

Highlights

£1,767.4m

Group turnover

2018: £1,696.4m¹

93.37p

Dividend per share

2018: 86.55p

133.4p

Basic earnings per share from continuing operations

2018: 101.8p¹

145.8p

Underlying basic earnings per share²

2018: 120.5p¹

£563.3m

Group profit before interest and tax

2018: £527.2m¹

£573.6m

Group underlying profit before interest and tax²

2018: £539.8m¹

¹ Restated for the implementation of IFRS 15, see note 2 to the Group financial statements.

² Alternative Performance Measures are defined in note 45 to the Group financial statements.

Cautionary statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in the economies and markets in which the Group operates; changes in the regulatory and competition frameworks in which the Group operates; the impact of legal or other proceedings against or which affect the Group; and changes in interest and exchange rates. All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to Severn Trent or any other member of the Group or persons acting on their behalf are expressly qualified in their entirety by the factors referred to above.

Subject to compliance with applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so. Nothing in this document should be regarded as a profits forecast.

This document is not an offer to sell, exchange or transfer any securities of Severn Trent Plc or any of its subsidiaries and is not soliciting an offer to purchase, exchange or transfer such securities in any jurisdiction. Securities may not be offered, sold or transferred in the US absent registration or an applicable exemption from the registration requirements of the US Securities Act of 1933 (as amended).

Contents

STRATEGIC REPORT

What we do	02
Our business model	04
Our social purpose	06
Chairman's statement	16
Market and industry overview	18
Chief Executive's review	21
How we are achieving our strategic objectives	24
Environment, Social and Governance – At a Glance	29
ODIs and KPIs	32
Regulated Water and Waste Water	34
Business Services	46
Chief Financial Officer's review	48
Risk management	54
Emerging risks	55
Principal risks	56
Brexit statement	61
Viability statement	62

GOVERNANCE

Chairman's introduction to governance	64
Board of Directors	66
Executive Committee	68
Stakeholder and Shareholder engagement	73
Our company purpose and culture	75
Board evaluation	77
Nominations Committee report	81
Audit Committee report	85
Treasury Committee report	93
Corporate Responsibility Committee report	94
Directors' remuneration report	97
Directors' report	123
Directors' Responsibilities Statement	128

GROUP FINANCIAL STATEMENTS

Independent Auditor's report to the members of Severn Trent Plc	129
Consolidated income statement	134
Consolidated statement of comprehensive income	135
Consolidated statement of changes in equity	136
Consolidated balance sheet	137
Consolidated cash flow statement	138
Notes to Group financial statements	139

COMPANY FINANCIAL STATEMENTS

Company statement of comprehensive income	195
Company statement of changes in equity	196
Company balance sheet	197
Notes to Company financial statements	198

OTHER INFORMATION

Five year summary	202
Information for shareholders	203

Welcome to the Severn Trent Annual Report 2019

Our purpose is to serve our communities and build a lasting water legacy. This drives our vision to be the most trusted water company by 2020, delivering an outstanding customer experience, best value service and environmental leadership.

This report highlights the progress we have made over the past year in achieving that vision through our strategic objectives and absolute focus on listening to and delivering value for all of our stakeholders. We're committed to keeping your water flowing clearly and making your waste water clean again, so you can carry on enjoying this precious resource, for generations to come.

WONDERFUL ON TAP

What we do

We provide clean water and waste water services and develop renewable energy solutions through our businesses:

OUR VALUES

Through our Company values we deliver the commitments expected of a leading, socially responsible Company

WE PUT OUR CUSTOMERS FIRST

WE ARE PASSIONATE ABOUT WHAT WE DO

WE ACT WITH INTEGRITY

WE PROTECT OUR ENVIRONMENT

WE ARE INSPIRED TO CREATE AN AWESOME COMPANY

 **READ MORE ON PAGE 20**

REGULATED WATER AND WASTE WATER

Our Regulated Water and Waste Water businesses Severn Trent Water (excluding Bioresources) and Hafren Dyfrdwy.

The primary activities we focus on

- Wholesale operations and engineering
- Household customer services

About us

We are two of 11 regulated water and waste water businesses in England and Wales. We provide high quality services to more than 4.5 million households and businesses in the Midlands and Wales.



£1,583.1m

Turnover¹

£527.0m

Underlying profit before interest and tax^{1,2}

2.0bn

Litres of drinking water supplied each day

5,680

Employees³

Where we operate

Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from North and mid-Wales to the East Midlands.

 **READ MORE ON PAGE 34**

1 New segmental basis, see note 5 to the Group financial statements for prior year comparative basis.

2 Alternative Performance Measures are defined in note 45 to the Group financial statements.

3 Average during 2018/19 see note 9 to the Group financial statements.

£518.1m

Profit before interest and tax¹

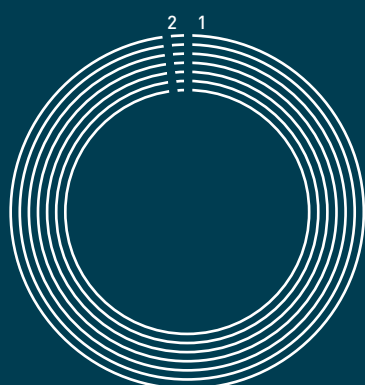
4.5m

Households and businesses served

2.9bn

Litres of waste water treated each day

Revenue split



1. Severn Trent Water	98.1%
2. Hafren Dyfrdwy	1.9%

SEVERN TRENT BUSINESS SERVICES

The markets we focus on

- Bioresources
- Green Power
- Operating Services
- Property Development

Where we operate

Business Services operates mainly in the UK and also in Ireland.

There are five parts of Business Services:

Bioresources

Business services includes the sludge treatment and related renewable energy generating activities within Severn Trent Water.

Green Power

Business Services, through Severn Trent Green Power, generates renewable energy from anaerobic digestion, crop, hydropower, wind turbines and solar technology.

Operating Services

Operating Services provides contract services to municipal and industrial clients in the UK and Ireland and the UK Ministry of Defence ('MOD') for design, build and operation of water and waste water treatment facilities and networks, and services to developers.

Property Development

Property Development manages the sale of surplus land.

Other

Developer services and our property searches and affinity partnership businesses.

£200.9m

Turnover¹

£63.1m

Profit before interest and tax¹

£64.1m

Underlying profit before interest and tax^{1,2}

889

Employees³

- 1 New segmental basis, see note 5 to the Group financial statements.
- 2 Alternative Performance Measures are defined in note 45 to the Group financial statements.
- 3 Average during 2018/19 see note 9 to the Group financial statements.

 **READ MORE ON PAGE 46**



Our business model

Running an efficient water business

We provide clean water every time our customers turn on the tap and remove their waste water in an affordable, sustainable and reliable way.

