence, time commitment and individual performance.



Leadership and Effectiveness continued

Board evaluation

Evaluation Findings

The evaluation concluded that excellent progress had been made in respect of areas for further focus identified in the 2017/18 review as detailed below.

The key theme highlighted in the 2018/19 evaluation was positive Board discussion dynamics. It was noted that all Directors fostered a culture of open, constructive debate, undertaken by a respectful and cohesive, and appropriately challenging Board.

The evaluation also concluded that the Board, its Committee Chairs and Committees were effective and that all Directors were considered to have demonstrated considerable commitment and time to their roles, well in excess of that required by the Charter of Expectations notwithstanding any other positions held by them outside of Severn Trent.

Minor areas for further development of the Board's effectiveness were as detailed below.

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. Directors' other appointments were reviewed, including the time commitment required for each. As a result of this review, the Nominations Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc. The full list of external appointments held by our Directors can be found on pages 66 to 67. All of our Non-Executive Directors are considered to be independent.

Evaluation findings

Evaluation Action 2017/18

Balance of Debate – continue to maintain focus on strategic, operational and reputational priorities as well as regulatory matters.

Talent Management and Succession Planning – opportunity to apply more structure to succession planning and talent development discussions at the Nominations Committee and the Board.

Board Composition – opportunity to increase the ethnic diversity of the Board in line with the recommendations of the Parker Review and to appoint an additional Director with Treasury/Engineering experience.

Financing – opportunity to spend more time on this topic during NED induction given its complexity.

Culture – develop a structured plan to enable the views, ideas and constructive challenge throughout the organisation to be considered at Board level.

Progress 2018/19

Separate, dedicated PR19 meetings were scheduled outside the normal Board and Committee timetable, to reduce the pressure on the Board agenda and maintain focus on strategic, operational and reputational priorities.

During the 2018/19 evaluation, the Board noted that PR19 approval and submission had been particularly well managed and that the use of additional Board Committee meetings and briefing papers had ensured that this topic had not distracted the Board from considering other strategic issues and operational performance oversight.

Talent and succession planning have been added as separate standing Nominations Committee agenda items with a forward Board programme for talent and succession planning also being developed.

Existing talent and succession planning elements of the Board induction programme were updated to give new Non-Executive Directors better oversight of the Group's processes.

Succession planning was considered by the Nominations Committee, and Board, during the year. This included consideration of the Board's Diversity Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker Review.

The Board also considered Board succession planning in respect of Directors with more Treasury and Engineering experience.

Relevant sections of the Board induction materials have been reviewed during the year.

The Board induction programme now includes two additional face-to-face sessions with the finance team to provide the opportunity to clarify and deepen Director knowledge.

Company purpose and culture continues to be considered by the Board as a separate Board agenda item. Additional detail can be found on page 75.

The Chairman and Non-Executive Directors will continue to attend our Employee Forum. This regular Forum is attended by numerous employee representatives, Unions and other stakeholders to enable the views throughout the organisation to be considered at Board level. Individual Directors provide feedback at the Board meetings following Forum attendance.

Minor areas for further development of the Board's effectiveness

Evaluation Action 2018/19

Succession Planning

Opportunity to apply more focus to succession planning, in full consideration of Director tenure. Read more on succession planning activity following year end on page 84.

Balance of Debate

The Board noted the excellent chairing of Board discussions despite challenging agendas during the year. Opportunity to allocate additional time on the Board agenda to engage personally with presenters and discuss matters more informally.

Board Composition

Opportunity to consider broader diversity and inclusion in terms of the Board's composition.

Remit of Board Committees

Opportunity to review the duties within the respective Committee Terms of Reference and ensure that Committee meetings have sufficient time allocated to them.

Leadership and Effectiveness

Effectiveness

Board Development and Knowledge

Training and Continuing Professional Development ('CPD')

As well as Board agenda items, training and CPD sessions in relation to specific topics of interest were presented to the Board during the year, as follows:

- Severn Trent Academy;
- Leakage Innovation;
- Birmingham Resilience;
- Customer Bills;
- Wonderful Water Tour (our Educational Buses). Read more on page 35;
- Impact of Renationalisation;
- Robotics and Artificial Intelligence;
- Company Purpose and Culture; and
- Capital Spend.

The aim of the training sessions is to continually refresh and expand the Board's knowledge and skills. In doing so, the Directors can contribute to discussions on technical and regulatory matters more effectively. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further direct insight into our businesses and management capability.

Our Regulators

To deepen Board level understanding of our Regulators, our Chairman and Non-Executive Directors formally met with our Regulator, Ofwat, five times during the year.

Informal Board interactions

The Board regularly meets more informally, in the form of Board dinners, outside of the scheduled Board meeting calendar. These sessions are convened to build and maintain successful relationships and promote a culture of openness in Board discussions. Senior Management and external stakeholders (including Ofwat and the Water Forum) are invited to attend these sessions.

Directors' resources

An online resource library and CPD repository is available for use by the Directors, which is continually reviewed and updated. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section and briefings on Board training session topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice. The Directors also have access to professional development provided by external bodies and our advisers. CPD requirements were considered through individual performance review meetings between the Chairman and each Director, as part of the internally facilitated Board Effectiveness review in 2018/19.

Induction programme

We have an established induction programme in place which can be tailored to meet the requirements of individual Directors and includes the following elements/details:

- Ofwat pre-appointment process;
- Our business and how we are regulated, including performance;
- Our Non-Regulated Business, including performance;
- Strategy;
- Key operations and processes including an immersive, practical journey through the water and waste cycles;
- Key stakeholder relationships;
- Customer delivery;
- Capital delivery and commercial;
- How the business is financed and financial performance including analyst and investor opinion;
- Our people and how we work, including health, safety and wellbeing, talent and succession, Trade Unions and an overview of our Remuneration Policy;
- Risk and audit, including the Group risk profile and our approach to risk;
- Face-to-face meetings with key senior colleagues;
- Directors' duties; and
- Governance matters and Group policies.

We continually enhance the Board's induction process, in full consideration of feedback from new appointees and the Board Effectiveness evaluation.



The Board immersed themselves in our Wonderful Water Tour – our innovative educational roadshow, inspiring the next generation.

Leadership and Effectiveness continued

Effectiveness

Operational and Site Visits

The Board, and individual Directors, undertook three key site visits during the year, to deepen their understanding of the Group's operations and further inform the Board's decision-making in creating sustainable long-term value for the mutual benefit of stakeholders.

Site	Objectives	Key Board Considerations
Minworth – Thermal Hydrolysis Plant ('THP')	<ul style="list-style-type: none"> • Practical demonstration of Health and Safety considerations on complex operational sites • Employee expertise • Overview and demonstration of the sludge treatment process and operations • Overview of THP process and its importance to the Group, including implementation of technological advances • Process optimisation across the Minworth site • Site sampling and performance record • Environmental 	<ul style="list-style-type: none"> • Health and safety • Employee stakeholders and People Strategy • Operational knowledge • Technology • Environment
Lake Vyrnwy Reservoir and Visitor Site	<ul style="list-style-type: none"> • Practical demonstration of Health and Safety considerations on publicly accessible sites • Tour and briefing on educational programmes delivered at the site • Tour of conservation programmes, including the RSPB Organic Farm and SSSI site • Opportunity to interact with employees • Overview of Lake Vyrnwy's infrastructure • Catchment Management activities • Biodiversity activities 	<ul style="list-style-type: none"> • Customer and community experience • Environment • Health and safety • Employee stakeholders and People Strategy • Operational knowledge • Infrastructure • Environment • Biodiversity
Agrivert	<ul style="list-style-type: none"> • Practical demonstration of health and safety considerations on complex operational sites • Employee expertise and opportunity to interact with employees • Overview and demonstration of the anaerobic digestion process and operations, including implementation of technological advances • Process optimisation across the Agrivert site • Environmental 	<ul style="list-style-type: none"> • Health and safety • Employee stakeholders and People Strategy • Operational knowledge • Technology • Environment



The Board spent time observing anaerobic digestion processes at our Agrivert site and were hugely impressed by the engineering capability and expertise of our people.

Nominations Committee report

Leadership & Effectiveness

Chairman's message



Andrew Duff
 Chairman of the
 Nominations Committee

Attendance table

Committee Member	Meetings attended	Max possible
Andrew Duff (Chairman) ¹	4	4
John Coghlan ²	4	4
Dominique Reiniche ²	4	4
Kevin Beeston ²	4	4
Philip Remnant ²	4	4
Angela Strank ²	4	4

The members of the Committee in 2018/19 were the Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, the Director of Human Resources, senior management and external advisers may be invited to attend meetings as and when appropriate.

The Committee's Terms of Reference were updated in March 2019.

Dear Shareholder

I am pleased to introduce this report which details the role of the Committee and the important work it has undertaken during the year. The pages that follow provide additional detail on the activities and discussions of the Committee and share the matters considered by the Committee and steps taken to address any actions.

The Committee plays a key role in supporting the Board within the Governance Framework in reviewing the composition of the Board and its Committees. This includes assessing whether the balance of skills, experience, knowledge and independence on the Board is appropriate to enable it to operate effectively. The Committee also assisted the Board in its consideration of conflicts of interest and independence issues. No conflicts of interest or independence issues were identified as a result of this activity.

Throughout the year, increased focus continued to be given to the Group's succession, contingency planning and diversity needs. Discussion centred on the importance of developing, and maintaining, a diverse range of perspectives, skills, experiences and expertise, essential to ensuring our long-term viability and commercial success. More information on our diversity initiatives can be found in the Strategic report on page 44.

The Committee held four meetings during the year and has met twice since the end of the financial year. I would like to thank the members of the Committee for the open discussions that take place at our meetings and the importance they all attach to its work.

During the year, the Committee has spent a significant proportion of its time overseeing the evaluation of the Board, its Committees and Directors. We also spent time considering the development of our talent pipeline for Directors and high performing individuals below Board level, with a focus on the need for diversity. As part of the Board Effectiveness evaluation, the Committee evaluated the structure, size, composition and succession needs of the Board. Additional detail can be found on page 77.

As mentioned in my Chairman's statement on page 16, I believe this is the right moment to step down and allow a new Chair to lead the Board into the next phase for Severn Trent. The Committee, led by Senior Independent Director Kevin Beeston, is overseeing the process ahead of making a formal recommendation to the Board. The Committee is in the initial stages of succession planning and it is planned to formally announce my successor in due course. In line with the provisions of our Board Diversity Policy, any executive search firms involved will be signed up to the voluntary code of conduct on gender and BAME diversity and best practice. Kevin Beeston will continue to chair all meetings of the Committee when it meets to discuss this matter.

Andrew Duff
 Chairman of the
 Nominations Committee

Documents available at severntrent.com

Nominations Committee Terms of Reference
 Board Diversity Policy Statement
 Group Conflicts of Interest Policy

1. Independent on appointment.
 2. Independent Non-Executive Director.

Nominations Committee report continued

Leadership & Effectiveness

Key areas of Nominations Committee focus in 2018/19

A summary of the matters considered at each meeting is set out below:

July 2018

- Preparations for the 2018 UK Corporate Governance Code

November 2018

- STEC Succession Planning

January 2019

- NED Tenure Review and Succession Planning
- Workforce Engagement, including individual Director commitments

March 2019

- Board Effectiveness Report 2018/19
- Continuing Office of Directors
- Board Composition and Independence
- Conflicts of Interest: Annual Review
- Diversity and Inclusion Update

April 2019

- Board Succession Planning

May 2019

- Board Succession Planning
- Talent Development and STEC Succession Planning
- Nominations Committee Report within the Annual Report and Accounts

Diversity

As highlighted earlier in the report, the Board and Nominations Committee continue to drive the agenda of diversity across the Group and are proud of the progress made, especially in respect of female representation on the Board and Executive Committee (now at 37.5% and 36% respectively). A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2019 is set out below.

The Board remains focused on promoting broader diversity, and creating an inclusive culture in line with the recommendations of the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality.

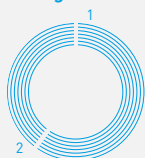
The Board Diversity Policy (the 'Policy') was reviewed by the Committee in January 2019, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits

of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths throughout the organisation, including on the Board itself. Although no targets have been set at present, the benefits that diversity brings to the Board are wholly recognised by the Committee and is evidenced through the commitments made in the Policy.

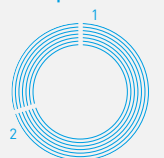
The objectives of the Policy, and an update against each of them, are set out on page 83. A copy of the Policy Statement is available on the Severn Trent Plc website.

Gender diversity at 31 March 2019

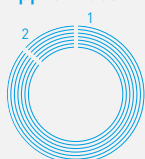
Strategic Leader and Director



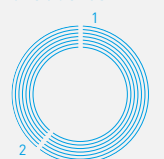
Group



Apprentices



Graduates

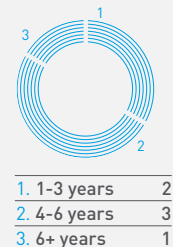


Severn Trent Board diversity figures as at 31 March 2019

Director gender split



Non-Executive tenure



Board Diversity Policy – Objectives and Progress

Policy Objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	<p>Annual review of the Board's composition by the Nominations Committee each year with particular consideration being given to the balance of skills, experience and independence of the Board.</p> <p>Board Effectiveness evaluation specifically considers the composition of the Board and the contribution, commitment and independence of individual Directors.</p>	<p>At its March meeting, the Committee formally reviewed the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board.</p> <p>Regular updates in respect of succession planning fully consider the Board's Diversity Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith Reviews.</p> <p>The Board also considered Board succession planning in respect of Directors with specific experience in Treasury and Engineering.</p>
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board level experience.	<p>The Board and Nominations Committee recognise the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.</p> <p>On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.</p>	<p>No Board appointments were made during the year, however all recommendations in respect of future Board appointments will be conducted in full consideration of the Policy, 2018 Code and additional relevant guidance.</p>
Ensure Board appointment 'long lists' include diverse candidates, including diversity of social and ethnic backgrounds and cognitive and personal strengths.	<p>The Board and Nominations Committee recognise the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.</p> <p>The Company only engages with executive search firms who have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.</p>	<p>No Board appointments were made during the year, however all recommendations in respect of future Board appointments will be conducted in full consideration of the Policy, 2018 Code and additional relevant guidance.</p>
Ensure the Board and Nominations Committee only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.	<p>The Company only engages with executive search firms who have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.</p>	<p>We continue only to engage with executive search firms who have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.</p>
Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles.	<p>Regular Board and Nominations Committee consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Group's talent pipeline and on the Board itself.</p>	<p>At its March meeting, the Nominations Committee considered Diversity and Inclusion within the Group. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts.</p> <p>This was also an area of specific focus within the Board Succession Planning discussions that took place during the year.</p>

Nominations Committee report continued

Leadership & Effectiveness

Talent development

We recognise the importance of developing our people and, as such, talent management remains a key topic of discussion. The Group's five year talent plan focuses on building technical and leadership capability, and creating talent pipelines for the future.

We have a total of 78 graduates in training, with 43 places offered in 2018. We currently have five entry programmes for graduates – Business Leadership, Finance, IS, Engineering and Project Management. Our placement programme for undergraduates offers a range of summer and 12 month placements across Engineering, Finance and the Visitor Experience teams. We filled 23 roles in 2018 with a new opportunity in the Quantity Surveying team being offered in 2019.

We currently have 133 apprentices in training. In 2018, we launched three new apprenticeship programmes in HR, Legal and Vehicle Technician. We now have 11 active apprenticeship programmes, and we expect this to increase to 13 in 2019.

We have been a key partner in the development and implementation of the new water industry apprenticeships standards through the Government's Trailblazer initiative. As one of the 13 firms making up the employer group, we have ensured that Severn Trent has been at the forefront of its development.

Our innovative delivery model for the water process technician standard has allowed us to design a programme that ensures high quality apprenticeship training delivered in just 24 months – significantly faster than any previous schemes. Elsewhere in the industry this course would take at least 36 – 48 months to complete.

Succession planning

Kevin Beeston led the discussion on the process of succession planning for Andrew Duff, who has been on the Board since May 2010 and has been our Chairman since July 2010, therefore reaching the nine year limit for Chairs specified in the 2018 Code. The Committee is in the initial stages of succession planning and it is planned to formally announce Andrew's successor in due course. In line with the provisions of our Board Diversity Policy, any executive search firms involved must be signed up to the voluntary code of conduct on gender and BAME diversity and best practice.

The Committee looks forward to appointing a well-qualified and high calibre Chair in due course, and does not believe that it would be in the interests of shareholders for this to take place immediately, for the following reasons:

- it would be beneficial for the new Chair to be able to join the Board and work alongside Andrew Duff for a period before they step up to become Chair;
- a search for a high quality candidate takes time and the Committee does not want to rush this important search; and

- in the Committee's opinion, Andrew Duff remains a very strong and effective Chairman, who is independent of management and provides robust challenge. The findings of the Board effectiveness evaluation support this view.

In the year ahead, the Committee will focus on ensuring a smooth and orderly handover and induction, in conjunction with the Company Secretary. Kevin Beeston will continue to Chair all meetings of the Committee when it meets to discuss this matter.