Resources

RESOURCES & RELATIONSHIPS WE RELY ON



Physical assets

A resilient, well maintained network of clean water pipes and reservoirs, sewers and pumping stations.

We maintain over 49,000 km of clean water pipes and over 92,000 km of sewer pipes.



Natural resources

Water from reservoirs, rivers and underground aquifers are essential to support Severn Trent's operations and value creation.

We look after some of the UK's most impressive natural resources.



Financial capital

We have a strong balance sheet, with gearing close to the regulatory model. We are able to access a range of capital markets to fund future operations.

Our gearing is 63%, one of the lowest in the sector. We have committed undrawn facilities of £885 million.

THE WATER CYCLE



Water is collected

We pay the Environment Agency and Natural Resources Wales for the water we collect from reservoirs, rivers and underground aquifers across our region.



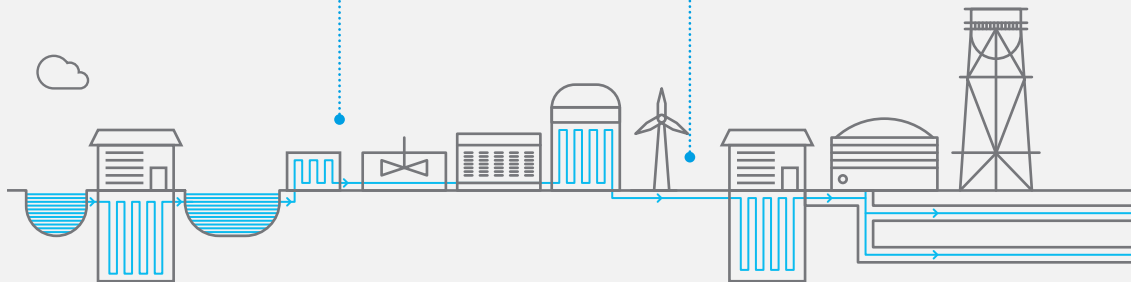
Water is cleaned

Our groundwater and surface water treatment works clean raw water to the highest standards, making it safe to drink.



Clean water is distributed

Our network of pipes and our enclosed storage reservoirs bring a continuous supply of clean water right to our customers' taps.



OUR INVESTMENTS IN RENEWABLE ENERGY PRODUCTION

Providing clean water and cleaning waste water is an 'energy hungry' process so we use waste and renewables to help us power our operations.

We are pleased to share that we now expect to exceed our target to produce the equivalent of 50% of our own energy needs by 2020.



Food waste anaerobic digestion plants generating green energy

GENERATING & PRESERVING LONG TERM VALUE



Physical assets

Our biggest year of capital investment in over a decade.

Good progress on our Birmingham Resilience Project.

Replaced 230 km of our water network in 2018/19.



Natural resources

We've improved biodiversity of six hectares of Sites of Special Scientific Interest ('SSSIs') in 2018/19.

We are on track to reach our target of 75 hectares by 2020.



Financial capital

Delivering returns for our investors.

7.9% (2018: 6.2%)
Dividend growth.

Investment grade credit rating.

We do so through our regulated subsidiaries and draw upon our skills in water and waste treatment to provide similar services to other organisations through the our Business Services division.

Relationships



Our customers and communities

Our customers and communities are at the heart of everything we do. We aim to anticipate and meet changing customers' and wider societal needs.

We serve over 4.5 million customers.



Our people

We look to attract, develop and retain talented people from all backgrounds, and bring the next generation of water experts into the industry.

We directly employ over 6,500 people. Glassdoor reports that 74% of our people would recommend us to a friend.



Our suppliers and partners

Strong supplier relationships support our business operations in line with our Modern Slavery commitments.

We work with over 2,400 direct suppliers and contractors.



Our regulators

Our industry is regulated by Ofwat and several other regulators and public bodies.

We work with our regulators to shape our industry. Our Severn Trent Plan was fast-tracked by Ofwat.



Customers enjoy our services

We serve 4.5 million businesses and households with a safe, reliable supply of water and collect waste water seven days a week, 365 days a year.



Waste water is collected

Our network of sewers and pumping stations collect waste water from homes and businesses and take it to our treatment works.



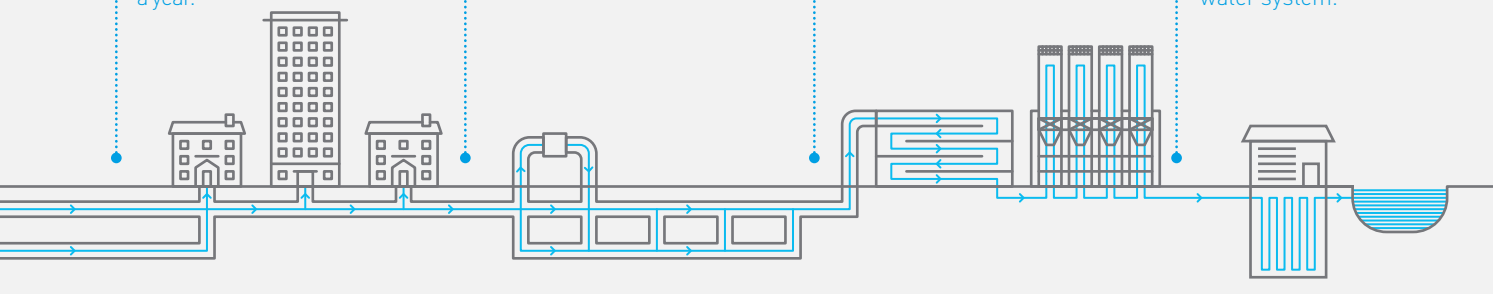
Waste water is cleaned

Waste water is carefully screened, filtered and treated in our sewage treatment works to meet stringent environmental standards.



Water is recycled to the environment

We pay the Environment Agency and Natural Resources Wales annual consent fees to return the treated water to the water system.



Solar



Wind turbines



Clean gas and green electricity from our sludge anaerobic digestion plants



Our customers and communities

Lowest bills in England for a decade (Severn Trent) and Wales (Hafren Dyfrdwy).

We helped over 52,800 customers through social tariffs and assistance schemes (2018: 51,700).



Our people

Developing people from all backgrounds in line with our Social Mobility Programme.

31% of our graduates are from a BAME background (2018: 27%).



Our suppliers and partners

Building sustainable relationships that provide mutual benefit.

258 suppliers signed up to Sustainable Supply Chain Charter (2018: 211).



Our regulators

We stimulate regulatory debates to improve services for customers across the industry.

Launched the World Water Innovation Fund.

A close-up photograph of a hand holding a clear glass under a running faucet. Water is pouring into the glass, creating bubbles. The background is dark and out of focus.

**Our
social
purpose**



Severn Trent is proud to be a pathfinder for a new breed of long-term, socially purposeful companies working to improve our country's infrastructure (the systems and services the country needs to run effectively).

The idea is simple. We combine a strong public service ethos with the benefits of private investment and independent leadership to deliver world class water services.

Our social purpose, to create long-term value through serving the needs of society, is at the heart of everything we do.

Our commitment is this – every decision we make is based on providing world-class water services at a fair price. We aim to make the most of our contribution to society as a whole and improve the environment.

Our social purpose is focused on what our customers want to see from a forward-thinking company. We are certain our efforts will meet our customers' needs now and in the future.

We have made significant progress over the last 25 years, creating a solid foundation for achieving our commitments over the next 25 years. We will achieve this through a combination of careful management and sensible long-term investment.

We have played a leading role in developing a 'public interest commitment' that sets out a series of five pledges for all water companies in England. All water companies have also committed to signing the Social Mobility Pledge (a pledge made by organisations to be involved with schools, provide work experience and recruit people from disadvantaged backgrounds) – an important step for the sector as a whole.

The pledges state that by 2030, the sector as a whole will:

- have eliminated water poverty, meaning no one should have to spend more than 5% of their income on water;
- be operationally carbon neutral, meaning our operations do not contribute to an increase in greenhouse gases which increase climate change;
- have tripled the rate at which leaks are reduced; and
- have prevented the equivalent of four billion plastic bottles ending up as waste (through our 'Refill scheme').

Our own commitments go even further than these pledges.

The next pages highlight what our social purpose is achieving for customers, the environment and society as a whole as well as our colleagues and investors.



**One moment
of inspiration;
a lifetime of
water saving**



Our social purpose for

Our Customers

Our social purpose is what drives our ambition to provide world-class services at fair prices.

We are very proud of our recent achievements, including the following:

- We are industry leaders on delivering on Outcome Delivery Incentives ('ODIs') (the measures that are most important to customers).
- Having a customer-satisfaction rating of 85%.
- Our average combined bills – for water and waste water services – remain the lowest in the UK.
- Being leaders in encouraging all water companies to make a number of clear commitments that are in the public interest.

In our business plan for 2020-2025 we commit to reducing bills by another 5%, investing in improving more than 2,000 kilometres (km) of our local rivers, and almost doubling support we provide to vulnerable customers.

Our business plan, which is built on our social purpose, is one of the very few to receive fast-track status from Ofwat, a firm endorsement of our customer and community focused approach.



32,000 of our customers had a direct say in development of our AMP7 business plans and a further 1.9 million views were considered in its creation. Our absolute priority is to improve services for all of our customers in areas that matter most to them.



**Custodians of a
precious resource
enjoyed by
us all**



Our social purpose for

The environment and wider society

Our social purpose means maximising the benefits to the environment and wider society. And, as a custodian, we look after your water.

Our social purpose

Our commitments include the following:

- Planting the equivalent of one tree for every three households we serve by 2030, to help reduce flooding and improve water quality.
- Being operationally carbon neutral by 2030.
- Making sure our facilities are free of single-use plastic by 2020 and, by 2030, helping to prevent the equivalent of four billion plastic bottles ending up as waste.
- Signing the Social Mobility Pledge and recruiting people from disadvantaged backgrounds across our region, so that we can provide opportunities to everyone.
- Encouraging every employee to spend at least two days a year of company time volunteering in their local community.

- Supporting charities like WaterAid (which we helped to set up) working in poorer countries.
- Offering every primary school in our region a visit from our Wonderful Water Tour – an educational roadshow to inspire tomorrow's generation.

We are determined to do even more. That is why we have created the World Water Innovation Fund. We've joined forces with like-minded companies across the world to find new ways of working – pooling resources and ideas to develop and speed up the development of new technology. Our £5 million investment in the fund will make a real difference to people's lives across the world and we're excited about what we can achieve by working together.

An example would be working with leading researchers and manufacturers to develop robotic equipment that could actively look for, find and even repair leaks inside pipes.



Our people make an amazing contribution to the communities they work and live in through our dedicated volunteering scheme, Community Champions, working alongside partners such as the Canal and River Trust to improve riverside environments.



**Our expert minds
delivering
investments for
the future**



Our social purpose for **Our Colleagues**

We believe that an expert, highly motivated workforce is vital for providing world-class services at fair prices. And we also believe that a true measure of a company is how it treats its workforce.

Our goals are to:

- Help all our colleagues to succeed.
- Fairly reward people's contributions.
- Be a company everyone is inspired to work for.

We will achieve these goals by:

- Investing in the best, most relevant apprentice and graduate recruitment schemes in the regions we serve.
- Setting up a £10 million technical Academy in Coventry to help us prepare future generations for rewarding careers.
- Encouraging everyone to be themselves at work, recognising the widest possible range of talents.
- Encouraging physical and mental well-being.
- Paying fair wages, with a bonus scheme for all employees linked to our performance for customers.
- Giving all employees an opportunity to be part-owners of the Company (an amazing 70% take part in our Sharesave scheme).



As part of our continued focus on providing a more inclusive working environment for all, we launched our LGBT+ Ally Programme this year – an opportunity for all employees to challenge behaviour and actively support their LGBT+ colleagues.

A photograph of a water treatment plant under a blue sky with scattered white clouds. The plant features several large, cylindrical stainless steel tanks, a network of blue pipes, and a green industrial building with a red pipe and a blue valve in the foreground.

**Decades of
sustainable
investment**

A photograph showing a group of elderly people sitting around a table. They are holding up glasses of water in a toast. The table is set with plates of food, including a salad and bread, and lit candles. The background is softly blurred, suggesting an indoor setting with large windows.

**positive effects
for all**

Our social purpose for

Our Investors

A business that wants to be financially sustainable over the long-term first needs to be socially and environmentally sustainable.

We believe focusing on social purpose is the right thing to do, and we also believe it improves our long-term financial sustainability. This in turn helps us provide more for customers, society and the environment.

We believe this long-term, approach will ultimately provide sustainable returns for like-minded investors whose approach to investing matches our beliefs. An added benefit of our social purpose is our commitment to the highest standards of governance. Being open and honest in the way we run our company.



Our commitment to the Social Mobility Pledge will help people from disadvantaged backgrounds across our region become part of the Severn Trent family and succeed within the business.

Chairman's statement

Fulfilling our role in society

This year has seen our company successfully achieve a series of important milestones, culminating in our Severn Trent Water business plan for the five years from 2020 being fast-tracked by Ofwat. Our operational performance is discussed in detail in our Chief Executive's review. Here, I want to take the opportunity to look at the bigger picture by highlighting the positive difference we have made for our customers and underline our commitment to being a force for good in the communities we serve.