Director conflicts and independence

In March 2019, the Committee conducted its annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. Additionally, the Board and its Committees consider conflicts of interest at every meeting, and the Board reviews the authorisation of any potential conflicts of interest every six months.

The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties. When reviewing conflict authorisations, the Committee considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation. Following the review, the Committee recommended to the Board that each conflict authorisation remained appropriate. There were no new potential conflict situations during the year.

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board evaluation exercise. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence. In accordance with the Code, all the Directors will retire at this year's AGM and submit themselves for re-election by shareholders. Each of the Non-Executive Directors seeking re-election are considered to be independent in judgment and character.

The Nominations Committee spent time meeting an engineering apprentice at our Minworth site.



Chairman's message



John Coghlan
Chairman of the Audit Committee

Attendance table

Committee Member	Meetings attended	Max possible
John Coghlan ¹ (Chairman)	4	4
Philip Remnant ²	4	4
Kevin Beeston ³	4	4

In addition to the attendance set out above, the Chairman, the CEO, the CFO, the Head of Internal Audit, the Group Financial Controller and the External Auditor normally attend, by invitation, all meetings of the Committee. Other members of Senior Management are also invited to attend as appropriate.

The Committee regularly holds private discussions with the Head of Internal Audit and the External Auditor separately, without Executive management present. The Committee Chairman regularly holds separate one-to-one meetings with the CFO, the Head of Internal Audit, the External Auditor and with Committee Members outside the meetings to better understand any issues or areas for concern.

The Committee's Terms of Reference were updated in March 2019.

Dear Shareholder

I am pleased to introduce this report which details the role of the Audit Committee and the important work it has completed during this pivotal year for Severn Trent. The pages that follow provide more detail on the activities of the Committee and provides an overview of the significant issues the Committee assessed and steps taken to address any issues.

The Committee has continued to play a key role within the Governance Framework in discharging its oversight responsibilities for the integrity of the Company's financial statements and matters relating to the Group's system of internal controls and risk management. We continue our focus on ensuring the adequate mitigation of current and emerging risks faced by the Group. Additional detail of how we carried out our risk assessment activities and how we identify and manage risks can be found on page 54 of our Strategic report.

The Committee held four scheduled meetings during the year and has met once since the end of the financial year. An additional four Committee meetings were held during the year, the details of which are described within this report. I would like to thank the members of the Committee, the management team, Internal Audit and our External Auditor, Deloitte, for their continued commitment throughout the year, and for the open discussions that take place at our meetings, and for the importance they all attach to its work.

The Committee's performance was assessed as part of the annual Board effectiveness evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work. The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries. All members have competence relevant to regulated and/or utilities businesses as well as significant recent and relevant financial experience.

During the year, the Committee spent a significant proportion of its time overseeing the development of PR19 plans for Severn Trent Water and Hafren Dyfrdwy. Other significant parts of the Committee's work this year have included: Enterprise Risk Management; consideration of Internal Audit reports; oversight of the relationship with the External Auditor; including the assessment of its ongoing objectivity and independence; overseeing the assurance of regulatory returns made by Severn Trent Water and Hafren Dyfrdwy; oversight of wholesale charges; new connections charging; customer ODI forecast; Company Monitoring Framework and the Water Resource Management Plans for both Severn Trent Water and Hafren Dyfrdwy.

As part of the Committee's oversight of regulatory reporting obligations in respect of Severn Trent Water and Hafren Dyfrdwy, the Company has reviewed the effectiveness of its governance arrangements for these subsidiaries during the year. Following this review, modifications to the Audit Committee meeting structure have been implemented to facilitate dedicated Committee focus for Hafren Dyfrdwy regulatory matters. These arrangements are assisted through the management of separate agenda items for Hafren Dyfrdwy matters, with the Independent Non-Executive Directors of Hafren Dyfrdwy being invited to attend all relevant meetings in respect of Hafren Dyfrdwy matters. Regular updates on the regulatory matters considered by the Audit Committee on behalf of Hafren Dyfrdwy are also reported at each meeting of the Hafren Dyfrdwy Board, with more formal reporting on a six monthly basis.

John Coghlan
Chairman of the Audit Committee

Documents available at severntrent.com
[Audit Committee Terms of Reference](#)
[Non-Audit Services Policy](#)

1 Recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales and John was previously Deputy Chief Executive and Group Finance Director of Exel PLC.
 2 Recent and relevant financial experience as a fellow of the Institute of Chartered Accountants in England and Wales.
 3 Recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants and Kevin was previously Finance Director at Serco PLC.

Audit Committee report continued

Accountability

Key areas of Audit Committee focus in 2018/19

A summary of the matters considered at each meeting is set out below:

May 2018	Scheduled meeting	✓
• Financial results announcement 2017/18	Financial Reporting	
• Severn Trent Plc Annual Report and Accounts 2017/18		
• Severn Trent Water Limited Annual Report and Accounts 2017/18		
• Viability Statement and Going Concern		
• Deloitte Full Year Audit Report	External Audit	
• Internal Audit update	Internal Audit	
• Assurance Map update		
• PR19 Assurance Plan	Regulatory	
• Internal control and risk management effectiveness for Severn Trent Plc and Severn Trent Water	Internal Control and Risk Management	
• Whistleblowing update		
• Fair, balanced and understandable assurance process: Severn Trent Plc and Severn Trent Water	Governance	
• Relevant Audit Information process: Severn Trent Plc and Severn Trent Water		
June 2018	Additional meeting	+
• Annual Performance Report and Annual Regulatory Compliance Statement for Severn Trent Water	Regulatory	
• PR14 Reconciliation for Severn Trent Water and Dee Valley Water Limited (now Hafren Dyfrdwy)		
July 2018	Additional meeting	+
• Hafren Dyfrdwy Annual Report and Accounts 2017/18, including Viability Statement and Going Concern	Financial Reporting	
• Hafren Dyfrdwy Enterprise Risk Management Update, including Principal Risks for the Annual Report	Internal Control and Risk Management	
• Internal control and risk management effectiveness for Hafren Dyfrdwy		
• Whistleblowing update		
• Annual Performance Report and Annual Regulatory Compliance Statement for Hafren Dyfrdwy	Regulatory	
• PR19 Assurance Plan for Hafren Dyfrdwy		
• Fair, balanced and understandable assurance process: Hafren Dyfrdwy	Governance	
August 2018	Additional meeting	✓
• PR19 Plan – Severn Trent Water	Regulatory	
• PR19 Plan – Hafren Dyfrdwy		
September 2018¹	Scheduled meeting	✓
• External Audit 2018/19 plan and terms of engagement	External Audit	
• External Audit Review of non-audit fees		
• Internal Audit update	Internal Audit	
• Scheme of Wholesale Charges	Regulatory – SEVERN TRENT WATER	
• Scheme of Wholesale Charges	Regulatory – HAFREN DYFRDWY	
• Enterprise Risk Management update	Internal Control and Risk Management	
• Whistleblowing update		
• Review of effectiveness of Whistleblowing arrangements		
November 2018	Scheduled meeting	+
• Interim financial results 2018/19	Financial Reporting	
• Deloitte Interim Audit Report	External Audit	
• Internal Audit update	Internal Audit	
• Assurance Map update		
• Customer ODI Forecast and Assurance	Regulatory – SEVERN TRENT WATER	
• Company Monitoring Framework Risk Statement		
• General Data Protection Regulation review		
• Customer ODI Forecast and Assurance	Regulatory – HAFREN DYFRDWY	
• Company Monitoring Framework Risk Statement		
• Cyber review	Internal Control and Risk Management	
• Whistleblowing update		
• Material Litigation Report and Legal Compliance Report	Governance	
January 2019	Additional meeting	✓
• Water Resources Management Plan	Regulatory – SEVERN TRENT WATER	
• New Connections Charging		
• Water Resources Management Plan	Regulatory – HAFREN DYFRDWY	

1. Modifications to the Audit Committee meeting structure were implemented in September 2018 to facilitate dedicated Committee focus for Hafren Dyfrdwy regulatory matters.

March 2019	Scheduled meeting	✓
• Accounting Policies update	Financial Reporting	
• Viability Statement and Going Concern		
• Review of effectiveness of External Auditor	External Audit	
• Review of Non-Audit services		
• Internal Audit update	Internal Audit	
• Assurance Map update		
• Internal Audit Plan 2019/20		
• Water Resources Market Information	Regulatory – SEVERN TRENT WATER	
• Process and Timeline for Assuring the 2018/19 Regulatory Reporting Requirements		
• WICS Compliance Statement		
• General Data Protection Regulation Review		
• Board regulatory statements – forward plan		
• Water Resources Market Information	Regulatory – HAFREN DYFRDWY	
• Process and Timeline for Assuring the 2018/19 Regulatory Reporting Requirements		
• Enterprise Risk Management update	Internal Control and Risk Management	
• Bribery and Fraud Prevention and Detection review		
• Whistleblowing update		
• Preparations for the 2018 UK Corporate Governance Code	Governance	
• Audit Committee Terms of Reference		
• Material Litigation Report and Legal Compliance Report		
• Year End Governance Matters:		
– Fair, balanced and understandable assurance process		
– Relevant Audit Information process		
– Audit Committee report within the Annual Report and Accounts		
May 2019	Scheduled meeting	✓
• Financial results announcement 2018/19	Financial Reporting	
• Severn Trent Plc Annual Report and Accounts 2018/19		
• Severn Trent Water Limited Annual Report and Accounts 2018/19		
• Viability Statement and Going Concern		
• Deloitte Full Year Audit Report	External Audit	
• Internal Audit update	Internal Audit	
• Annual Performance Report for Severn Trent Water	Regulatory – SEVERN TRENT WATER	
• Assurance of ODI Performance		
• Annual Performance Report for Hafren Dyfrdwy	Regulatory – HAFREN DYFRDWY	
• Assurance of ODI Performance		
• Internal control and risk management effectiveness	Internal Control and Risk Management	
• Cyber update		
• Whistleblowing update		
• Fair, balanced and understandable assurance process: Severn Trent Plc and Severn Trent Water	Governance	
• Relevant Audit Information process: Severn Trent Plc and Severn Trent Water		

In reviewing the financial statements, the Committee receives input from the Disclosure Committee, a sub-committee of the Executive Committee which is chaired by the CFO. It is responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

The Disclosure Committee reviews the proposed presentations to analysts in conjunction with the draft results announcements for both the interim and full year results, applying particular attention to the tone of the announcements and presentations to maintain consistency with the financial statements.

Audit Committee report continued

Accountability

Significant financial statement reporting issues

The Committee looked carefully at those aspects of the financial statements which required significant accounting judgments or where there was estimation uncertainty. These areas are explained in note 4 of the Group financial statements.

The Committee receives detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believe should be drawn to the attention of the Committee. The Committee also reviews the draft of the External Auditor's report on the financial statements, with particular reference to those matters reported as carrying risks of material misstatement.

The Committee discusses the range of possible treatments both with management and with the External Auditor and satisfies itself that the judgments made by management are robust and should be supported.

The significant issues that the Committee considered in 2018/19 are set out below.

For all of the matters described below the Committee concluded that the treatment adopted in the Group financial statements was appropriate.

Significant financial statement reporting issues

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement.	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic report on going concern and long-term viability.
<p>Determination of the provision for impairment of trade receivables in Severn Trent Water Limited.</p> <p>At 31 March 2019, the provision in Severn Trent Water Limited's financial statements was £115.2 million and the charge for the year was £24.2 million.</p> <p>Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid. This increases the risk of bad debts. In addition it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis.</p>	<p>The Committee challenged the changes made to the methodology for calculating the provision during the year and critically appraised management's explanations for these changes.</p> <p>The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>
<p>Revenue recognition in relation to the estimation of metered revenue from the new non-household retail market in Severn Trent Water Limited.</p> <p>In the year ended 31 March 2019, Severn Trent Water Limited recognised £379 million in revenue from sales to retailers in the new non-household retail market.</p> <p>On 1 April 2017, the non-household retail market in England opened to competition. This enabled all non-household customers to choose their water and waste water supplier although wholesale services remained with the incumbent companies. Market Operator Services Limited ('MOSL') was established to operate the market and to provide data to wholesalers and retailers to allow settlement between market participants to take place. MOSL provides data for monthly settlement periods based on actual meter readings and estimations extrapolated from the last known meter read. This is an iterative process with subsequent settlement runs including more actual readings for the same period. Empirical observations have shown that metered consumption is consistently higher than the previous estimates.</p>	<p>The Committee does not consider that there is a significant risk of a material adjustment in respect of this estimate in the next financial year because the estimated amount is not material. Nevertheless, the Committee considered this to be a significant issue because the systems and processes are new and the amounts recognised are subject to management judgment.</p> <p>The Committee reviewed the process for calculating the metered revenue estimate from non-household retailers and considered the reasonableness of the estimates in the light of emerging trends and the experience of other market participants. The Committee scrutinised management's evidence supporting its judgments and examined the data from the underlying evidence. The Committee discussed the External Auditor's work and their conclusions.</p> <p>The Committee determined that the approach taken by management was reasonable and that no adjustment was required to the amounts recognised in the financial statements.</p>
<p>The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited.</p> <p>Severn Trent Water Limited has a significant capital programme that includes projects made up of a combination of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.</p>	<p>The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year.</p> <p>The Committee enquired of management whether the policies had been applied consistently from year to year and sought explanation for the increase in amounts capitalised. The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>

Issue	How the issue was addressed by the Committee
<p>Determination of the amount of the Group's retirement benefit obligations.</p> <p>At 31 March 2019, net retirement benefit obligations amounting to £452.9 million were recognised.</p> <p>The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made regarding expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management.</p>	<p>The Committee scrutinised the assumptions underlying the valuation of the obligations, noting and probing assumptions that were not in line with their expectations, including developments in respect of Guaranteed Minimum Pension ('GMP') rights. The Committee considered whether the assumptions taken as a whole were appropriate, taking into account the work of the External Auditor and the benchmark information provided by them.</p> <p>The Committee considered that the assumptions were reasonable and that no adjustment was required to the draft Group financial statements.</p>
<p>Implementation of IFRS 9 and IFRS 15.</p> <p>These accounting standards were adopted by the Group with effect from 1 April 2018. The impacts of adoption are set out in note 2 to the Group financial statements. The main impact of IFRS 9 is in relation to the method of calculating the bad debt provision (see above).</p> <p>IFRS 15 introduced a new methodology for determining the recognition of revenue. Management assessed its existing practices for recognising revenue against the methodology set out in IFRS 15, as explained in note 2 of the Group financial statements. There were no changes required to the recognition of revenue from water and waste water services. The main impact in Business Services was in relation to a 25 year contract with the Ministry of Defence.</p>	<p>The Committee considered the approach to determining expected lifetime credit losses on accounts receivable and in particular challenged subjective judgments made by management relating to future credit losses.</p> <p>The Committee noted that the impact of these judgments was not material and concluded that these were reasonable.</p> <p>The Committee challenged management's analysis of the application of IFRS 15 to the water and waste water services and concluded that it was appropriate and in line with industry practice in this area.</p> <p>The Committee also challenged management's application of IFRS 15 to the Ministry of Defence contract, noting that the impact was not material, in particular the estimates of future revenue and costs underpinning the calculation of revenue. The Committee concluded that the outcome was reasonable.</p>

Internal control over financial reporting

The Group has established procedures for exercising control and managing risk in relation to Group financial reporting and preparation of Group financial statements including:

- the formulation and communication of Group accounting policies which are regularly updated for developments in IFRS and other reporting requirements;
- specification of a set of financial controls that all of the Group's operating businesses are required to implement as a minimum;
- a range of system, transactional and management oversight controls embedded into our financial processes;
- deployment of a Group-wide consolidation system with controls to restrict access and maintain integrity of data;
- recruitment training and development of appropriately qualified and experienced financial reporting personnel;

- oversight by the Disclosure Committee of the Group's compliance with its disclosure obligations; and
- monthly reviews by the Executive Committee and the Board of financial reports from the Group's operating businesses.

Internal and External Audit

Internal Audit and internal controls

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management. The Internal Audit function is supported by two main co-sourcing partners, PricewaterhouseCoopers and Ernst and Young. The arrangement is reviewed annually and the Committee believes this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently. Co-source specialists will continue to bring expertise to support the team and delivery of the audit plan where relevant.

The role of Internal Audit is to provide assurance that the Group's risk management and internal control systems are well designed and operate effectively and that any corrective action is taken in a timely manner. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee and performance dashboards to enable onward monitoring of the plan's execution. The Audit Committee challenges the audit plan, specifically whether the key risk areas identified as part of the ERM process are being audited with appropriate frequency and depth, and also by bringing an external view of risks the Company may be exposed to. The performance dashboards summarise the performance of the Internal Audit function over the year against key measures and are reviewed by the Committee twice a year. Following the completion of each planned audit, the Internal Audit function seeks feedback from management which is reported through the performance dashboards and assessed in turn by the Audit Committee twice a year. The effectiveness of the controls over financial reporting is also monitored by

Audit Committee report continued

Accountability

the Audit Committee, which receives regular reports of the testing conducted by the External Auditor.

The Audit Committee is confident that, where any failings or weaknesses are identified in the course of its review of internal control systems, management puts in place robust actions to address these on a timely basis. An internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, an external review of the effectiveness of the Internal Audit function was carried out in January 2019. The review, performed by BDO, concluded that the Internal Audit function is fit for purpose, is operating efficiently and effectively and in line with good practice.

External Auditor

Annually, the Committee reviews the External Auditor's audit plan and reviews and assesses information provided by them confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. Deloitte contributes a further independent perspective on certain aspects of the Company's financial control systems arising from its work, and reports both to the Board and the Audit Committee.

Following a formal tender process in 2015/16, Deloitte LLP was reappointed as External Auditor at the 2016 AGM. The senior statutory Auditor, Kari Hale, has overseen the audit of the Severn Trent Group since 2015/16. Further information on Kari's experience can be found on the Deloitte website. The Company intends to put the External Audit out to tender at least as often as is required by applicable law, rules, regulations and best practice in line with the Competition and Markets Authority and EU requirements for mandatory tendering and rotation of the audit firm. Under current regulations the External Audit must be put out to tender by 2025 and Deloitte will not be able to participate. The Company has complied with the provisions of the CMA Audit Order during the financial year.

The Committee considers the effectiveness of the External Auditor every year and a full effectiveness review was conducted this year. The review involved assessment of the Auditor by the Committee and key Executives and evaluation of whether the Auditor meets minimum standards of qualification, independence, expertise, effectiveness and communication.

The feedback collected through the process has been shared with Deloitte and an action plan has been drawn up with them and built into the audit programme. Based on our consideration of the responses to the effectiveness review the Committee remains satisfied with the efficiency and effectiveness of the audit.

Non-audit fees

The Company has approved a formal policy on the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the External Auditor. A copy is available on the Severn Trent Plc website.

The process for approving all non-audit work provided by our Auditor is overseen by the Committee in order to safeguard the objectivity and independence of the Auditor. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from Deloitte rather than another supplier. Where Deloitte has been chosen, this is as a result of their detailed knowledge of our business and understanding of our industry as well as demonstrating that they have the necessary expertise and capability to undertake the work cost-effectively.

The policy was revised in early 2016, ahead of new EU regulations coming into force in June 2016, to provide that non-audit fees and independence of our Auditor would continue to be subject to ongoing review in light of those rules. The current policy, which was reviewed by the Committee during the year, continues to comply with the EU regulations and requires approval by the Committee or its Chairman if a non-audit service provided by the Auditor is expected to cost more than £100,000. The policy also prohibits aggregate fees from non-audit services in excess of 70% of the audit fee for the year.

Non-audit services where the External Auditor may be used include: audit-related services required by statute or regulation, services related to fraud, Corporate Responsibility report reviews and regulatory support.

During the year, Deloitte received £681,000 in fees for work relating to the audit services they provide to the Group. Non-audit related work undertaken by Deloitte amounted to fees of £183,000 this year, which amounts to 27% of the total audit fees paid to them. Fees paid to Deloitte are set out in note 7 of the financial statements on page 153. Details of significant non-audit work undertaken are set out on page 153.

In approving these non-audit fees, the Committee considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services.

Regulated subsidiaries

The regulated activities carried out by Severn Trent Water and Hafren Dyfrdwy also require annual reporting submissions to Ofwat which are reviewed by the Committee. They include an annual submission on their regulatory performance and obligations known as the Annual Performance Report, together with a Compliance Statement and a statement to underpin the customer charges made by each subsidiary.

In November 2018, the Committee reviewed the statement of risks, strengths and weaknesses and draft assurance plans for Severn Trent Water and Hafren Dyfrdwy, which is a requirement of Ofwat's Company Monitoring Framework. These documents set out the process, timeline and assurance framework in place for information published for customers and other stakeholders, including the Annual Performance Report. For each of Severn Trent Water and Hafren Dyfrdwy, Deloitte provides an audit opinion on the regulatory financial reporting and price control segmentation sections of the respective Annual Performance Reports.

The respective Annual Performance Reports also provide an overall picture of performance, covering many aspects which are not financial including performance against commitments and ODIs for each of Severn Trent Water and Hafren Dyfrdwy. Both Severn Trent Water and Hafren Dyfrdwy appoint independent engineering consultants, to report and provide assurance on those aspects. The Committee receives reports from Jacobs and Deloitte on their work for Severn Trent Water, and Black & Veatch, Jacobs and Deloitte for Hafren Dyfrdwy, as part of its review of the respective Annual Performance Reports.

Risk management

The Audit Committee reviews the processes for, and outputs from, the Group's ERM process, through which our principal risks and related controls are identified. The Committee also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which to enhance the control and assurance arrangements.

The Committee receives half-yearly reports from the Head of Risk detailing the significant risks and uncertainties faced by the Group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary.

To further enhance the clarity of reporting and insight that can be gained from this ERM information 'risk flightpaths' are now reported to the Audit Committee.

These demonstrate the level of risk the Group faces and the timeline for the key risk mitigation steps to manage the risk to the target position. The flightpaths help to facilitate a more thorough review of the target risk positions, consider risk appetite and assess whether actions are on target, with the correct prioritisation in place.

The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Group have been in place for the year to 31 March 2019 and up to the date of this report, which is in accordance with the Code and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014. A risk identification and horizon scanning update was provided to the Board in March 2019. The Board also gave consideration to emerging risks, with specific attention being given to those emerging risks considered to be of ongoing importance to the Group and its stakeholders. Further details on emerging risks can be found on page 55 of the Strategic report.

In its review of risk management during the year, the Board explicitly considered the target position for significant risks and whether target risk positions are appropriate. It also confirmed that suitable timescales had been agreed for reaching them.

Further detail on the ERM process can be found in the Strategic report on page 54.

Non-Audit Fees 2018/19

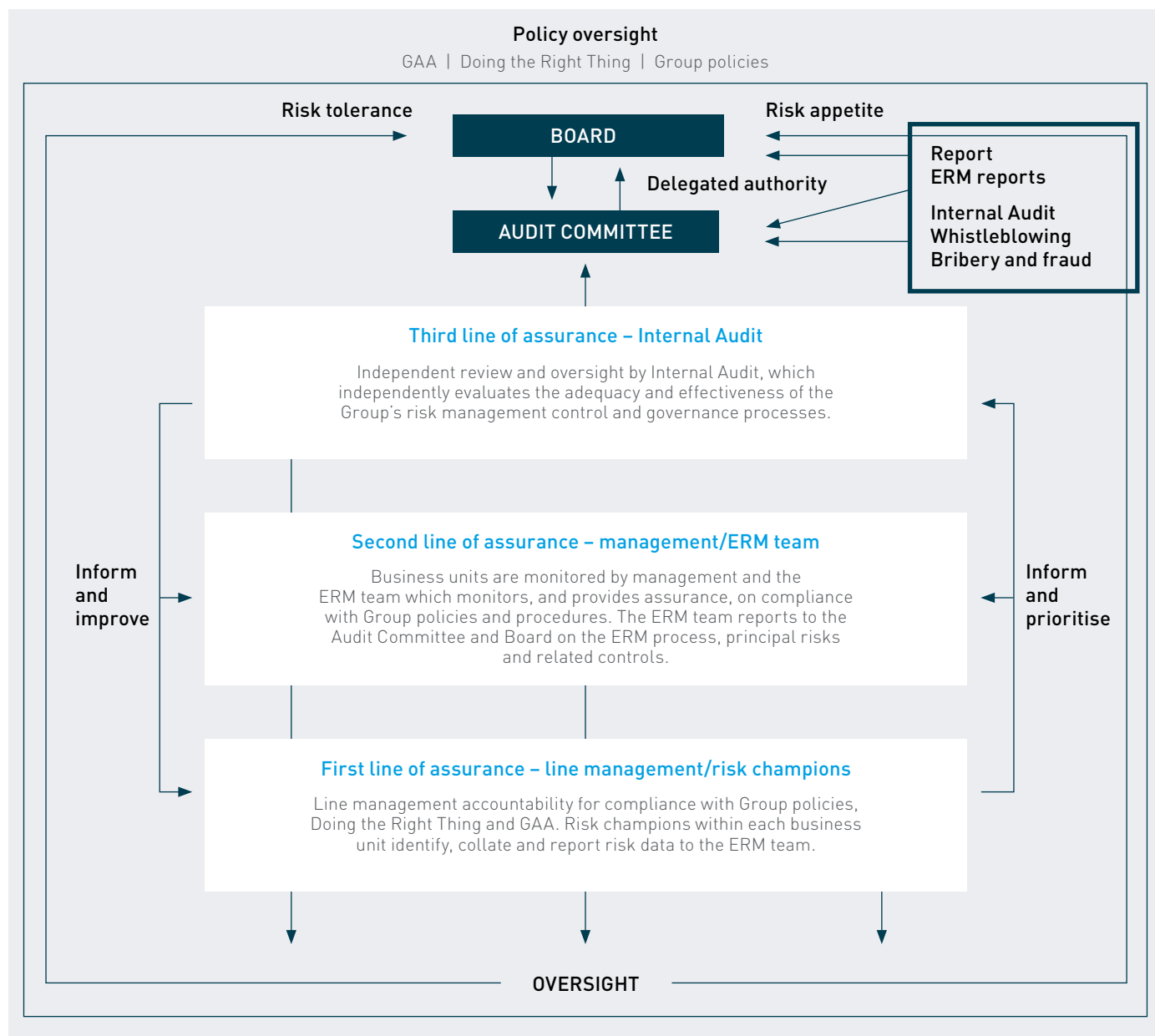
Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor. The same safeguards that apply to the External Audit also apply to this work.	54
Assurance of regulatory returns	Audit of sections 1 and 2 of the Hafren Dyfrdwy and Severn Trent Water Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	66
Reporting under Group financing documents	These documents require reports and it is normal practice for the Auditor to provide these.	32
Subtotal		152
Other assurance services		
Assurance in connection with PR19 Business Plan submission	Agreed-upon procedures relating to financial data tables submitted to Ofwat as part of the PR19 process for Severn Trent Water and Hafren Dyfrdwy.	27
Other assurance		4
Subtotal		31
Total 2018/19 non-audit fees		183

Audit Committee report continued

Accountability

Risk management governance process

The Group's risk management governance process is based on the three lines of assurance model and is scrutinised by the Audit Committee, through delegated authority from the Severn Trent Plc Board.



Chairman's message



John Coghlan
Chairman of the Treasury Committee

Attendance table

Committee Member	Meetings attended	Max possible
John Coghlan	5	5
Philip Remnant	5	5
James Bowling	5	5

The members of the Committee in 2018/19 are shown above. The Group Treasurer is also a member of the Committee, but not a member of the Board.

Only members of the Committee have the right to attend Committee meetings. In addition to the attendance set out above, Andrew Duff, Kevin Beeston, the Group Commercial Director and the Group Financial Controller normally attend, by invitation, all meetings of the Committee. Other individuals may be invited to attend meetings as and when appropriate.

The Committee's Terms of Reference were updated in March 2019.

Dear Shareholder

I am pleased to introduce this report which details the role of the Treasury Committee and the important work it has undertaken during the year.

The Committee continues to play a key role in supporting the Board in monitoring performance against the Group's approved Treasury Policy and annual Treasury Plan, reviewing in detail the Group's funding requirements and providing oversight of the Group's key financing risks and opportunities.

The Committee has undertaken reviews of the Treasury Policy Statement and energy risk management strategy and agreed changes where required. It has also maintained its focus on the Group's credit ratings and key financial ratios, in full consideration of the PR19 Business Plan submission this year.

The Committee held five meetings during the year and has met once since the end of the financial year. There have also been three additional meetings held throughout the year. I would like to thank the members of the Committee, the management team and the Committee's independent advisers, Evercore, for their continued commitment and the importance they all attach to the Committee's work.

The Committee's performance was assessed as part of the annual Board Effectiveness evaluation. I am pleased that the Committee is regarded as operating effectively and the Board takes assurance from the quality of its work.

The Committee has spent a significant proportion of its time overseeing the development of Severn Trent Water's PR19 financing strategy. Following Severn Trent's selection as a fast-track company, the Committee has continued its focus on ensuring that we enter AMP7 in a strong funding position that takes account of changes to the regulatory allowance and fully considers financing risks and opportunities.

Treasury Committee Responsibilities

The responsibilities of the Committee are explained below:

- oversight of treasury activities in implementing approved treasury policies;

- oversight of interest rate and inflation risk management strategies, in particular, the monitoring of the impact of changes in forecast interest rates and inflation on Group earnings;
- oversight of the Group's funding strategy;
- monitoring the Group's exposure to financial institution credit risk;
- monitoring the Group's exposure to foreign currency risk;
- monitoring the Group's exposure to financial liquidity risk;
- oversight of energy exposure risk management strategies;
- receiving updates on general financial market movements;
- oversight of treasury internal controls; and
- oversight of the Group's pension schemes' investment strategy.

Key areas of focus in 2018/19

The Committee provides Board oversight of the Group's key financing risks and opportunities.

Some key areas of discussion for the Committee during 2018/19 included:

- the impact of prevailing economic conditions on the forecast of long-term interest rates and associated interest rate and inflation risk management policy;
- the impact of Brexit on existing and future sources of funding for the Group's businesses;
- the AMP7 financing strategy;
- the AMP7 energy procurement strategy; and
- the review of the Group's European Medium Term Note Programme and approval for bonds to be issued pursuant to that Programme during the year.

John Coghlan

Chairman of the Treasury Committee

Documents available at severntrent.com
[Treasury Committee Terms of Reference](#)

Corporate Responsibility Committee report

Accountability

Chair's message



Dame Angela Strank
Chair of the Corporate Responsibility Committee

Attendance table

Committee Member	Meetings attended	Max possible
Dame Angela Strank (Chair)	4	4
Andrew Duff	4	4
Dominique Reiniche	4	4
Liv Garfield	4	4

In addition to the attendance set out above, the Company Secretary and Head of Corporate Responsibility normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate.

The Committee's Terms of Reference were updated in March 2019.

Dear Shareholder

As Chair of the Corporate Responsibility Committee, I am pleased to introduce this report which details the work undertaken by the Committee during the year as well as the role it plays in developing the Group's societal purpose. You can read more about our social purpose on page 6. The following account provides detail on the activities of the Committee, an overview of the topics discussed and steps taken to address any actions.

I'm very pleased to report that we've had a particularly strong year on improving biodiversity, Catchment Management, education, for example through our Wonderful Water Tour, helping customers who are in genuine need to pay their bills and our continued commitment to renewables through our acquisition of Agrivert.

The Committee plays a key role in supporting the Board within the Governance Framework, by providing guidance and direction to the Company's Corporate Responsibility and Sustainability Programme. The Committee also provides oversight of the Group's key non-financial risks and opportunities.

The Committee reviewed the Group's performance across a range of corporate responsibility commitments and reviewed regular whistleblowing reports. We also reviewed our approach to modern slavery, and were pleased that our 2018 Modern Slavery Statement ranked 16th in the Business and Human Rights Resource Centre's review of FTSE100 companies.

The Committee also discussed evolving reputational risks and how these are being managed, including renationalisation and climate change. Further information on our Group risks can be found on pages 56 – 61.

The Committee spent a significant proportion of its time focusing on Severn Trent's role as an environmental leader, reviewing aspirations, commitments and performance to date. As part of this work, the Committee reviewed our approach to biodiversity including new more ambitious targets for AMP7.

These include expanding the scope of our biodiversity agenda beyond Severn Trent sites and providing a focus on flood protection, recreational facilities and improved water quality. This biodiversity agenda complements the Government's 25 Year Environment Plan and it is strongly supported by our stakeholders. The Committee also discussed the approach to carbon and climate change, including our triple pledge to become carbon neutral by 2030, have 100% electric vehicles by 2030 (as long as the vehicles are available) and generate 100% renewable energy by 2030. This pledge is even more ambitious than a science-based target and builds on our long track record of making year-on-year reductions in emissions.

Other matters we have focused on this year include employee volunteering and responsible supply chain management. Additional information on these matters can be found on pages 44 and 45 respectively.

Towards the end of the year, the Committee reviewed our community dividend approach. This is a new commitment to invest 1% of our profits in community projects, providing a really exciting opportunity to make positive impact in our region. The first grants will be made available in 2021.

I should like to thank the members of the Corporate Responsibility Committee for the open, constructive and progressive discussions that take place at our meetings and their personal commitment to our wide ranging and impactful agenda.

Dame Angela Strank
Chair of the Corporate Responsibility Committee

Documents available at [severntrent.com](https://www.severntrent.com)

Corporate Responsibility Committee Terms of Reference

Modern Slavery Statement

Group Environment Policy

Our Corporate Responsibility Framework

Our Corporate Responsibility Framework (the 'Framework') is ambitious, broad ranging and underpinned by stretching targets, to ensure we are delivering the commitments expected of a leading socially and environmentally responsible business. Acting in a responsible manner is integral to our purpose of serving our communities and customers, building a lasting water legacy and achieving our vision to be the most trusted water company by 2020. We hold ourselves to account against our Framework and agreed metrics through an effective performance management system. Our Corporate Responsibility performance is embedded within the organisation, with ODIs linked to the majority of our metrics, enabling the Company to focus on issues important to our customers.