Our purpose is to serve our communities, build a lasting legacy and be recognised as the most trusted water company – and during the year we were delighted to see this commitment recognised when we were named as a pathfinder with the Purposeful Company Task Force, an initiative that seeks to transform British business with purposeful companies that are committed to creating long-term value through serving the needs of society. We were the only utility to receive this honour, and we're continuing our work with Will Hutton, Clare Chapman and like-minded companies to explore how we can best use social purpose as a tool to promote trust between business and society.

This understanding and recognition of social purpose has never been more important – our purpose connects us with our customers and communities, inspires our people, attracts investors and reinforces that in the long-term we all share the same interests. We believe that transforming our services and driving growth will lead to mutual benefit for all, with performance that delivers benefits to one group also delivering for others. The interest of our stakeholders are often interlinked, with many shareholders also being our customers, employees and pensioners.



It has never been more important that we focus on our purpose in society. This underpins everything that we do. Not only in the context of our shareholders but also in full consideration of our employees, communities and other stakeholders. This isn't only a focus for us because we are a good company, but because it is synonymous with the long-term success of Severn Trent."

Andrew Duff
Chairman

I am pleased to see that in its emerging strategy, Ofwat sees the importance of encouraging companies to deliver public value and how they can, for example, give recognition to companies to own their public purpose.

Long-term achievements

Water services in England and Wales have been transformed for the better over the last 25 years – and we have played a major role in this change, investing £22 billion in today's money in infrastructure improvements over the last quarter of a century. We are proud of the part that our continuous investment has played in providing better services to our customers, greater opportunities for communities and our people and a cleaner environment for all.

The future of the water industry continues to be the subject of significant debate. At Severn Trent, our policy is to only comment on political issues that materially affect our customers. We believe that renationalisation is one such issue, and that the interests of all stakeholders – including UK taxpayers – are best served by the industry remaining privatised whilst operating within a clear and robust regulatory framework.

Our people make the difference

Our people take very seriously the responsibility that comes with providing an essential service that touches the lives of millions. Their passion and commitment shines through in everything they do – meeting customers, solving problems and working tirelessly to keep our product flowing at the turn of a tap, 24 hours a day, seven days a week – and on behalf of the Board I thank them unreservedly.

It is important that the makeup of our workforce is representative of the communities we serve. I am pleased to report that in respect of ethnic diversity, 8.7% of our workforce come from Black, Asian and Minority Ethnic ('BAME') backgrounds. Additionally, 31% of our graduates and 12% of our apprentices come from BAME backgrounds, significantly above industry averages. We've also invested in initiatives to help provide employment opportunities to people from disadvantaged backgrounds in our region. We are also the highest ranked utility in the Hampton-Alexander Review, which measures gender diversity.

Sharing the rewards

Under our industry's regulatory framework, high levels of customer service create financial rewards through customer ODI outperformance. This means that we are able to share the benefits of our work with all stakeholders when we perform well. Over the course of the AMP, we will reinvest £220 million generated by our outperformance back into our business, including vulnerable customers, water quality and security. Additionally, our new community dividend will set aside 1% of company profits for the benefit of community projects.

We have delivered strong financial performance this year, with Group turnover from continuing operations of £1,767.4 million, an increase of 4.2%. Underlying earnings per share was 145.8 pence, up 21.0% from the prior year and basic earnings per share was 133.4 pence, up 31.0% from the prior year.

We are therefore proposing a final dividend of 56.02 pence per share to be paid on 19 July 2019, taking the total dividend for the year to 93.37 pence per share.

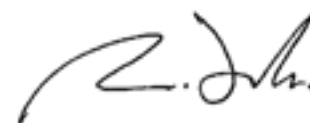
Your Board

There were no changes to Board membership during the year. We continued to work well together as a team, with the appropriate balance of Executive and Non-Executive Directors. The Board was fully engaged throughout the PR19 process; and worked tirelessly with our senior team to create a plan that will bring real improvements to customer service while also keeping bills the lowest in England and Wales.

It is a real privilege to serve as Chairman of Severn Trent and it has been a pleasure to oversee the Company's progress over the last nine years. As we prepare to implement our new business plan, following selection as one of only three companies awarded fast-track status by Ofwat, I believe this is the right moment to step down and allow a new Chair to lead the Board into this important next phase for Severn Trent. These plans are in the early stages and it is planned to formally announce my successor in due course. You can read more on this process on page 84.

Outlook

Ofwat's fast-tracking of our business plan has, in many ways, endorsed our strategy, structure and business model, and further fuelled our commitment to customer service. I look forward to the year ahead with confidence, knowing that the talent of our people, the financial strength of our business, and our commitment to good governance will help us to fulfil our potential as a socially responsible business providing a high quality, essential public service.



Andrew Duff

Chairman

93.37p

Dividend per share
 2018: 86.55p

£1,767.4m

Group turnover
 2018: £1,696.4m¹

£563.3m

Group profit before interest and tax
 2018: £527.2m¹

¹ Restated for the implementation of IFRS 15, see note 2 a) of the Group financial statements.

Market and industry overview

Our context and peers



A total of 17 regional businesses supply water services to over 50 million household and non-household customers in England and Wales. Eleven of these, including Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, provide waste water services, the remaining six provide water only.

17

Regional businesses

50 million

Number of household and non-household customers served

£130 billion

Total investment in the industry since privatisation

The history of the water sector

Water services in England and Wales have been transformed since the early 1900s. Since privatisation in 1989, the sector has invested £130 billion to deliver improvements in reliability and quality of service and it is estimated that our sector has improved efficiency by around 67%. Drinking water is cleaner, supply is more reliable, sewer flooding is much less frequent and rivers are in a better state of health than at any point since the industrial revolution.

We're very proud of our industry's achievements. The water sector in England and Wales was recently ranked joint first for providing better outcomes for customers compared to other European nations. In five of the six key measures of performance – including water quality, customer service and costs – it is either the top performer or the most improved. Analysis by Water UK states that around 90% of customers are satisfied with their water service and that 86% trust their water company.

The future of the water sector

Our planning horizon goes beyond 25 years and we believe that a business that wants to be financially sustainable over the long-term first needs to be socially and environmentally sustainable. It also needs customers, regulators and investors to share its long-term vision for a brighter future for the sector. Despite our sector's significant achievements to date, there remains much to do. Some of the key challenges facing the water sector include climate change, population growth and developing the trust of stakeholders through continuing to behave responsibly.

We continue to respond to these challenges and believe the actions we are taking now can have a significant impact on our ability to be successful in these areas in the long-term. You can read more in our social purpose section on page 6.

In April 2019 we were delighted to launch the World Water Innovation Fund, bringing together the most forward thinking water companies across Europe, the Americas and Australia. The fund aims to find, develop and accelerate ground-breaking technologies that will make a real difference across the world. The first area of focus will be leakage – reflecting the importance the sector places on this sector-wide issue.

We're also taking a national perspective by working with other water companies and partners in the UK to explore ways in which water can be traded across water company boundaries. Currently only 4% of water supplies are transferred between water companies. We are working hard on planning an interconnector to move water from the wettest parts of England and Wales to the driest, for the benefit of customers across the sector. Plans for our new interconnector are described on page 41.

This has been a pivotal year in our regulatory cycle. Our regulatory framework continues to evolve and in the next five year period we will see the opening of the bioresources market, enhanced customer Outcome Delivery Incentives ('ODIs') and a new measure of customer satisfaction, C-MeX. We welcome this change, as C-MeX will ensure that the totality of the experience of all our customers is represented.

Our regulatory framework

As a provider of an essential public service we work within a wide-ranging regulatory framework, with strategic and policy direction provided by the Department for the Environment, Food and Rural Affairs ('Defra') in England and the Welsh Government in Wales. Ofwat is the industry's economic regulator and sets limits on the prices we can charge our customers over five-year Asset Management Plan ('AMP') cycles. This financial year was the fourth of AMP6, which runs from April 2015 to March 2020.

We also work closely with a variety of other regulators and public bodies, including:

- The Drinking Water Inspectorate ('DWI') independently checks that water supplies in England and Wales are safe and that drinking water quality is acceptable to consumers. Its work includes assuring water quality, ensuring companies make the changes necessary to improve, and developing new regulations to further improve water quality.
- The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.
- The Environment Agency ('EA') allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it's been used by our customers and treated by us.
- Natural Resources Wales is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.
- Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, especially for plant and animal life in both fresh water and the sea.
- The Health and Safety Executive helps us to manage risk to ensure the health and safety of our employees, customers and visitors is preserved.



A key year in our regulatory cycle

Every five years, Ofwat reviews the prices we charge for the forthcoming five year period. They also review our plan setting out how we intend to deliver for customers and the environment. In September 2018, we submitted our Severn Trent Water and Hafren Dyfrdwy business plans for AMP7, which run from 2020-2025.

Severn Trent Water's plan

Our Severn Trent Water plan was shaped by the largest engagement exercise we have ever coordinated, consulting with 32,000 customers and considering a further 1.9 million customer views, and was the outcome of over 24 months of development. As part of this we established new methods of listening to our customers, such as our online 'Tap Chat', which enabled customers to give us rapid feedback on our proposals.

We are committed to continued improvements in core areas of our service. Our plan includes a series of service innovations to reflect our customers' changing needs, and a package of new commitments that aim to make a bigger contribution to the communities we serve, supported by our new community dividend. We will also invest over £6 billion over the next five years, ensuring we continue to build a lasting water legacy for future generations.

At the same time we'll deliver our largest bill reductions in a decade. By challenging ourselves to be 13% more efficient in the way we invest, we will be able to invest more to improve our services to customers whilst delivering a bill reduction for customers of 5% in real terms over the next AMP, maintaining the lowest bills in England over AMP7.

We are proud of our work as a pathfinder purposeful company and are pleased this was recognised by Ofwat who commended us on our 'pathfinding social purpose company' thinking and our initiative with the Purposeful Company Task Force. We believe that if we're united by a clear social purpose, we'll deliver better outcomes for all our stakeholders – our customers, our colleagues, our investors, the society we live in, and the environment that we depend on.

We were delighted that Severn Trent Water was one of only three companies to be awarded fast-track status by Ofwat. We see this as a firm endorsement of our high standards of governance and focus on the sustainability of our business and our customer and community focused approach.

Market and industry overview continued

Ofwat has recently published its emerging strategy which sets out three main aspirations that are emerging for the sector – delivering every day excellence, stewardship for the future and value for individuals and society. We are very supporting of Ofwat’s emerging thoughts and in particular its thoughts around encouraging companies to deliver public value.

Achieving fast-track status means we have clarity on the challenges and opportunities ahead. With our plan now agreed and commitments set a full 14 months before the start of the next AMP, we are accelerating our preparations. In March 2019, we announced details of the first key contractors we intend to use to deliver our c.£2 billion investment in construction projects for AMP7.

We received our Severn Trent Water draft determination in April 2019 and we’re continuing to work constructively with Ofwat on our response.

And in Hafren Dyfrdwy...

In July 2018 we launched Hafren Dyfrdwy – our new water company dedicated solely to customers in Wales, bringing together all the Welsh customers previously served by Severn Trent Water and Dee Valley Water.

Our Hafren Dyfrdwy business plan was classified as ‘significant scrutiny’ by Ofwat. This was not unexpected given that Hafren Dyfrdwy was a new company and therefore has a lack of historical data.

We were pleased that Ofwat’s initial assessment recognised the progress made on our cost base over the last two years and the certainty provided by our Totex plan being approved. We have continued to work constructively with Ofwat on the resubmission of the Hafren Dyfrdwy plan to deliver the right outcome for our Welsh customers. The Hafren Dyfrdwy plan was resubmitted in March 2019.

What’s next?

Hafren Dyfrdwy draft determination – July 2019

Final Determinations for all companies – December 2019

Working in a changing macro environment

The macro environment is changing rapidly and there are three areas which we are particularly focused on.

The Chairman comments on the debate around the future of the water industry in his statement on page 16.

The current uncertainty around Brexit has had implications for water companies that extend beyond financial matters. An area of focus over the last 12 months has been to put plans in place to ensure that we can maintain access to sufficient quantities of imported chemicals for our treatment works in the event of a ‘no-deal’ Brexit. Additional detail can be found on page 61.

Population growth, driving increased water demand, and climate change, are two of the biggest challenges facing our industry. We have recently committed to the five pledges made by all companies in our sector which respond to these challenges. More information can be found on page 7.

How our market environment influences our five strategic priorities

 <p>Embedding customers at the heart of all we do</p> <hr/> <p>We’ll continue to anticipate and to meet changing customers’ and wider societal needs</p> <hr/>  READ MORE ON PAGE 24	 <p>Driving operational excellence and continuous innovation</p> <hr/> <p>Innovation helps us to deliver the services customers need and keep bills affordable</p> <hr/>  READ MORE ON PAGE 25	 <p>Investing responsibly for sustainable growth</p> <hr/> <p>We invest to make sure we continue to benefit from a resilient, well-maintained network that meets the demands of a growing population and a changing climate</p> <hr/>  READ MORE ON PAGE 26	 <p>Changing the market for the better</p> <hr/> <p>We work constructively with regulators, helping to prepare the industry for the opportunities and challenges of the future</p> <hr/>  READ MORE ON PAGE 27	 <p>Creating an awesome place to work</p> <hr/> <p>We can only succeed if we have the support of inspired, talented, diverse and engaged people</p> <hr/>  READ MORE ON PAGE 28
--	--	---	--	---



Delivering value for stakeholders

This has been a pivotal year for Severn Trent and one I'm incredibly proud of. We put together the most ambitious business plan in our history and I'm personally delighted we were given fast-track status for the first time, showing Ofwat shares our belief that customers will get the best possible outcome from our plan for the next AMP. It's a great testament to everyone who was involved in pulling the plan together, especially to our customers who helped us create the proposals.