Performance against the Framework is regularly reported to the Committee, and in our Annual Report and Accounts, on our website and through selected environmental, social and governance ('ESG') indices. You can read more on page 29.

Employee rewards are directly linked to our Corporate Responsibility performance, with customer ODIs, health and safety and our key metrics contributing to employee bonus. We believe that by focusing on the issues most important to our customers, our Framework has the right focus. In 2019/20, our aspirations and commitments will be reviewed in line with our new PR19 plan and our commitments for the next five years.

'Doing the Right Thing – The Severn Trent Way'

At the heart of Severn Trent's culture is a closely held set of values called 'Doing the Right Thing'. These values embody the principles by which the Group operates and they provide a consistent framework for responsible business practices.

'Doing the Right Thing' is supported by a number of policies which guide our workforce and suppliers. These policies codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to maintain the highest standards of safety; and how to apply good ethics and sound judgment.

Key areas of Corporate Responsibility Committee focus in 2018/19

A summary of the matters considered at each meeting is set out below:

April 2018

- Corporate Responsibility performance report
- Community Champions – Our Employee Volunteering programme
- Internal Audit Plan 2018/19
- Anti-Slavery and Human Trafficking Statement 2018 – Update
- 2018/19 Annual Report – Approach
- Committee Terms of Reference: Annual Review
- Whistleblowing report

July 2018

- Reducing Our Carbon Footprint
- Improving the Biodiversity of Our Region
- Anti-Slavery and Human Trafficking Statement 2018
- Internal Audit Open Actions in Relation to Corporate Social Responsibility
- Whistleblowing report

November 2018

- Corporate Responsibility performance report
- Engaging Responsibly with Our Supply Chain
- Political Risks
- Realising Our Vision for Environmental Leadership
- Whistleblowing report

March 2019

- Corporate Responsibility performance report
- Climate Change Mitigation and Adaptation Strategy
- Zero Carbon Strategy
- Modern Slavery Update 2019
- Establishing our Community Dividend
- Whistleblowing report

Corporate Responsibility Committee report continued

Accountability

Our Code of Conduct is embedded throughout Severn Trent and forms a key part of our Company induction and all employees are required to complete an e-learning training module to ensure they understand their personal responsibilities.

Human Rights and Modern Slavery

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, 'Doing the Right Thing'. We have a responsibility to understand our potential impact on human rights and to mitigate or eliminate any potentially negative impacts. Whilst not having a specific human rights policy, we have Group policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement.

We will always treat people in our business and supply chain fairly and have a clear zero tolerance approach to modern slavery. To date we have had no instances of modern slavery raised, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. Our understanding is constantly evolving and we are continually adapting and improving our approach accordingly. We know modern slavery is a growing global issue and know our customers and stakeholders share our concern. Our highest risk is through our supply chain. Therefore we work with our suppliers to ensure they operate to the same standards we set ourselves, and we have also been working closely with our suppliers to ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states zero tolerance, and this is built into our procurement tender process.

We have been working with Hope for Justice for three years to develop our approach. Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent PLC website.

Freedom of Association and Collective Bargaining

We recognise the right of all employees to Freedom of Association and Collective Bargaining. We seek to promote co-operation between employees, our management team and recognised Trade Unions. We meet with our Trade Unions on a quarterly basis at the Employee Forum and see mutual benefit in sharing information with our colleagues and seek their feedback and suggestions. We believe this fosters a common understanding of business needs and helps to deliver joint solutions aimed at making our business successful. Our Employee Forum also provides an invaluable opportunity for engagement with the whole workforce to ensure workforce views are taken into account.

Whistleblowing

Our employees, and wider workforce, can raise concerns at work through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations are carried out independently and the findings are reported directly through to the Audit and Corporate Responsibility Committees.

Prevention and detection of bribery and corruption

Our Group financial crime policy prohibits bribery, corruption and fraud in all our business dealings, regardless of the country or culture within which we work. This year we have also updated our policy to take into account the new tax evasion offences. Employees identified as high risk, through a risk review for all Group employees, are required to undertake an online training module and test to ensure awareness of, and compliance with, anti-bribery and corruption.

Responsible business practices are an integral part of our business strategy. Performance against our Corporate Responsibility commitments are reported throughout our Annual Report and Accounts reflecting their embedded nature. You can read more on page 29 and on our dedicated ESG webpage, on the Severn Trent website.

Dame Angela Strank met employees at our Minworth site, observing first hand their contribution to our renewable energy commitment.



Chairman's letter



Philip Remnant

Chairman of the Remuneration Committee

Attendance table

Committee Member	Attendance in 2018/19
Philip Remnant (Chairman)	4/4
Andrew Duff	4/4
Kevin Beeston	4/4
Dame Angela Strank	4/4

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At a Glance	100
Summary of Remuneration Policy and Implementation	104
Employment at Severn Trent	108
Annual Report on Remuneration	117

The Committee's Terms of Reference, were updated in March 2019 and are available on the Severn Trent website, alongside the Remuneration Policy which was approved at the Annual General Meeting ('AGM') on 18 July 2018.

All Committee members are independent Non-Executive Directors, as defined under the 2016 UK Corporate Governance Code ('the Code'), with the exception of the Company Chairman who was independent on his appointment. Full biographies of the Committee members can be found on pages 66 to 67.

The Committee members have no personal financial interest, other than as shareholders, in the matters considered by the Committee.

Dear Shareholder

As a Committee, the last year has been spent building on the foundations of a well-received Remuneration Policy ('the Policy') and ensuring that our strong and well-respected approach to governance also reflects the latest changes in the 2018 UK Corporate Governance Code ('the 2018 Code').

We have seen a number of decisions made by management to support preparations for the next Asset Management Plan ('AMP') and a continued desire to invest responsibly for sustainable growth. This has been combined with successfully navigating operational challenges, including the prolonged hot, dry summer, as well as achieving fast-track status for our Severn Trent Water PR19 submission.

The Committee is cognisant of developments in governance expectations and our responsibilities relating to disclosure and transparency of all aspects of executive pay and alignment of reward throughout the workforce. With this in mind, the Committee recognises the contribution made by all employees to put customers' needs at the heart of our business throughout the year in delivering an essential public service.

Further comment on our overall performance during the financial year can be found in the CEO's review on page 21.

The Committee has met four times during the year and twice since the end of the financial year.

Remuneration for the year under review

We received overwhelming shareholder support and approval of the Policy at last year's AGM, and a summary of the voting is shown in the table below. This is, I believe, testament to how we align our remuneration decisions with our business strategy, as well as the extensive shareholder consultation and engagement process undertaken beforehand. The full Policy can be found on the Severn Trent Plc website and on pages 120 to 128 in the 2018 Remuneration Committee report.

Through our At a Glance section, on page 100 we summarise the performance outcomes against our remuneration framework, in the context of how the Policy was applied in 2018/19.

The annual bonus will pay out at 70.2% of salary for both the CEO and the CFO.

The 2016-2019 Long Term Incentive Plan ('LTIP') has vested at 100%, driven by the strong cumulative performance of our Return on Regulated Equity ('RoRE') over the three year performance period. The component parts of RoRE are customer Outcome Delivery Incentives ('ODIs'), financing and Totex (total capital and operational expenditure).

The Committee believes that the outcomes of the bonus and LTIP accurately reflect the performance of the Company over this period. No discretion has been exercised by the Committee in respect of either the 2016 LTIP or the 2018/19 Annual Bonus.

2018 AGM Shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Remuneration Policy	165,243,866 (99.18%)	1,369,398 (0.82%)	266,854
Approve Directors' remuneration report	165,511,103 (99.34%)	1,100,476 (0.66%)	273,463

Directors' remuneration report continued

Remuneration

Employment at Severn Trent

The Chairman and CEO regularly attend the Employee Forum, and in the coming year I and the other Non-Executive Directors will also attend. The Committee will continue to use the voice of the employee as valuable insight when making wider remuneration decisions. Our all-employee Annual Bonus Scheme ensures alignment of reward throughout the organisation, and rewards delivery of our customer priorities now and in the future.

We are extremely proud to have been recognised as the first socially purposeful company in the utility sector, and the section on page 111 highlights our evolving diversity and inclusion policies and accomplishments; in particular, our top four position in the 2018 Hampton-Alexander Review, and also our focus on Social Mobility, recognised in the Social Mobility Employer Index 2018 detailed on page 113. More detail on our Social Purpose can be found on page 6.

Remuneration in the year ahead

We remain committed to delivering a leading and transparent remuneration framework, supported by strong governance processes, designed to drive the right behaviours across the whole organisation and deliver long-term success, meeting the needs of our customers, shareholders and communities we serve.

As a Committee, we recognise the importance of taking into consideration the relationship between operational performance and relative remuneration, when designing our LTIP and Annual Bonus Scheme, and we believe that there are three areas which set us apart:

- Our LTIP will continue to be based on upper quartile ('UQ') stretch RoRE performance. This means, to be fully rewarded, management must deliver one of the best service and cost performances compared with other companies in the sector, aligning reward with the interests of both investors and customers.

- We are changing the weighting of existing elements within our Annual Bonus Scheme. Whilst the focus of the bonus will remain combined ODI and PBIT performance, the changes will drive an even stronger operational culture within Severn Trent, as we transfer smoothly into the new AMP.
- We continue to apply a consistent bonus scheme design throughout the organisation, from the front line to Executive Directors, ensuring that every employee is incentivised and rewarded to deliver the same shared objectives.

We are cognisant of the requirements of the 2018 Code, and our approach to future reporting is set out on page 114. We will continue to evolve our disclosure on executive pay taking into account best practice.

The At a Glance section on page 100 outlines how the Committee intends to implement the Policy in 2019/20.

Ongoing Shareholder communication

In line with our commitment to maintaining a credible and transparent remuneration framework, in April 2019 we contacted our 30 largest shareholders representing over 50% of our issued share capital, as well as Glass Lewis, The Investment Association and ISS, to inform them of proposed changes to the operation of our annual bonus for the 2019/20 financial year. These are all within the remit of the current Policy.

The Board is confident that the Company is making strong progress against its priorities and delivering value for all our stakeholders (shareholders, customers and colleagues). The focus for the remainder of AMP6 is to deliver the very best service to our customers and build a resilient future to protect our services and the environment going into AMP7. A number of objectives drive this strategic focus and achieving these objectives will ensure that we continue to deliver long-term, sustainable value for all our stakeholders. As the Company's strategic priorities evolve, the Committee firmly believes that the operation of the bonus must evolve with it.

Our approach has increased focus on customers, asset health and the environment. We are committed to building a resilient future over the longer term, and believe that by making these adjustments to our bonus scheme we are strengthening the alignment between reward outcomes and strategic priorities for both the coming financial year and the years ahead. The changes will:

- Increase the proportion of bonus attributed to Customer and Environment ODIs from 28% to 35%;
- Create three sub-categories within the Customer and Environment element of the bonus, which all directly relate to the delivery of a resilient service for our customers:
 - Customer Outcomes (15%);
 - Asset Health (10%); and
 - Environment and Social Outcomes (10%);
- Retain the element of the bonus around customer complaints and its weighting of 8% but align measurement with Ofwat's proposed new approach (known as 'C-Mex' – Customer Service Measure of Experience);
- Reduce the proportion of bonus linked to PBIT from 57% to 49%;
- Remove the bonus reward linked to the delivery of personal objectives, previously 7%. The Committee believes that the individual contributions of the members of the Executive will be reflected in the outcomes for the other bonus measures; and
- Retain the proportion of bonus linked to Health and Safety at 8%.

The feedback and responses received on the proposed changes were positive and supportive overall of the Committee's approach, which also has the strong support of Ofwat.

Committee performance

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

Philip Remnant

Chairman of the Remuneration Committee

Key areas of Remuneration Committee focus in 2018/19

A summary of the matters considered at each meeting is set out below:

May 2018

Annual bonus outcome for 2017/18
 2015 LTIP vesting
 Salary increases for Executive Committee members and for Executive Directors
 Annual bonus 2018/19 targets
 LTIP awards for 2018
 Final draft of Directors' remuneration report for 2017/18
 Review of AGM season
 Update on Remuneration Policy consultation

November 2018

Reward and performance alignment 2017/18 compared with Water and Sewerage Companies ('WaSC') peers
 Update on market practice and remuneration forward look
 UK Corporate Governance Code update
 Gender pay reporting 2018
 Annual bonus 2018/19 – interim update
 LTIP award – application of RoRE methodology
 LTIP leavers
 Annual bonus 2019/20 – design

January 2019

Executive Committee members and Executive Directors' benchmarking review
 Review of expense claims procedure for Chairman and CEO
 LTIP awards for 2019
 Annual bonus 2019/20 – structure and targets
 Directors' remuneration report planning for 2018/19
 Review of mandatory shareholding requirements and update on sourcing for share schemes

March 2019

Executive Committee members and Executive Directors' salary increase proposals
 Terms of reference for the Remuneration Committee
 Annual bonus 2018/19 – interim update
 LTIP awards for 2019
 UK Corporate Governance Code update
 LTIP leavers
 Review of fees for the Company Chairman

Who supports the Committee?

To ensure that the Company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). This appointment in 2017 followed a selection process. PwC attends meetings of the Committee by invitation. The CEO, Director of Human Resources and, by invitation, the Head of HR Operations and Reward & Pensions Manager also attended the Committee meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent.

Fees for advice provided by PwC to the Committee during the year were £143,000 excluding VAT (2017/18: £170,500). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year.

Directors' remuneration report continued

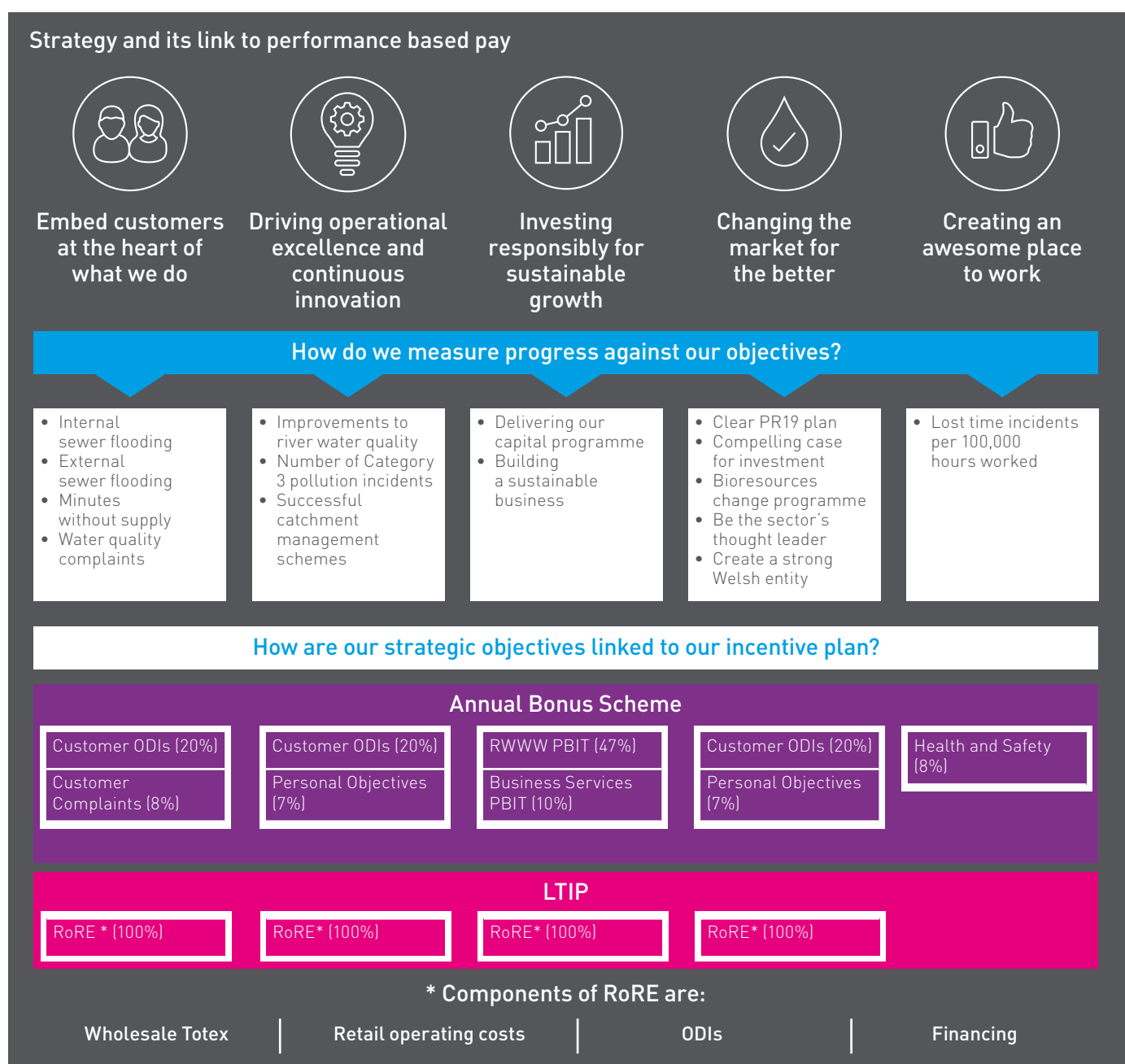
Remuneration

At a Glance

The following section sets out our remuneration framework, a summary of how the Policy was applied in 2018/19 in the context of our business performance, and from page 104 details how the Committee intends to implement the Policy in 2019/20.

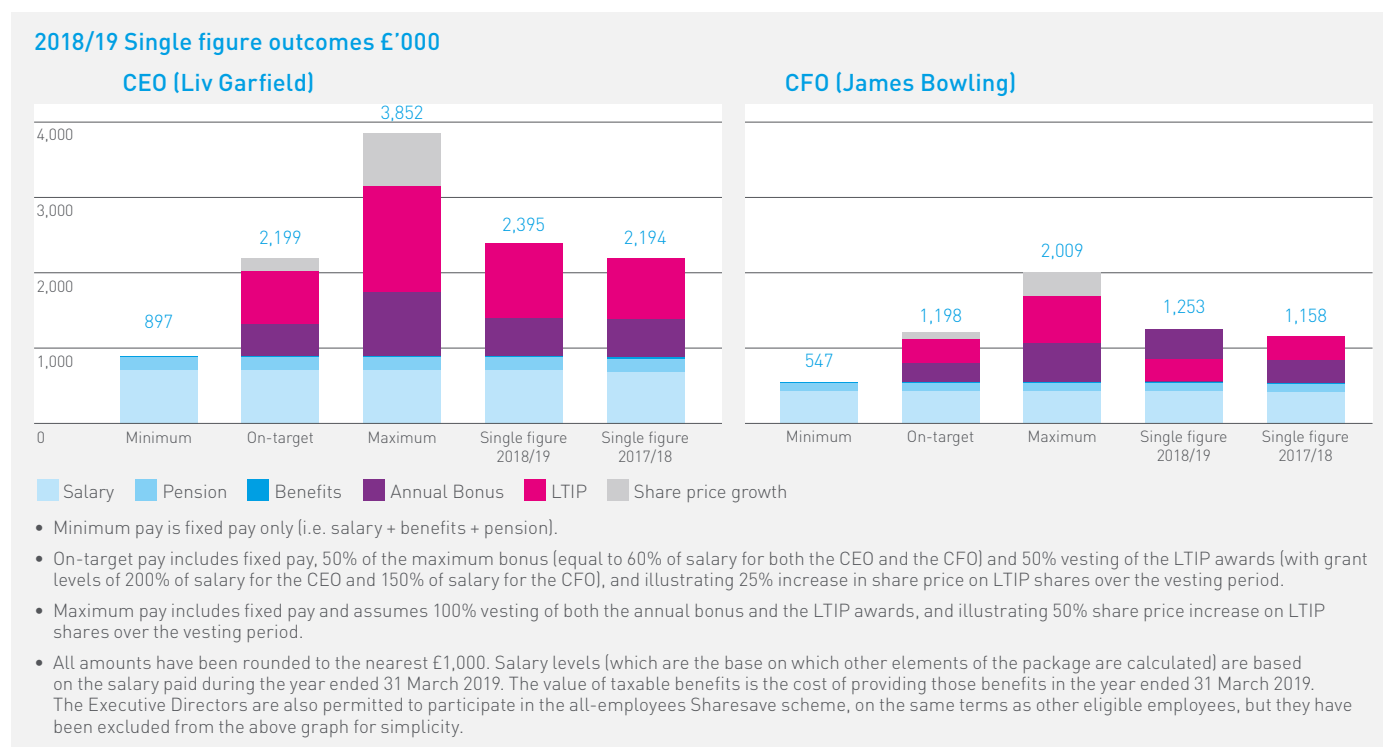
Strategic alignment of remuneration

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy through our five strategic priorities. The following table sets out how each of these is reflected in the Annual Bonus Scheme and LTIP for 2018/19, and it will be updated next year to reflect the 2019/20 Annual Bonus Scheme.



2018/19 Single figure outcomes

The graphs show how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors. The full explanatory notes for each element of remuneration are detailed on page 117 in the Annual Report on Remuneration.



Annual bonus 2018/19 outcome

Further details, including information on the performance assessment of personal objectives are set out on pages 118 and 119 in the Annual Report on Remuneration.

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
RWWW PBIT ⁽ⁱ⁾	£515.1m	£528.1m	£541.1m	47%	21.5%
	Actual £527.0m				
Customer ODIs ⁽ⁱⁱ⁾	£40m	£60m	£80m	20%	20%
	Actual £91.1m				
Business Services PBIT ⁽ⁱⁱⁱ⁾	£58.8m	£60.8m	£62.8m	10%	10%
	Actual £67.4m				
Health and safety ^(iv)	0.17	0.13	0.09	8%	0%
	Actual 0.30				
Customer complaints ^(v)	5%	10%	15%	8%	0%
	Actual -14%				
Personal performance				7%	7% – CEO 7% – CFO

(i) Underlying profit as defined in note 45 to the Group financial statements.

(ii) Customer ODIs quoted pre-tax in 2012/13 prices and pre the regulatory customer ODI cap.

(iii) Underlying PBIT adjusted to remove £3.3 million impact of IFRS 15.

(iv) Measured as number of lost time incidents divided by number of hours worked multiplied by 100,000.

(v) Measured as the percentage reduction in written complaints.

	2018/19 salary* (£)	Bonus opp (% salary)	Bonus outcome (% max)	Annual Bonus (£)	Cash bonus (£)	Value of shares awarded (£)
CEO	708.0	120	58.5	497.0	248.5	248.5
CFO	426.6	120	58.5	299.5	149.8	149.7

* Bonus calculated using salary at 31 March 2019.

Directors' remuneration report continued

Remuneration

2016 LTIP vesting in 2018/19

The chart shows the outcome of the 2016 LTIP awards, for which the performance period ended on 31 March 2019. The LTIP which is based on RoRE over the three years to 31 March 2019 will vest in June 2019.

Further information is provided on page 120 in the Annual Report on Remuneration, including a breakdown of the LTIP awards granted to Executive Directors in 2018.

Business performance – 2018/19 outturns against Key Performance Indicators ('KPIs')

The charts show our customer ODI and RoRE performance since the beginning of the current AMP. This strong sustained level of performance when compared to our Final Determination has informed the level of reward received by our Executive Directors and our employees through the Company-wide bonus scheme, which is linked to the same performance measures.

2016 LTIP vesting in 2018/19

	Threshold FD (25% payable)	Maximum (100% payable)	CEO outcome (vesting as % of award)	CFO outcome (vesting as % of award)
RoRE – measured against multiple of Ofwat FD	1x	1.39x	100%	100%
		Actual 1.76x		

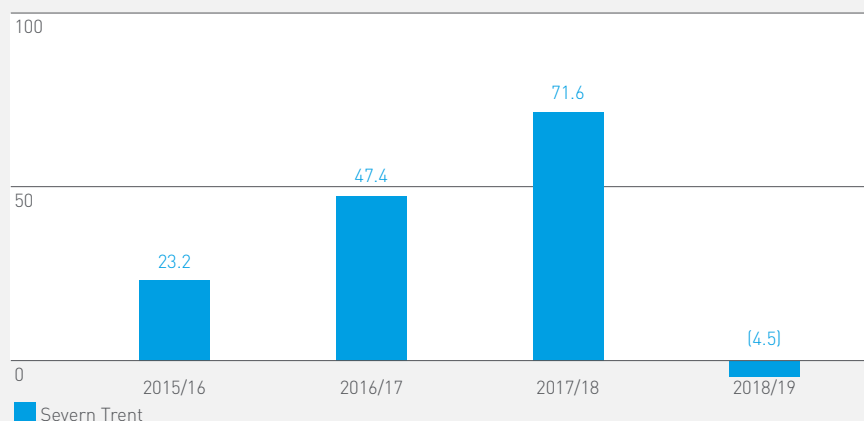
	Number of shares granted	Award vesting (% max)	Face value of shares vesting ⁽ⁱ⁾	Value attributable to share price movement	Value of dividend equivalents due ⁽ⁱⁱ⁾	Value of resultant award
CEO	46,115	100%	913.2	£0	£88.5	£1,001.7
CFO	18,529	100%	366.9	£0	£35.6	£402.5

(i) Based on 3 month average share price as at 31 March 2019 of £19.80.

(ii) Based on dividends paid in the period since date of grant to 31 March 2019.

Business performance – 2018/19 outturns against KPIs

ODI £m^{(i) (ii) (iii)}

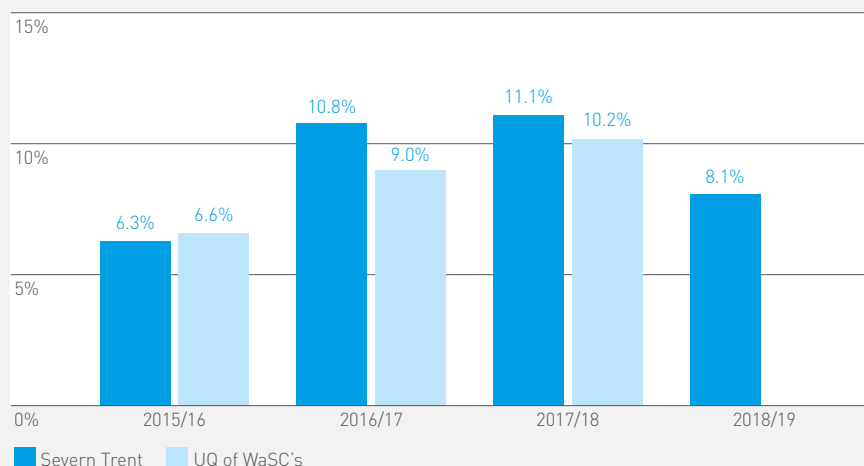


(i) 2017/18 figure restated to reflect Ofwat's decision on supply interruptions in their Final Determination of in-period ODIs for 2018.

(ii) Customer ODIs quoted pre-tax in 2012/13 prices.

(iii) 2018/19 figure is post the regulatory customer ODI cap. Pre cap the net reward was £91.9 million as shown in the annual bonus 2018/19 outturn on page 101.

RoRE %^{(i) (ii)}



(i) 2017/18 figure restated to reflect Ofwat's decision on supply interruptions in their Final Determination of in-period ODIs for 2018.

(ii) Calculated in accordance with Ofwat methodology. UQ data is not yet available for the current year.

Executive Director shareholdings

The CEO and CFO have exceeded the shareholding requirements applicable in 2018/19 of 300% and 200% respectively of salary.

Shareholding requirement

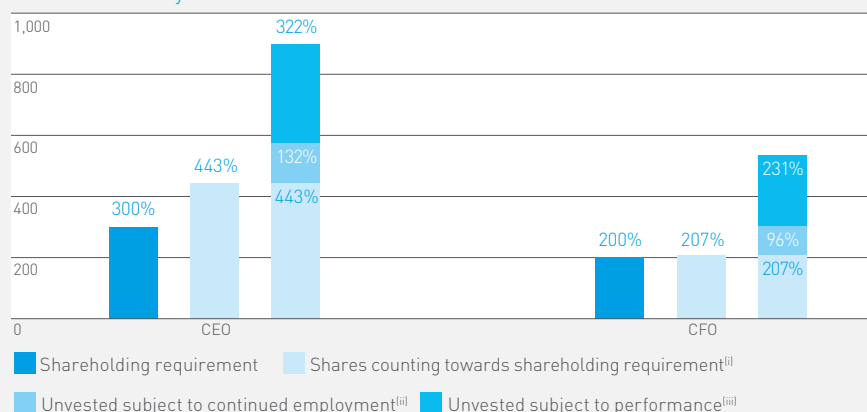
The minimum shareholding requirement for Executive Directors, and the current share interests of the Executive Directors, take into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance, and are set out opposite. The shareholding requirement must be built up over a five year period and then subsequently maintained. Further detail regarding the Executive Directors' outstanding shares awards can be found on page 120.

Shares counting towards the achievement of the guideline include beneficially owned shares (including shares held by connected persons) and the net of tax value of deferred shares under the annual bonus since they are not subject to performance conditions. The Executive Directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding requirements are met.

Overall link to remuneration and equity of the Executive Directors

As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Company. This is why, when we look at the remuneration paid in the year, we also look at the total equity they hold and its value based on the performance of the Company. The table sets out the number of shares beneficially owned by the Executive Directors at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year.

Executive Director shareholdings % of base salary



- (i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share awards (of which 50% are deducted to cover statutory deductions).
- (ii) Represents 2016 LTIP shares which are subject to an ongoing vesting period plus shares held as part of the Sharesave scheme.
- (iii) Represents the 2017 and 2018 LTIP awards which are subject to ongoing performance.
- All calculations in the above chart use a closing share price on 31 March 2019 of £19.76.

Overall link to remuneration and equity of the Executive Directors

	2018/19 Single Figure (£'000s)	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£'000s) ⁽ⁱ⁾	Value of shares at end of year (£'000s) ⁽ⁱⁱ⁾	Difference (£'000s)
CEO	2,395.4	103,274	137,349	£1,904.4	£2,714.0	+£809.6
CFO	1,253.0	23,464	32,075	£432.7	£633.8	+£201.1

- (i) Based on a closing share price on 31 March 2018 of £18.44.
- (ii) Based on a closing share price on 31 March 2019 of £19.76.

Directors' remuneration report continued

Remuneration

Summary of the Policy and implementation in 2018/19 and 2019/20

The Company's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Severn Trent, aligned with shareholder interests.

The diagram below illustrates the balance of pay and time period of each element of the Policy for Executive Directors.

Total pay	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary				
Fixed pay	Benefits, Pension				
Annual Bonus (Malus and clawback provisions apply)	50% in cash	50% in shares 3-year deferral period No further performance conditions			
LTIP (Malus and clawback provisions apply)	Up to 200% salary 3-year performance period			2-year holding period No further performance conditions	

The table below sets out an overview of the key areas of the Policy and summarises how the Committee applied the Policy in 2018/19, together with details of how the Committee intends to implement the Policy in 2019/20.

Base Salary

To recruit and reward Executive Directors of a suitable calibre for the role and duties required.

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
Salaries are normally reviewed annually on 1 July. Salaries take account of: – Individual performance; – Experience and contribution; – Developments in the relevant employment market; – Company performance and affordability; – Wider economic environment; and – Internal relativities.	Any increases will typically not be higher than the average increases for employees. However, a higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstances.	Executive Directors' salaries increased by 2.5% from 1 July 2018. CEO – £708,000 CFO – £426,600 These rises were lower than the general employee salary increase.	Executive Directors' salaries increase by 2.4% from 1 July 2019. CEO – £725,000 CFO – £436,900 These rises are in line with the general employee salary increase.

Benefits

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
Benefits typically include car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. In addition, Executive Directors are eligible to participate in all-employee share plans on the same terms as other eligible employees.	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 are reviewed periodically.	Normal company benefit provision.	No change.

Pension

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
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. This is in line with the level provided to the wider workforce.	Executive Director current pension arrangements for 2018/19 are as follows: CEO – 25% of salary CFO – 25% of salary	No change for current Executive Directors.

Directors' remuneration report continued

Remuneration

Annual bonus

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
<p>Bonuses are based on financial, operational and customer service. 50% of the bonus is paid in cash and 50% is deferred into shares for 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.</p> <p>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.</p> <p>Malus and clawback provisions apply.</p>	<p>Maximum award of 120% of salary.</p> <p>There will be no payment made for threshold performance.</p> <p>50% of maximum will be paid for target performance and 100% of maximum will be paid for stretch performance.</p>	<p>Maximum opportunities:</p> <p>CEO – 120% of salary</p> <p>CFO – 120% of salary</p> <p>Performance measures (as a % of maximum):</p> <p>Regulated Water and Waste Water PBIT – 47%</p> <p>Business Services PBIT – 10%</p> <p>Customer ODIs – 20%</p> <p>Health & Safety – 8%</p> <p>Customer experience – 8%</p> <p>Personal objectives – 7%</p> <p>Executive Directors awarded bonuses of:</p> <p>CEO – 70.2% of salary</p> <p>CFO – 70.2% of salary</p> <p>Deferral of 50% of bonus earned.</p> <p>See page 101 for further details on outcomes.</p>	<p>No change to the maximum bonus opportunity or payment mechanisms of bonuses.</p> <p>See page 97 for the Chairman's letter and description of changes proposed to the operation of the annual bonus for financial year 2019/20.</p> <p>Performance measures (as a % of maximum):</p> <p>Group PBIT – 49%</p> <p>Resilient Service ODIs – 35%:</p> <ul style="list-style-type: none"> • Customer (15%) • Asset Health (10%) • Environment (10%) <p>Customer Service – 8%</p> <p>Health & Safety – 8%</p>

LTIP

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
<p>Awards are granted annually and are subject to a three year performance period.</p> <p>RoRE is the sole performance condition, with a stretch target based on UQ performance.</p> <p>RoRE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value, as prescribed by Ofwat.</p> <p>Awards made to Executive Directors are subject to a two year holding period post-vesting which continues to operate post-cessation of employment.</p> <p>Malus and clawback provisions apply.</p> <p>The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting.</p>	<p>Maximum award opportunity up to 200% of salary. Up to 25% of an award may vest for threshold performance.</p>	<p>Grant levels:</p> <p>CEO – 200% of salary</p> <p>CFO – 150% of salary</p> <p>The 2016 LTIP vested in the year at 100%. See page 120 for further details.</p> <p>See page 121 for details of the RoRE target for the 2018 LTIP awards granted in the year.</p>	<p>No change to maximum LTIP opportunities or the performance conditions.</p> <p>See page 107 for detail on LTIP awards to be granted.</p>

Shareholding requirement

To encourage strong alignment between the interests of shareholders and Executive Directors.