We're proud of our financial and operational performance. We demonstrated resilience and flexibility in our network throughout the prolonged hot, dry weather over the summer – which saw a 22% increase in demand for water from our customers at peak times. This intense activity would not have been possible without the hard work and dedication of our people across the business. And I could not be more proud of the way they responded, without us having to impose hosepipe bans or other restrictions. You can read more about our operational performance in the performance review and our financial performance in James' financial review.

I'm also delighted that Ofwat commended us for our 'pathfinding social purpose company' thinking and our initiative with the Purposeful Company Task Force. In being united by a clear social purpose, we'll deliver better outcomes and build trust between all of our stakeholders.

So, in this year's CEO review, I want to share how our plan will deliver for our customers, the environment and wider society, our people and those investors supporting us on our long-term journey.

We are the custodians of a precious resource – water is vital to everyone across the world. As we build the next phase of our journey to deliver for our customers, shareholders, employees and the environment we pledge to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.”

Liv Garfield
Chief Executive

Chief Executive's review continued

Our customers: at the heart of our plan

32,000 customers had a direct say in development of our Severn Trent Water plan and a further 1.9 million views helped shape its creation. Our absolute priority is to improve services for all of our customers in areas that matter most to them. We work night and day to create a service that's so good that our customers would still choose us, if they had the choice. So, our plan aims to deliver just that.

Affordability is right at the top of our agenda and we'll be reducing bills by 5% in real terms. And we already have the lowest bills in England and Wales. We'll be investing £6.6 billion over the next five years and helping nearly 50% more of our customers who are genuinely struggling to pay their bills.

Improving our environment is a key area of focus for us and our plan is not just to protect the environment, it's to significantly improve it. We already work hard to make sure that the impact we have is as positive as possible and we'll be partnering with an extra 2,000 farmers to improve the quality of our raw water supplies. You'll find more on our great performance in this area within our performance review section.

As I've already mentioned, our social purpose ethos aims to build trust between our stakeholders and three of the things I'm personally most proud of are:

- Our new community dividend, through which we will invest 1% of our profits in community projects – a really exciting opportunity to make a positive impact in our region.
- Our commitment to the Social Mobility Pledge – helping people from disadvantaged backgrounds across our region become part of the Severn Trent family and succeed within our business.
- We're getting even more involved in the communities in which we live and work, for example through our Wonderful Water Tour – an innovative educational roadshow that every primary school in the Midlands will have the chance to take part in.

We're committed to creating a more resilient water sector in England and Wales. Key to this is ensuring that water can be traded across water company boundaries. So, we are working hard on feasibility planning for an interconnector to move water from the wettest parts of England and Wales to the driest, for the benefit of customers across the entire sector. Collaborating with other water companies is a great example of how the sector is focused on customers in all parts of the country, not just in their own regions.

Major projects such as this require significant investment. And the last year has seen the largest capital spend in our history. These schemes will deliver a better service and Totex efficiencies for our customers – ensuring a reliable supply of water for generations to come. We've made excellent progress on the Birmingham Resilience Project, which is the biggest water enhancement project in the sector in AMP6, with 25km of the pipeline already installed. This is on track for completion by the end of the year.

Our AMP7 investment plans are well underway, and we've announced the first contractors we intend to use to deliver our c.£2 billion investment in construction projects over the next AMP. And we're also creating a new specialist design team. By investing in the professional expertise of our people we will further improve the reliability and availability of our assets.

Following year end, we launched our World Water Innovation Fund in April. Joining forces with like-minded companies across the globe to find new ways of working – pooling resources and ideas to develop and accelerate new technologies. Our £5 million investment in the Fund will make a real difference to people's lives across the world and I'm really excited about what we can achieve by working together. The initial focus will be on leakage and we have already invested ourselves in innovative ways of finding leaks faster, and fixing them more efficiently, and I'm pleased that we have started to see some encouraging results.

£563.3m

Group PBIT

2018: £527.2m¹

7.9%

Dividend increase

2018: 6.2%

£1,767.4m

Group turnover

2018: £1,696.4m¹

£4.5m

Net ODI penalty³

2018: Net reward of £71.6m⁴

£573.6m

Underlying Group PBIT²

2018: £539.8m¹

¹ Restated for the implementation of IFRS 15 see note 2 of the Group financial statements.

² Alternative Performance Measures are defined in note 45 of the Group financial statements.

³ Outcome Delivery Incentive ('ODI') quoted pre-tax in 2012/13 prices.

⁴ Restated to reflect Ofwat's decision on Supply Interruptions in their Final Determination of in-period ODIs for 2018.

Our people: delivering our plan for customers, every day of the year

Our people work tirelessly to keep wonderful water flowing and treating waste for our customers everyday of the year. So they can achieve their best, we work hard to be the best employer we can be. We're constantly looking for new and better ways to help our people do their job more effectively, fulfil their potential and make them feel valued. In doing so, we improve the service we deliver to our customers. So, we're continuing our investment in training – through our Severn Trent Academy. When completed this will train our engineers and leaders of the future, giving our people opportunities for growth, development and more rewarding careers.

Over 90% of our people took part in our annual employee survey this year, giving us great feedback on what we're doing well and where they expect us to do better. We're pleased that we were rated among the Top 50 Best Places to Work again, and that 74% of our workforce would recommend us to a friend.

I'd like to thank our people for their amazing contribution to the communities they work and live in. Over 1,900 days were dedicated to our volunteering scheme, Community Champions. We worked alongside partners such as the Canal and River Trust to improve 34 km of riverside environment, and in AMP7, we're expanding the volunteering programme to include working with Heart of England Forest to create and protect a huge broadleaf forest across the Midlands.



The Board visited our Agrivert site during the year. Read more on page 80.

Our environment: investing for the benefit of all

We look after some of the UK's most impressive natural resources. We've improved the biodiversity of a further six hectares of Sites of Special Scientific Interest and we're on track to reach our target of 75 hectares by 2020. We're proud of our environmental performance, with rivers in the UK, including the rivers Severn, Trent and Dee in our region, being cleaner than at any time since the industrial revolution.

Water scarcity remains a huge challenge for the water industry across the world – so it's vital that our customers know how to use water wisely. Our Wonderful Water Tour aims to inspire a generation to stay hydrated while reducing water consumption and being more careful about what they put down the loo and sink. And the World Water Innovation Fund will be exploring innovative ways to reduce water scarcity on a global scale.