Operation	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
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 requirement has been met.	CEO – 300% of salary CFO – 200% of salary See pages 103 and 120 for further details on shareholding requirements and outstanding share awards.	No change to requirements.

LTIP awards to be granted in 2019

The table below describes how the LTIP will be implemented in 2019. The CEO's award will be 200% of salary and the CFO's award will be 150% of salary. The RoRE performance condition that will be measured over three years, to 31 March 2022, and corresponding vesting (as % of salary) will be:

	Award 2019 LTIP	Threshold FD % Salary	1.39 x FD % Salary	UQ RoRE performance relative to WaSCs % Salary
Vesting for performance	CEO	37.5%	150%	200%
	CFO	25%	100%	150%

Chairman and Non-Executive Directors' fees (audited)

From 1 April 2019, Non-Executive Director fees were increased by 2.4% from £55,100 to £56,450, and the Chairman's fee was increased by 2.4% from £287,600 to £294,600. These increases are in line with the general employee salary increase.

The current fee levels, and those for the future financial year, are set out in the table.

The Chairman, Senior Independent Director and Non-Executive Directors are appointed for a three year term, subject to annual re-election by shareholders following the annual Board Effectiveness evaluation process. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. The current Letters of Appointment are available on the Severn Trent Plc website.

The Chairman, Andrew Duff, will be standing for re-election at the Company's forthcoming AGM on 17 July 2019 and, in order to facilitate an effective succession plan, it is intended that he remains as Chairman until the announcement and induction of his successor.

Chairman and Non-Executive Directors' fees (audited)

	Fees 2019/20	Fees 2018/19	Increase %
Chairman's fee	£294,600	£287,600	2.4%
Fee paid to all Non-Executive Directors	£56,450	£55,100	2.4%
Supplementary fees:			
– Senior Independent Director	£10,000	£10,000	0.0%
– Audit Committee Chairman	£15,000	£15,000	0.0%
– Remuneration Committee Chairman	£15,000	£15,000	0.0%
– Corporate Responsibility Committee Chair	£13,000	£13,000	0.0%
– Treasury Committee Chairman	£15,000	£15,000	0.0%

Directors' remuneration report continued

Remuneration

Employment at Severn Trent

We have taken the opportunity to create a new section in this report which brings visibility of remuneration across the entire workforce together in one place.

Creating an awesome place to work is one of our key strategic priorities, and one of the ways in which we aim to achieve this is through a diverse and inclusive working environment, and by rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions, and we believe that it is important to be transparent about the link between the two.

As part of our commitment to fairness, we have included in this section more information on our remuneration principles, wider workforce pay conditions, the Committee's remit, our Gender Pay statistics and how remuneration aligns with Group performance.

The Committee ensures that pay is fair throughout the Company and makes decisions in relation to the structure of executive pay in the context of the wider workforce remuneration and the cascade of incentives throughout the business. The Committee's remit extends down to Executives and senior management for which it recommends and monitors the level and structure of remuneration.

This section of the report covers the following:

- Communication with employees;
- Severn Trent's Remuneration Principles;
- Wider workforce considerations and approach to fairness, including diversity and inclusion policies;
- Introduction to wider Committee remit and the Committee's report:
 - On wider workforce pay policies and whether the approach to executive remuneration is consistent; and
 - On the alignment of the incentives operated by the Group with its culture and strategy.

- Pay Comparisons:
 - Alignment with Group performance;
 - Gender pay; and
 - Social Mobility Index.

Communication with employees

To ensure the voice of our employees is heard, we have an active Employee Forum ('the Forum') that meets every quarter to discuss business challenges and opportunities. The Forum is chaired jointly by a member of the Executive Committee and the Trade Unions. Members include representatives from HR, joint Trade Unions and employees from our other business area employee forums.

The objectives of the Forum are to:

- Involve employees by sharing information on the future of our business and the water industry;
- Work together on issues that affect our employees; and
- Work in partnership to deliver better solutions to improve the way we work.

During 2018/19, the CEO discussed the performance of the business with the Forum, together with key financial information and ideas for efficiencies.

The Chairman and CEO regularly attend the Forum and in the coming year the Committee Chairman, and other Non-Executive Directors will attend. The Forum provides the opportunity for the Board to meet employees across the Severn Trent Group and enables their views to be fully considered at Board level. Individual Directors provide feedback to the Board at each meeting.

The Board also receives feedback from the 'Ask Liv' section on the intranet.

Remuneration principles

Our reward strategy is designed to support and reinforce Severn Trent's purpose, vision and values and to reward all of our employees for delivering against our strategic objectives. We have updated our remuneration principles to support the next phase of our strategic development. The principles that we have developed apply across the Group and are cascaded throughout the organisation.

The 2018 Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40, and further details on our remuneration principles and how we have addressed the requirements are set out on page 109.

Top 50 Best Places to Work

Severn Trent Plc has been honoured with a Glassdoor Employees' Choice Award, recognising the Best Places to Work in 2019, based solely on the input of employees, who elect to provide feedback on their jobs, work environments and companies through Glassdoor.



"For employers, we know that a satisfied and engaged workforce helps drive financial performance. Glassdoor Best Places to Work winners are strategically investing in company culture, career growth opportunities and more, which also serves as a major recruiting advantage," said Dr. Andrew Chamberlain, Glassdoor Chief Economist.

When sharing a company review on Glassdoor, employees are asked to rate their satisfaction with the company overall, and key workplace factors like career opportunities, compensation and benefits, culture and values, senior management and work/life balance.

Our purpose: To serve our communities and build a lasting legacy

Our vision: To be the most trusted water company by 2020

How do we embed our purpose and vision in our remuneration guiding principles?

Our remuneration principles

Support our purpose, vision and values and our wider business goals	Drive long-term sustainable performance for the benefit of all our customers, shareholders and wider stakeholders	Be simple, transparent and easily understood by internal and external stakeholders	Encourage our employees to think and act like owners in the business	Attract, motivate and retain all our employees with diverse backgrounds, skills and capabilities
How does the Committee address the requirements under Provision 40?				
Cultural alignment and proportionality <ul style="list-style-type: none"> The Committee ensures that the overall reward framework embeds our purpose, vision and values The Committee reviews the executive reward framework regularly to ensure it supports the Company's strategic objectives 	Proportionality and risk <ul style="list-style-type: none"> A significant proportion of remuneration is delivered in variable pay linked to corporate performance Performance measures/targets for incentives are objectively determined Outcomes under incentive plans are based on holistic assessment of performance 	Simplicity, clarity and predictability <ul style="list-style-type: none"> The Committee ensures the highest standards of disclosure to our internal and external stakeholders The Committee makes decisions on executive pay in the context of all employees and the external environment 	Cultural alignment and risk <ul style="list-style-type: none"> The Committee ensures that a significant portion of reward is equity-based and thereby linked to shareholder return Executives are required to build significant personal shareholdings in the Company and this is regularly monitored by the Committee 	Clarity <ul style="list-style-type: none"> The Committee ensures that Executive Directors are provided with a remuneration opportunity which is competitive against companies of a similar size and complexity, with a strong emphasis on the variable elements

Alignment of the Policy to the Provisions of the 2018 Code

Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through KPIs which are used for the Annual Bonus and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid.
Simplicity	The Company operates a UK market standard approach to remuneration which is familiar to all stakeholders.
Risk	<p>The Policy includes the following:</p> <ul style="list-style-type: none"> Setting defined limits on the maximum awards which can be earned; Requiring the deferral of a substantial proportion of the incentives in shares for a material period of time, helping to ensure that the performance earning the award was sustainable, and thereby discouraging short-term behaviours; Aligning the performance conditions with the agreed strategy of the Company; Ensuring a focus on long-term sustainable performance through the LTIP; and Ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes, especially if it appears that the behaviours giving rise to the awards are inappropriate or that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability	Shareholders were given full information on the potential values which could be earned under the Plans on their approval. In addition, all the checks and balances set out above under 'Risk' were disclosed at the time of shareholder approval.
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy, and through deferral and measurement of performance over a number of years ensure that the Executive Directors have a strong drive to ensure that the performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance.
Alignment to culture	A key principle of the Company's culture is a focus on customers and their experience; this is reflected directly in the type of performance conditions used for the bonus. The focus on ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used for the incentive plans are measures used to determine the success of the implementation of the strategy.

Directors' remuneration report continued

Remuneration

Wider Workforce considerations and our approach to fairness

Pay and alignment

We recognise the central importance of all of our teams in delivering success and, as such, we seek to create an inclusive working environment, to reward our employees in a fair and equitable manner, and to provide fulfilling careers. We do this by providing all our employees with:

Eligibility	Number of employees covered	Remuneration element	Details
All employees	6,872 (as at 31 March 2019)	Salary	Salaries are set to reflect market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary Living Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.
		Benefits	All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and which is designed to support a positive work-life balance. 45% of our employees choose to tailor their benefits via our flexible benefits scheme. They have also saved a total of £56,309 through our employee discount partnerships since the scheme was launched.
		Pension	We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary), regardless of level or seniority. When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. We are proud that 98% of our employees are members of the pension scheme and 57% pay contributions above the minimum of 3%.
		Annual bonus	All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. For this year the bonus paid out £909 to our frontline employees in Severn Trent Water Limited and Hafren Dyfodwg. New starters, post 2 January 2019, were not eligible to receive a bonus.
		SAYE	Offering the opportunity to participate in our Sharesave scheme encourages employee engagement and reinforces our strong performance culture, enabling all employees to share in the long-term success of the Company whilst also aligning participants with shareholder interests. Nearly 70% of our employees are active participants in our Sharesave scheme which gives employees an opportunity to save up to £500 per month over three to five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.
Management and senior management	374	LTIP A proportion of this population participate in the LTIP by annual invitation	The LTIP reinforces delivery of long-term creation of value and sector outperformance. The retention of shares by Executive Directors for the longer term also supports a shared ownership culture in the Group.
Executive Committee and Executive Directors	11	Shareholding guidelines as a % of salary CEO – 300% CFO – 200% Exec Co – 100%	Supports alignment of Executives' interests with shareholders.

Our Social Purpose

We are proud to be recognised as the first socially purposeful Company in the utility sector. Read more in our Social Purpose Chapter on page 6. Our employees tell us we are doing well on diversity and inclusion through great scores in our employee engagement survey but we know there are further opportunities to reflect the demographics of our region.

As a result, we remain strongly committed to the long-term sustained development of our employees and communities through our evolving diversity and inclusion policies.

The diagram below summarises some of our activities and accomplishments in this area:

Do more to support our development and wellbeing

£10m

Investment in the Severn Trent Academy supporting development of colleagues at all stages of their careers, from foundation apprenticeships and graduate entrants through to higher and degree level apprenticeships and Masters degrees



Menopause awareness programme, so far over **240 employees** have attended our menopause workshops, **10% of whom were male**



Proudly supporting **Pride 2019**

LGBT+ Ally campaign and Pride

Recognise and fairly reward everyone's contribution



Our 2019 starting rates are **c.£16,000** for Apprentices, **£16,900** pro rata for Undergraduate Placements and **c.£27,000** for Graduates



Fairness, transparency and **alignment** runs through our entire customer focused bonus scheme from the top to the bottom of the Company

Provide everyone the opportunity to succeed in a job that the community depends upon

2 days

To enable employees to participate in volunteering programmes, and a third of our employees took this up



Employability scheme to support people with learning difficulties to gain work experience and skills

24

Visited 24 schools and colleges in social mobility cold spots

TAP INTO YOUR POTENTIAL



Our graduate scheme has a Black, Asian and Minority Ethnic ('BAME') representation of 31%, with the equivalent figure for our apprentices being 12%

Be a company that we're inspired to work for

Top 4

The top 4 for women's representation amongst Executive Committee and their direct reports within the FTSE100 recognised in the 2018 Hampton-Alexander Review

Top 50



62%

Employee engagement which is 5 points ahead of the UK and Ireland average benchmark

93%

Trusted to do my job



92%

Proud to be part of Severn Trent

Directors' remuneration report continued

Remuneration

Gender Pay Gap Reporting

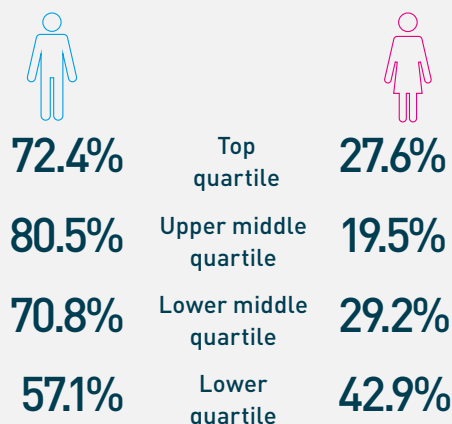
Gender pay reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. At Severn Trent, we are passionate about equality, diversity and inclusion and are committed to addressing our Gender Pay Gap.

We reported our Gender Pay Gap in November 2018 in line with statutory requirements. The data was based on figures from 5 April 2018 and showed a mean gap of 2.8% (last year 2.4%) and a median gap of 13.2% (14.6%). The increase in the mean reflects small changes in the number of men and women within our executive population, and the decrease in the median is primarily driven by a higher proportion of females being recruited and promoted within our senior managerial population.

We continue to encourage and embrace diversity, and are always looking at ways in which we can build our inclusive approach.

The full Gender Pay Gap report can be found on the Severn Trent website, detailing the methodology and definitions, including case studies showcasing the achievements of two of our employees, and information about our trailblazing menopause awareness campaign.

Pay quartiles



The difference in hourly pay between men and women is



The difference in annual bonus pay between men and women is



Social Mobility Employer Index 2018

We were ranked as one of the Top 50 employers in the Social Mobility Employer Index 2018 ('the Index'). The Index ranks participating employers on their actions to access and progress talent from all backgrounds, and showcases their progress towards improving social mobility.

Having a workforce that is diverse in terms of social background is as important to Severn Trent as being diverse in terms of gender and race, and the Index has assessed us on the actions we are taking to ensure we are open to accessing and progressing talent from all backgrounds.

Our ranking has increased from 38th to 20th in the Index due to the work we have already undertaken in this area to enable those from lower socio-economic backgrounds to succeed. Measures taken to improve social mobility include:

- Targeting our outreach work at schools with above-average levels of free school meals/low levels of attainment with a focus on Social Mobility Cold Spots;
- Unlike many other organisations, which offer apprenticeships at levels two and three, we offer higher apprenticeships; and
- Removing the name, grades and university attended from all stages of the recruitment process for our graduate and apprenticeship programmes. As a consequence, offers were made to individuals who would probably not have been recruited under the previous grade requirements.

We also signed the Social Mobility Pledge in 2019, which encourages companies to improve the UK's record on social mobility. As part of this, we will:

- Partner with schools and colleges to provide coaching through quality careers advice, enrichment experiences and by mentoring people from disadvantaged backgrounds or circumstances;
- Provide structured work experience and/or apprenticeship opportunities to people from disadvantaged backgrounds or circumstances; and
- Adopt open employee recruitment practices which promote a level playing field for people from disadvantaged backgrounds or circumstances.

Directors' remuneration report continued

Remuneration

Introduction to Committee remit and the Committee's report

Process

In order for the Committee to carry out its oversight review of wider workforce pay and policies and incentives, a specific process is being developed. This section provides some detail on how the Committee will carry out its duties and the key issues that will be considered.

The Committee will receive a report twice a year from the Group setting out key details of remuneration throughout the Group. The table sets out a summary of the information that will be received and discussed by the Committee at the end of the financial year.

Levels of remuneration and the types offered will vary across the Group depending on the employee's level of seniority and role. The Committee is not looking for an homogeneous approach but, when conducting its review, it will pay particular attention to the following issues:

- Whether the element of remuneration is consistent with the Remuneration Principles;
- Whether any differences are objectively justifiable; and
- Whether the approach seems fair and equitable in the context of other employees.

Once the Committee has conducted its review of the wider workforce remuneration and incentives, it will consider the approach applied to the remuneration of the Executive Directors and senior management. In particular, the Committee is focused on whether, within the framework set out above, the approach to the remuneration of the Executive Directors and senior management is consistent with that applied to the wider workforce.