I am delighted that we increased our energy generation to the equivalent of 43% of the energy we consumed this year. We continue to invest heavily in renewable energy – and we welcomed Agrivert to the Severn Trent family during the year – adding 105GWh per annum to our energy generation capacity. This reflects our commitment to become a sector leader in sustainable resource efficiency, and to drive down carbon emissions. The Board thoroughly enjoyed their recent site visit, observing anaerobic digestion processes, and they were hugely impressed by the engineering capability and expertise of our people.



Long-term sustainability for long-term investors

We believe that a business driven by social purpose and sustainability aligns with the interests of investors over the long-term. Delivering against the customer, social, environmental and financial commitments we have made for the next five years will yield financial outperformance that can be shared with all stakeholders including investors.

Looking to the longer term, we will continue to invest in our asset base to meet the emerging environmental and societal needs of the region we serve. Working with like-minded organisations to tackle the big issues the industry faces will ultimately deliver a more sustainable long-term investment proposition with attractive returns for those that choose to come with us on our journey.

Looking forward

We are driven by our social purpose, and believe this is also in the long-term interests of our investors. To be a financially sustainable business we first need to be socially and environmentally sustainable.

And in delivering for our customers, our investors will still be able to make attractive, appropriate returns.

With our plan agreed and performance commitments set well before the start of the next AMP – this is just the start of the next five-year journey for us as a company. Our teams now have to deliver everything we've promised, to set us up for continued success in AMP7. Whether that's keeping bills low, improving our services, or having a really positive societal impact on our communities. It's going to be a real challenge and it's one we're confident we can meet.

Liv Garfield

Chief Executive

How we are achieving our strategic objectives



Embed customers at the heart of all we do

What do we mean by this?

We'll improve the way in which customers engage with us through improved insight and understanding of what's important to them.

 **READ MORE ON OUR ODIs AND KPIs ON PAGE 32**

 **READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34**

What we said we would do in 2018/19

- Build greater capability in incident management, focusing on continuous improvement.
- Develop the use of the 'Wonderful on Tap' brand to increase the focus of all colleagues on enhancing the quality of our products and customer service, and increase engagement on the things that matter most to them.
- Deliver on the things that matter most to our customers as measured in customer ODIs.
- Provide a service that is affordable for all and support our financially vulnerable customers by assisting 50,000 customers with their bills.

Our progress in 2018/19

- We've continued to offer a range of support schemes to help our customers struggling to pay their bills. Our aim is to support at least 50,000 customers each year while continuing to evolve our offers of support and our priority services register. We're already significantly expanding the scope and offers of support available. Alongside this, our Big Difference scheme continues to offer up to 90% discounts for customers that are struggling to pay their bills.
- We've maintained our position delivering the lowest bills in England (Severn Trent Water) and Wales (Hafren Dyfrdwy). Based on our PR19 Business Plans, we are set to continue this position to 2025.
- We've delivered another good year on customer ODIs, delivering outperformance equivalent to £91 million. And we agreed with Ofwat to uncap ODIs on our waste water measures. This will help us deliver even more progress this AMP on the areas that matter most to our customers.

- We've made a number of changes to our operating model, including to the design and operation of our Network Control room and increasing availability of real-time data. For example, we've used 100 high pressure loggers across our network to identify pressure transients and modify the system control on booster pumps to minimise them.
- We applied the learnings from the Freeze Thaw event in March 2018 during the prolonged hot, dry weather this year – which saw a 22% increase in demand for water from our customers at peak times. We demonstrated resilience and flexibility in our network during this time and focused on prioritising resources to meet the additional demand and minimising the impact on our customers.
- We've increased our customer engagement including running our first ever TV ad to promote water efficiency.

Areas of focus for 2019/20

- Providing a service that is affordable for all and support our financially vulnerable customers.
- Maintaining the lowest bills in England (Severn Trent Water) and Wales (Hafren Dyfrdwy).
- Delivering on the things that matter most to our customers as measured by customer ODIs.
- Further improving our incident management capability to ensure we can maintain an uninterrupted supply of clean water to our customers.





Drive operational excellence and continuous innovation

What do we mean by this?

We'll build a smarter water and waste water network, develop our business intelligence and simplify our cross business processes.

 **READ MORE ON OUR ODIs AND KPIs ON PAGE 32**

 **READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34**

What we said we would do in 2018/19

- Deliver our plans to be Upper Quartile for Retail, Water and Waste.
- Continue to provide environmental leadership.
- Make further progress on the quality of our water as measured by the DWI's Compliance Risk Index.
- Regain self-assured status for our English business.

Our progress in 2018/19

- Our performance across Waste – service and cost efficiency – remains sector leading. And our PR19 plan placed us in the upper quartile for Waste. In fact, Ofwat have asked us to share best practice with other companies so that customers across England and Wales can benefit from improvements on external sewer flooding performance. In Water, we've delivered substantial second half improvements, giving us confidence for 2019/20 and beyond. We are continuing to make improvements in Retail.
- We've successfully delivered two key environmental commitments – overall environmental performance and catchment management, enhancing the quality of our raw product and reducing the level of treatment. We've also made good progress on our Water Framework Directive and biodiversity commitments. Unfortunately we've seen an increase in serious pollution incidents this year and we're putting extra resources in place to make improvements in this area.

- We remain in the targeted assurance category for Severn Trent Water this year, with Ofwat assessing over 80% of measures as 'meets expectations'. All measures were assessed as 'minor amends' or above meaning that Ofwat has no major concerns with the way in which we report our performance to customers and stakeholders.
- We've continued to make strong progress, as a result of our additional investment made earlier in AMP6. We are working really hard on further improvements in this key area.

Areas of focus for 2019/20

- Retaining our strong performance on Waste, while making improvements on Retail and Water service.
- Delivering our environmental commitments including on the Water Framework Directive and biodiversity.
- Retain a minimum of targeted assurance and all measures assessed as 'minor amends' or above.
- Sharing best practice with other companies so all customers across England and Wales can benefit from the improvements we've delivered in our region on external sewer flooding.



How we are achieving our strategic objectives continued



Invest responsibly for sustainable growth

What do we mean by this?

We'll develop an effective strategy which optimises our regulated asset base, whilst creating new growth opportunities for the future.

 **READ MORE ON OUR ODIs AND KPIs ON PAGE 32**

 **READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34**

What we said we would do in 2018/19

- Deliver fully on our PR14 investment commitments, being confident that we are able to deliver against our current plans and make appropriate investments for the future.
- Achieve material improvements in some of our key Enterprise Risk Management ('ERM') risks.
- Drive a focus on efficiency across all business areas including central functions to support frontline investment.
- Continue to embed innovation across the Company, making it part of every team's way of working.