The first report, as described above, is due to be considered by the Committee later in 2019. Details of the findings on the alignment of pay across the Group will be communicated to employees and reported on in next year's Directors' remuneration report.

Remuneration element	Details reviewed
Salary	Salary rises General positioning of base salary against market
Bonus	Total eligible population (% of Group employees) Target and maximum range (% of Salary) Performance conditions in place across the Group Method of payment – cash or shares Recovery provisions in place (malus and clawback)
Long Term Incentive Plan	Total eligible population (% of Group employees) Target and maximum range (% of Salary) Type of performance conditions Holding period Minimum shareholding requirement Recovery provisions (malus and clawback)
Pension	Defined Contribution Total eligible population Group contribution % – Range of values For new EDs and existing EDs Employee contribution Defined Benefit Total eligible population Range of values

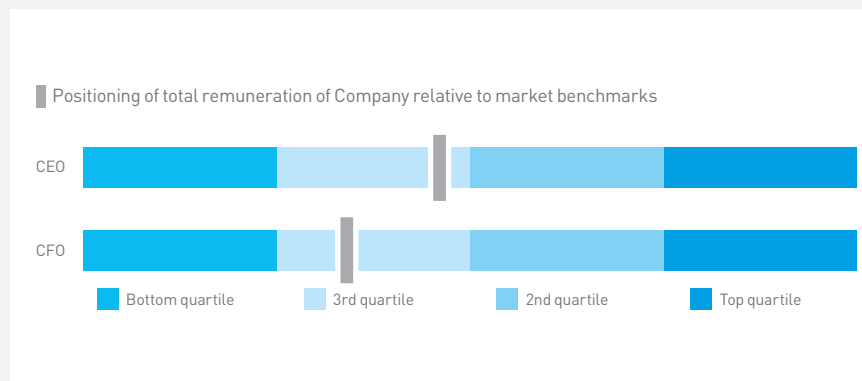
Pay comparisons

Our policy quantum compared with peers

The following table shows the relative position of target total compensation under the policy for our Executive Directors compared with the FTSE51-150.

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for Executive Directors, which we believe is the FTSE51-150, and the size of the Company compared with these peers. The Company is around the median of this comparator group by market capitalisation and the proposed target total compensation has been set broadly in line with this position.

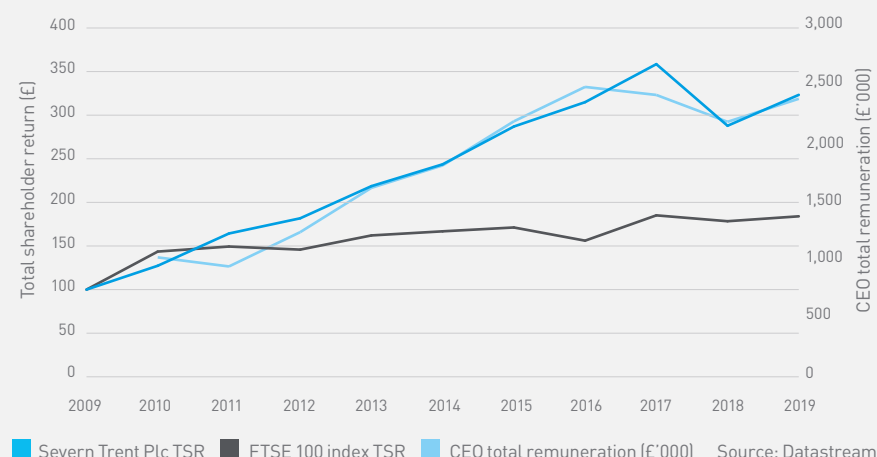
Relative position of target total compensation



CEO remuneration vs returns to shareholders

The graph shows the value at 31 March 2019 of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.

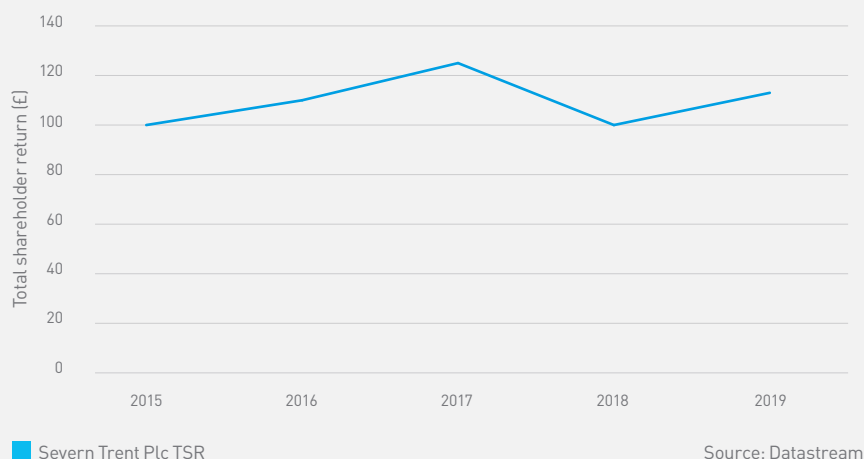
Total shareholder return and total remuneration



Total shareholder return

The chart shows the value at 31 March 2019 of £100 invested in Severn Trent at the start of the current AMP. The intermediate points show the value at the intervening financial year ends.

Total shareholder return over AMP



Directors' remuneration report continued

Remuneration

Remuneration of the CEO

The figure of remuneration for the CEO over the last 10 financial years is shown in the table below. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

CEO	Year ended 31 March									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield
Total remuneration ⁽ⁱ⁾ (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,395.4
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	72.5%	70.2%
LTIP vesting (% of maximum)	60.3%	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100%
SMP vesting (% of maximum)	N/A	N/A	N/A	78.0%	64.3%	N/A	N/A	N/A	N/A	N/A

(i) 2018 onwards includes any SAYE grants made during the year as well as dividend equivalents in respect of vested LTIP shares.

Percentage change in the remuneration of the CEO

The table shows the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee. The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group.

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Group's total wage bill as a result of movements in the number of employees. The comparator group used is Severn Trent employees in the UK.

The Committee monitors this information carefully to ensure that there is not a divergence in the fixed pay of the CEO compared with the wider workforce. In addition, this information demonstrates the Company's approach to bonus throughout the organisation with employees and the CEO benefiting when the Company does well.

Percentage change in the remuneration of the CEO

	CEO			Average per employee		
	2018/19 £'000	2017/18 £'000	Change	2018/19 £'000	2017/18 £'000	Change
- Salary ⁽ⁱ⁾	708.0	690.6	2.5%	31.8^(iv)	30.5	4.3%
- Benefits ⁽ⁱⁱ⁾	17.1	17.7	(3.4)%	0.4	0.4	0%
- Bonus ⁽ⁱⁱⁱ⁾	497.0	501.0	(0.8)%	1.7	1.8	(5.6)%

(i) The salary figures shown are based on full time equivalent comparisons.

(ii) The benefits figures include car allowance and family level private medical insurance for senior and middle managers.

(iii) The figures shown are reflective of any bonus earned during the respective financial year. Bonuses are paid in the following June.

(iv) The average pay increase for the wider workforce during the year was 3.0%.

Annual Report on Remuneration

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 17 July 2019. The information on pages 117 to 122 is audited.

Total single figure of remuneration (audited)

The total single figure of remuneration table below sets out the remuneration received by the Directors for 2018/19 (or for performance periods ending in 2018/19 in respect of the long-term incentives) and, for the purposes of comparison, for 2017/18. Where necessary, further explanations of the values provided are included below. This table and the explanatory notes below this table have been audited.

Total single figure of remuneration (audited)

	Year ended 31 March 2019							Year ended 31 March 2018						
	Salary and fees (£'000) ⁽ⁱ⁾	Benefits (£'000) ⁽ⁱⁱ⁾	Annual bonus (£'000) ⁽ⁱⁱⁱ⁾	LTIP (£'000) ^(iv)	Pension (£'000) ^(v)	Other (£'000) ^(vi)	Total (£'000)	Salary and fees (£'000) ⁽ⁱ⁾	Benefits (£'000) ⁽ⁱⁱ⁾	Annual bonus (£'000) ⁽ⁱⁱⁱ⁾	LTIP (£'000) ^(iv)	Pension (£'000) ^(v)	Other (£'000) ^(vi)	Total (£'000)
Executive Directors														
Liv Garfield	703.7	17.1	497.0	1,001.7	175.9	–	2,395.4	687	18	501	811	172	4.5	2,193.5
James Bowling	424.0	16.5	299.5	402.5	106.0	4.5	1,253.0	414	19	302	319	104	–	1,157.8
Non-Executive Directors														
Andrew Duff (Chairman)	287.6	–	–	–	–	–	287.6	281	–	–	–	–	–	281
John Coghlan	85.1	–	–	–	–	–	85.1	84	–	–	–	–	–	84
Philip Remnant	70.1	–	–	–	–	–	70.1	69	–	–	–	–	–	69
Kevin Beeston	65.1	–	–	–	–	–	65.1	64	–	–	–	–	–	64
Dominique Reiniche	55.1	–	–	–	–	–	55.1	54	–	–	–	–	–	54
Dame Angela Strank	68.1	–	–	–	–	–	68.1	67	–	–	–	–	–	67

- (i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions via salary sacrifice. Salary is based on salary earned during the financial year.
- (ii) Benefits include a car allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme.
- (iii) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to continued employment for three years but with no further performance conditions attached.
- (iv) The value of the 2016 LTIP is based on the estimated value of shares calculated using the average share price for the period 1 January to 31 March 2019 of £19.80 and includes dividends paid to date. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares.
- (v) The Executive Directors' pension provision is equal to 25% of salary. No Executive Directors accrued benefits under any defined contribution pension plans during the year or have participated in a defined benefits scheme while an Executive Director.
- (vi) This figure relates to the difference between the market price and the discounted option price relating to an SAYE option granted during the financial year.

Relative importance of the spend on pay

The table below shows the expenditure of the Company on staff costs against dividends paid to shareholders for both the current and prior financial periods, and the percentage change between the two periods.

Relative importance of the spend on pay

	2019 £m	2018 £m	% Change
Staff costs ⁽ⁱ⁾	309.4	288.1	7.4%
Dividends	211.9	197.0	7.6%

- (i) Staff costs from continuing operations.

Directors' remuneration report continued

Remuneration

Benefits for 2018/19 (audited)

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. In line with the Policy outlined on page 105, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2018/19 (audited)

	Typical annual value 2018/19	Typical annual value 2017/18	Percentage increase/(decrease)
Car allowance	£15,000	£15,000	0%
Private medical insurance	£1,500	£1,500	0%
Life assurance	Up to 6 x salary	Up to 6 x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide policy	0%
Biennial health screening	£581 per health screen	£620 per health screen	(6.3)%
Incapacity benefits ⁽ⁱ⁾	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

(i) Incapacity benefit for Executive Directors and senior management is 75% of salary, and for the rest of the eligible workforce is 50% of salary.

Annual bonus outturn for 2018/19











Full detail on the Company's performance during the financial year can be found in the Strategic report.

The performance outcomes in respect of financial performance conditions, and the











overall bonus awarded to each Executive Director, is set out in the At a Glance section on page 100. The table provides detail on the performance outcomes for both Executive Directors in relation to their specific personal objectives.

Personal objectives for the Executive Directors continue to be linked to our strategic framework and were shared across the team, with each Executive Director leading on the areas which best align to their accountabilities and expertise.

CEO

Objective and activity	Key achievements in 2018/19	Performance outcome
Embed customers at the heart of all we do Deliver on customer measures through customer ODIs	 <ul style="list-style-type: none"> Achieved customer ODI uncapping enabling benefits of outperformance to be shared with customers. 40% year-on-year improvements in Supply Interruptions. Ofwat approved waste uncapping benefiting the remainder of AMP6. Supported 52,838 vulnerable customers. Retained UQ for Customer Service Index for 2018/19. 	 Fully met
Drive operational excellence and continuous innovation Deliver UQ plans across Waste, Water and Retail	 <ul style="list-style-type: none"> Significant improvements have been made in waste networks ODIs during AMP6, including 50% reduction in total flooding incidents (internal and external), and year-on-year reduction in the number of Cat3 pollutions. Delivery of 2018 Agrivert acquisition. Significant improvements in leakage year on year, including leakage work in progress down by 65% and a 50% improvement in the median no. of days to fix a leak. New customer first programme rolled out to all Contact Centre staff. 	 Fully met
Invest responsibly for sustainable growth Achieve material improvements in some of our key Board and STEC level Enterprise Risk Management ('ERM') risks	 <p>Taken actions to reduce risk scores across a range of areas through reviewing and embedding control and assurance frameworks, additional infrastructure investment and identification and implementation of remedial plans.</p>	 Fully met
Change the market for the better Produce compelling cases for investment at PR19 that enable strong Regulatory Capital Value ('RCV') growth over AMP7 and AMP8	 <ul style="list-style-type: none"> PR19 fast-tracked. Only utility to be named as a Pathfinder by The Purposeful Company. 	 Fully met
Create an awesome place to work Continue on improving overall QUEST engagement scores	 <ul style="list-style-type: none"> Overall QUEST score held flat in spite of exceptional work effort and unprecedented external factors affecting normal day-to-day working. We are five points above the UK and Ireland benchmark. Social Mobility Employer Index ranking increased from 38th to 20th. 	 Fully met

CFO

Objective and activity		Key achievements in 2018/19	Performance outcome
Embed customers at the heart of all we do Support customer ODIs		<ul style="list-style-type: none"> Identified and made improvements in reporting and analysis, enabling management to have greater insight when making in-year decisions. Ofwat approved waste uncapping benefiting the remainder of AMP6. 	 Fully met
Drive operational excellence and continuous innovation Continue the evolution of regulatory submissions and building financial resilience		<ul style="list-style-type: none"> Produced high quality Annual Performance Reports for both Severn Trent Water and Hafren Dyfrdwy. Embedded robust financial resilience processes, e.g. early adoption of Ofwat's proposed stress testing scenarios for PR19. 	 Fully met
Invest responsibly for sustainable growth Support effective decision-making in Capital Delivery, delivering efficiencies and effective resource allocation		<ul style="list-style-type: none"> Implemented improved capital governance model, enabling more efficient project resource allocation. Successful creation of £100m 'Spend to Save' capital fund targeted at operational efficiencies for AMP7. 	 Fully met
Change the market for the better Deliver Finance plan for PR19, and an excellent assurance programme for PR19 submission		<ul style="list-style-type: none"> Created cost-effective Assurance plan as part of PR19 submission, and achievement of fast-track status has enabled early implementation. 	 Fully met
Create an awesome place to work Develop breadth and depth of experience and expertise across whole Finance team		<ul style="list-style-type: none"> Launched Finance for the Future model designed to improve effectiveness, embrace innovation and drive efficiency towards AMP7 Totex challenges, supported by an award winning study programme for future talent (graduates and apprentices). 	 Fully met

Directors' remuneration report continued

Remuneration

LTIP awards vesting in relation to performance in 2018/19 (audited)

The table below shows the outcome in respect of the 2016 LTIP awards, granted on 21 June 2016, which had performance periods ended 31 March 2019 and indicates the resulting number of shares vesting and their value. The LTIP based on RoRE over the three years to 31 March 2019 will vest in full. This is representative of continued solid performance in customer ODIs, financing and Totex. Detail on the performance outcome is given in the At a Glance section on page 102.

LTIP awards vesting in relation to performance in 2018/19 (audited)

Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	% award vesting	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting ⁽ⁱ⁾ (£'000)	Value of dividend equivalents due on vesting shares ⁽ⁱⁱ⁾ (£'000)	Total value of LTIP (Single Figure) (£'000)
CEO	46,115	£995.6	31/03/19	100%	46,115	21/06/19	£0	£913.2	£88.5	£1,001.7
CFO	18,529	£400.0	31/03/19	100%	18,529	21/06/19	£0	£366.9	£35.6	£402.5

The RoRE calculation used for LTIPs differs slightly from that used in the Annual Performance Report, which uses the Ofwat definition. The LTIP measure seeks to align better our LTIP targets to actual cash flows and against a clearly defined target. In this measure, financing outperformance is based on actual gearing rather than the notional capital structure and compares our cost of debt against the allowance in the Ofwat Financial Model. It includes profits/losses associated with land sales, miscellaneous activities and the impact of the wholesale revenue forecasting incentive mechanism.

(i) Based on the average share price over the final three months of the performance period £19.80 as the awards will not be released until after the end of the closed period.

(ii) Based on dividends paid in the period since date of grant to 31 March 2019.

Payments for loss of office

There were no payments for loss of office in the year.

Payments to past Directors (audited)

Emma FitzGerald

Full details of Emma FitzGerald's unvested shares under the deferred Annual Bonus Scheme and LTIP awards can be found in the 2017/18 Directors' remuneration report. The table below sets out details of the LTIP award which will be released to her on the ordinary vesting date, 21 June 2019. She will also receive dividend equivalents on the vested shares.

Award	End of performance period	Number of shares
2016 LTIP	31 March 2019	11,243

Outstanding scheme interests, including share awards granted during the year (audited)

The table below sets out details of the Executive Directors' outstanding share awards as at 31 March 2019.

Directors' shareholdings and summary of outstanding share interests (audited)

Executive	Award type ⁽ⁱ⁾	Maximum number of shares ⁽ⁱⁱ⁾	Percentage vesting at threshold performance	Exercise price (pence)	End of performance period	End of holding period	Vesting/ exercise date ⁽ⁱⁱⁱ⁾	Awards granted during the year		
								Basis of award	Face value (£'000)	Notes
Liv Garfield	2016 LTIP	46,115	25%	–	31/03/19	–	21/06/19			(a)
	2016 ABS	16,260	–	–	31/03/16	–	28/06/19			(c)
	2017 LTIP	42,383	25%	–	31/03/20	–	20/06/20			(a)
	2017 ABS	12,850	–	–	31/03/17	–	28/06/20			(c)
	2018 SAYE	1,089	–	1,652	–	–	May-21	–	–	(d)
	2018 LTIP	72,880	25%	–	31/03/21	24/07/23	24/07/21	200% of salary	£1,381	(b)
	2018 ABS	13,394	–	–	31/03/18	–	19/06/21	Deferred bonus	£250.5	(c)
	Total	204,971								
James Bowling	2016 LTIP	18,529	25%	–	31/03/19	–	21/06/19			(a)
	2016 ABS	9,634	–	–	31/03/16	–	28/06/19			(c)
	2016 SAYE	1,044	–	1,724	–	–	May-19	–	–	(d)
	2017 LTIP	17,028	25%	–	31/03/20	–	20/06/20			(a)
	2017 ABS	7,693	–	–	31/03/17	–	28/06/20			(c)
	2018 LTIP	32,941	25%	–	31/03/21	24/07/23	24/07/21	150% of salary	£624.3	(b)
	2018 ABS	8,072	–	–	31/03/18	–	19/06/21	Deferred bonus	£151.0	(c)
	2019 SAYE	1,221	–	1,474	–	–	May-22	–	–	(d)
	Total	96,162								

(i) LTIP awards are conditional share awards subject to performance conditions. ABS awards are deferred shares which are not subject to further performance conditions.

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

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

a) 2016 and 2017 LTIP awards

All of the LTIP awards are subject to a RoRE performance condition measured over three financial years, and average RoRE performance is compared with the baseline figure set by Ofwat in our FD.

The award will vest at threshold (25%) if average RoRE matches the baseline figure, and increases on a straight-line basis to full vesting (100%) for outperforming the baseline.

b) 2018 LTIP award (awards granted during the year)

In 2018, the LTIP maximum opportunity changed from 150% to 200% of salary for the CEO and 100% to 150% of salary for the CFO. We retained RoRE as a performance condition and aligned the Company definition of RoRE with the Ofwat definition. We recalibrated the previous stretch target as the new target and introduced a new relative stretch target of UQ performance against the WaSC peer group, as well as introducing a two year post-vesting holding period.

c) Deferred shares under the annual bonus scheme (including awards granted during the year)

Each year, 50% of an Executive Director's annual bonus is deferred in shares for three years. The awards are granted in the form of deferred shares. The deferred shares relating to the annual bonus for 2018/19 will be granted in June 2019.

d) Save As You Earn ('SAYE')

The Executive Directors, in common with all eligible UK employees, are entitled to participate in the Company's SAYE Scheme.

2016 and 2017 LTIP awards

Award	Grant date	Threshold vesting FD (Baseline)	Full vesting (Outperformance)	3 day average share price used for grant calculations
2016 LTIP	21/06/2016	5.65%	x1.39 (equivalent to 7.86%)	£21.59
2017 LTIP	20/06/2017	5.65%	x1.39 (equivalent to 7.86%)	£23.96

2018 LTIP award (awards granted during the year)

Award	Grant date	Threshold vesting FD (Baseline)	1.39x FD	Full vesting (Outperformance)	3 day average share price used for grant calculations
2018 LTIP	24/07/18	5.65%	Equal to 7.86%	UQ RoRE compared to WaSCs	£18.95

Deferred shares under the annual bonus scheme (including awards granted during the year)

Award	Relating to FY	Grant date	3 day average share price used for grant calculations
2016 ABS	15/16	28/06/16	£21.59
2017 ABS	16/17	28/06/17	£23.96
2018 ABS	17/18	19/06/18	£18.70

Directors' remuneration report continued

Remuneration

Directors' shareholdings and summary of outstanding share interests (audited)

Page 103 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements.

The shareholding requirements for the CEO and CFO increased in 2018/19.

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders. The retention and build-up of equity is important in a long-term business such as Severn Trent as it encourages decisions to be made on a long-term sustainable basis for the benefit of customers and shareholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 20 May 2019.

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2019, she was paid fees of £12,000 which she retained.

Service contracts for Executive Directors

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.

Director	Interests in shares as at 31 March 2019					% Shareholding guideline achieved ⁽ⁱⁱⁱ⁾
	Beneficially owned	Outstanding scheme interests				
		LTIP shares ⁽ⁱ⁾	Annual Bonus shares ⁽ⁱⁱ⁾	SAYE options	Total	
Kevin Beeston	2,244	–	–	–	2,244	–
Dominique Reiniche	400	–	–	–	400	–
John Coghlan	2,670	–	–	–	2,670	–
Andrew Duff	8,184	–	–	–	8,184	–
Philip Remnant	1,969	–	–	–	1,969	–
Dame Angela Strank	459	–	–	–	459	–
Liv Garfield	137,349	161,378	42,504	1,089	342,320	147%
James Bowling	32,075	68,498	25,399	2,265	128,237	103%

(i) LTIP share awards subject to ongoing performance conditions.

(ii) ABS awards are deferred shares which are not subject to further performance conditions.

(iii) The share price used to calculate the percentage of the shareholding guideline achieved was £19.76 (as at 31 March 2019). The guideline figures include unvested ABS shares (50% deducted to cover statutory deduction).

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			

Philip Remnant

Chairman of the
Remuneration Committee
20 May 2019

Directors' report

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2019. The performance review of the Company can be found within the Strategic report. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2019. The Governance report set out on pages 64 to 128 is incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Strategic report on pages 54 to 61.

Principal activity

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

Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2019 are shown in note 19 and 46 to the Group financial statements.

Areas of operation

During the course of 2018/19, the Group had activities and operations in the UK and Ireland.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 66 and 67.

All of the Directors will be offering themselves for re-election at the Annual General Meeting ('AGM'), as set out in the Governance report on page 84. The Chairman, Andrew Duff, will be standing for re-election at the Company's forthcoming AGM on 17 July 2019 and, in order to facilitate an effective succession plan, it is intended that he remains as Chairman until the announcement and induction of his successor.

Details of Directors' service contracts are set out in the Directors' Remuneration report on page 122. The interests of the Directors in the shares of the Company are shown on page 120 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force.

Severn Trent Plc does not have in place any indemnities for the benefit of the External Auditor.

Employees

The average number of employees within the Group is shown in note 9 to the Group financial statements.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population. Severn Trent believes that no one should be hurt or made unwell by what we do. We did not experience any major safety incidents and no fatalities during the year.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons, and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well, including an employee assistance programme.

Additional information on our diversity aims and progress can be found on pages 44 and 82.

Employee engagement

We continuously engage with our employees in a number of ways to accommodate different working patterns. This includes:

- all people briefings, 'Team Talk';
- corporate communications events and roadshows held by functions across the Company;
- a dedicated intranet, 'Streamline';
- online news portal and weekly roundup, 'Pipeline News';
- an active employee social media presence, 'Yammer';
- conference calls and email;
- leadership engagement channels – Executive Director blogs, senior management monthly visibility programme and quarterly events;
- Employee Forum; and
- regular meetings with Trade Unions.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings, our Employee Forum and QUEST. More information on employee engagement can be found in the stakeholder engagement section on pages 73 to 74.

Directors' report continued

Other disclosures

The Company is keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all-employee plan, the Severn Trent Sharesave Scheme ('Sharesave'), which is offered to UK employees on an annual basis.

69.7% of Severn Trent's UK employees now participate in the Sharesave scheme, with the average participant contributing £276 each month.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plan.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Group and our products must continue to deliver value for customers.

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

Internal controls

Further details of our internal control framework can be found in the Audit Committee report on page 89.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 52.

Post balance sheet events

Details of post balance sheet events are set out in note 43 to the Group financial statements.

Dividends

An interim dividend of 37.35 pence per Ordinary Share was paid on 4 January 2019. The Directors recommend a final dividend of 56.02 pence per Ordinary Share to be paid on 19 July 2019 to shareholders on the register on 14 June 2019. This would bring the total dividend for 2018/19 to 93.37 pence per Ordinary Share (2017/18: 86.55 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

In 2017/18, we enhanced our Dividend Policy for the period 2015-2020, with effect from 2017/18, and will now increase the dividend by growth of at least RPI +4% each year. This replaced the previous Dividend Policy of annual growth of the dividend at no less than RPI until March 2020.

The Dividend Policy reflects our strong operational delivery and financial performance, while ensuring that our bills are affordable for all our customers. When determining the policy the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment grade credit rating.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 10 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 37 to the Group financial statements. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document which can be found on our website, the Articles and the Governance report on page 71.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2018 AGM.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment because of a takeover bid.

Substantial shareholdings

As at 31 March 2019, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of holder	No of Ordinary Shares column	Voting rights held (%)
Lazard Asset Management	23,307,808	9.82%
BlackRock	18,722,846	7.73%
RReef Real Estate	9,729,101	2.73%
Legal & General Investment Management	9,285,649	3.86%
Vanguard Group	8,336,011	3.51%
Maple-Brown Abbott	8,083,911	2.55%
Pictet Asset Management	7,781,012	3.06%

As at 20 May 2019, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: Lazard Asset Management 23,425,859 shares (9.88%); BlackRock, Inc shares 17,747,520 (7.48%); Legal & General Investment Management 9,072,090 shares (3.83%); Vanguard Group 8,367,928 shares (3.53%); Qatar Investment Authority shares 7,964,730 (3.35%); Pictet Asset Management shares 7,306,925 (3.08%); RReef Real Estate 6,594,363 shares (2.78%); Maple-Brown Abbott 6,047,772 shares (2.55%); SSGA 5,551,542 shares (2.34%).

The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules.

Authority to purchase shares

The Company was given authority at its AGM in 2018 to make market purchases of Ordinary Shares up to a maximum number of 23,677,393 Ordinary Shares. During the year, no Ordinary Shares have been repurchased.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,757,109 Ordinary Shares.

The Directors believe that it is desirable to have the general authority to buy back the Company's Ordinary Shares in order to provide maximum flexibility in the management of the Group's capital resources. However, the authority would only be used if the Board was satisfied at the time that to do so would be in the best interests of shareholders.

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £65,936 (2018: £81,947). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly, neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclosure of any such payment must be made in the Annual Report and Accounts. The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2018 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries. Pursuant to those authorities, during the year ended 31 March 2019, the Group incurred costs of £nil (2018: £nil). Those authorities will expire at the 2019 AGM and, in line with market practice to renew the authorities on an annual basis, the Board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum aggregate of £150,000 p.a. As permitted under the Companies Act 2006, this resolution also covers any political donations made or political expenditure incurred by any subsidiaries of the Company.

We reduce our carbon footprint

The UK is playing a leading part in reducing carbon emissions. We want to play our part in reducing our impact by reducing our carbon emissions. As the majority of our carbon emissions are driven by our use of energy, managing carbon also means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy.

We have recently committed to becoming Net Carbon Zero by 2030. This is even more ambitious than a science-based target and builds on our long track record of making year-on-year reductions in emissions. We will set out our detailed strategy to deliver this goal as part of our forward plans.

The Carbon Trust Standard recognises our consistent emissions reductions and effective carbon management processes and we scored in the top quartile of companies. We continue to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP request information about climate change from companies on behalf of investors and score each company on the quality and completeness of their responses.

This year, we again increased renewable energy generation across Severn Trent (including the total generation of energy from Agrivert food waste business, which we purchased in December 2018). We generated an equivalent of 43% of Severn Trent Water Limited's electricity needs. This was up from 38% in 2017/18. We continue to lead the UK water industry, and are on track to generate the equivalent of 50% of our electricity needs by the end of 2020.

We plan to continue to reduce our operational emissions by reducing our energy use and increase our renewable energy generation. Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

Directors' report continued

Other disclosures

Report on greenhouse gas emissions

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

Severn Trent is committed to reducing its GHG emissions. For Severn Trent Water, which accounts for 99% of our total Group emissions, we have been publicly reporting on our emissions since 2002. In that time we have reduced our emissions by being more energy efficient and generating more renewable energy.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2018 to 31 March 2019.

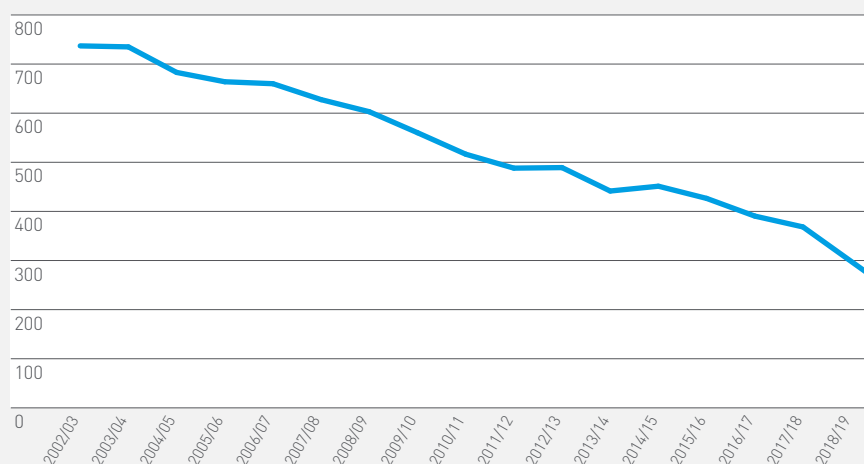
Our total net emissions have fallen again this year, due to our increased generation of renewable energy, a reduction in the emissions-intensity of UK grid electricity and reduced process emissions as we move to more advanced digestion of our sewage sludge. Our net emissions have also fallen as we have now secured a proportion of our electricity supply from accredited renewable energy sources. We have reported this market-based benefit separately in the table below.

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

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions.

For the appointed UK Water businesses Severn Trent Water and Hafren Dyfrdwy, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 13' (released April 2019). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. For non-appointed business emissions, we have used the latest Defra emissions factors which include the relevant conversion factors for overseas electricity.

Severn Trent carbon footprint kt CO₂e



GRID BALANCING

We help National Grid balance supply and demand, so that electricity is available for everybody. We do this by turning assets such as treatment sites and generators on and off as requested by the Grid. We can now provide flexible capacity equivalent to the power demand of a town the size of Stafford. This year we won the Energy and Carbon Initiative of the year at the Water Industry Achievement awards in recognition of this work.

BUYING GREEN

As part of our efforts to reach carbon neutrality, we are now securing a proportion of our imported electricity from accredited renewable sources. We plan to increase the amount of renewable energy we procure in future to reduce our footprint further.

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tonnes CO ₂ e)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Emissions from combustion of fuel and operation of facilities (Scope 1)	132,535	132,406	134,584	138,131	134,307	132,360
Emissions from electricity purchased for own use (Scope 2)	330,679	357,756	337,028	294,426	279,393	217,726
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700	350,086
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	21,672	38,878	45,085	42,069	45,333	46,986
Emissions reduction from purchase of renewable energy (market-based carbon accounting benefit)	-	-	-	-	-	34,818
Total Annual Net Operational Emissions	441,542	451,285	426,527	390,488	368,367	268,283

Annual GHG intensity ratio (t CO ₂ /unit)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Operational GHG emissions of Severn Trent per £m turnover	248.6	255.2	234.7	214.0	217.4	151.8

Our gross emissions total in the table on page 126 applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years. This year, we have also shown the net benefit of our renewable energy procurement via our suppliers, applying the 'market-based' accounting methodology, which is included in our net emissions total.

Supplier payment policy

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

Relevant audit information

The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Disclosures required under Listing Rule 9.8.4R

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

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	155
(4)	Details of long-term incentive schemes	106
(8)	Section 7 in relation to subsidiary undertakings	193 to 194
(2), (5), (6), (7), (9)–(14)		Not applicable

External Auditor

Having carried out a review of their effectiveness during the year, details of which can be found in the Audit Committee report on page 90, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

Separate Annual Performance Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are prepared and provided to Ofwat. Copies are available on the respective websites.

Additionally, separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are available on the respective websites.

Annual General Meeting

The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 17 July 2019. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on the Severn Trent Plc website.

By order of the Board

Bronagh Kennedy

Group General Counsel and
 Company Secretary
 20 May 2019

Directors' Responsibilities Statement

Other disclosures

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement

Each of the Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 20 May 2019 and is signed on its behalf by:



Andrew Duff
Chairman
20 May 2019

James Bowling
Chief Financial Officer