Our progress in 2018/19

- We've invested over £1 billion this year to ensure we have a resilient network and asset base capable of delivering our services now and into the future. This includes two key investment commitments where customers are protected by customer ODIs – Birmingham Resilience and the Water Framework Directive.
- We've made significant progress on addressing property compliance risks, and continue to make improvements to achieve our target position by the end of the AMP. However our underperformance on key risks means our performance on ERM risks has remained static, see Principal Risks section on page 56.
- Over AMP6, we have locked in £460 million of efficiency. We've achieved this through a range of initiatives including the roll-out of standardised products, embracing 'plug and play' construction, and using smart programming to best utilise assets and resources.

We have chosen to reinvest £120 million of this efficiency saving into security, water quality and vulnerable customers, and a further £100 million in smart data.

- We proved financially resilient, during the prolonged hot, dry summer – and were able to absorb the increased costs associated with pumping up to an extra 400 million litres per day and 24/7 use of a fleet of water tankers to top up service reservoirs.
- We launched our World Water Innovation Fund in April 2019, joining with like-minded companies across Europe, the Americas and Australia, to find new ways of working, and make a huge difference to our sector.
- Our cross-team communities of practice continue to develop novel approaches and share best practice with the aim of delivering targets in 2019/20 and meeting the 15% leakage challenge in AMP7.

Areas of focus for 2019/20

- Promoting a more sustainable way of working which looks beyond traditional end-of-pipe solutions (including our partnership working and sustainable sewage treatment commitments).
- Developing the World Water Innovation Fund to help find new ways of working and to leave a lasting water legacy for future generations.
- Continuing to progress our understanding of the impact of climate change on our long-term service delivery, using the UK Climate Projections 2018 published by the Met Office.





Change the market for the better

What do we mean by this?

We'll embrace market opening in the UK and explore opportunities for growth in new water markets.

 **READ MORE ON OUR ODIs AND KPIs ON PAGE 32**

 **READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34**

What we said we would do in 2018/19

- Produce compelling cases for investment at PR19 that enable strong RCV growth over AMP7 and AMP8.
- Deliver phase two of the energy and renewables strategy to achieve 50% self-generation.
- Build a sector leading approach to bioresources.
- Finalise the creation of Hafren Dyfrdwy and deliver a great first year.

Our progress in 2018/19

- We've received fast-track approval for our PR19 business plan for Severn Trent Water. The Totex allowance drives strong RCV growth, with Ofwat's modelled cost allowance having reflecting many of the areas we had highlighted for improvement in AMP7.
- We're on-track to exceed our 50% self-generation target by the end of AMP6, with the Agrivert acquisition supporting our bioresources energy and renewables strategy.
- Ofwat's assessment of our PR19 business plan recognised our leading approach for bioresources.
- The Hafren Dyfrdwy licence came into effect on 1 July – we've invested in improvements in both the technology platform and asset base. There is more to do to improve performance on the measures that matter most to customers at a cost that is affordable, and we are putting extra resources in place to do this.

Areas of focus for 2019/20

- Working progressively with Ofwat to finalise the PR19 outcome.
- Delivering our ambition of 50% self-generation.
- Progressing the development of regional water trading solutions, including the North to South interconnector.



How we are achieving our strategic objectives continued



Create an awesome place to work

What do we mean by this?

We'll create a culture of empowerment and accountability with a focus on skills, talent and career development.

 **READ MORE ON OUR ODIs AND KPIs ON PAGE 32**

 **READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34**

What we said we would do in 2018/19

- Deliver a further step change in our safety performance and support the wellbeing of our colleagues.
- Continue to build on our strong volunteering performance and drive the Corporate Responsibility agenda.
- Continue our focus on improving overall QUEST engagement scores.
- Deliver the foundations of the new Training Academy, to make a positive contribution to technical development.

Our progress 2018/19

- We were awarded silver in the Mind Workplace Wellbeing Index 2017/18. Our health and safety performance is upper quartile within the sector and we experienced no major safety incidents and no fatalities in the last 12 months. We did see an increase in Lost Time Incidents ('LTIs'), mainly due to slips, trips and falls. We have detailed plans in place to address this, with new data analytics being used to identify specific areas for improvement. Progress against these areas is considered at the Employee Forum, Executive Committee and Board. In April 2019 we revamped our Goal Zero Strategy, with dedicated quarterly awareness campaigns.
- Over the last year, Community Champions, our volunteering programme, has supported over 1,900 colleagues to make a difference by helping to make our region's waterways even healthier and supporting our local communities.

- We're also pleased to maintain our strong engagement scores following our QUEST survey – completed by over 90% of our workforce – placing us five points above the average benchmark for UK and Ireland. This is great news, especially given the extra commitment of our people this year in the difficult circumstances during the prolonged hot weather over the summer.
- We're on-track to deliver our Training Academy by Spring 2020. Ensuring our people have the right mindset, technical competence and leadership skills for now and in the future. We've repurposed an existing building to provide a greener solution, and are developing an exciting syllabus that uses state-of-the-art training techniques including virtual reality and network simulation.

Areas of focus for 2019/20

- Delivering an improvement in our safety performance through focused interventions.
- Maintaining our commitment to the wellbeing of our colleagues.
- Continuing to implement improvements identified by our QUEST engagement.
- Developing an exciting and innovative syllabus for our new Training Academy.



Environment, Social and Governance

At a Glance

We are proud to be recognised as the first socially purposeful company in the utility sector. The content below pulls together details of our sustainability performance that are integrated throughout our Annual Report and Accounts. It also highlights where you can find more information on our Environmental, Social and Governance ('ESG') performance.

We are committed to continually developing and improving our approach, and continue to explore the role accreditations can play in providing legitimacy to this. We've developed a dedicated ESG page on our website where you can find further information.

Environmental Leadership

2020-2025 Commitments

Carbon and Climate Change

Our triple pledge:

- Carbon neutral by 2030, more stretching than science based targets;
- 100% electric vehicles by 2030 – (assumes specialist vehicles such as tankers become available within that time window); and
- 100% renewable energy by 2030 (including self-generated and purchased energy).



Links to our strategic objectives

Biodiversity

- Biodiversity** – Improve 1090 hectares of land (or km of river) for biodiversity by 2025.
- Tree planting** – Plant the equivalent of one tree for every three households we serve by 2030.



Links to our strategic objectives

Water Management

- Water resources** – Reduce unsustainable abstraction by nearly 100 ML/d.
- Water management** – Triple the rate of leakage reduction across the sector by 2030. Focus on metering households.
- Education** – offering every primary school in the Midlands a visit from our Wonderful Water Tour, inspiring them to change water usage behaviours.



Links to our strategic objectives

Environmental Stewardship

- River quality** – By 2025 we will have improved the quality of over 50% of rivers in our region.
- Single use plastic** – Prevent the equivalent of four billion plastic bottles ending up as waste by 2030.



Links to our strategic objectives

ESG performance

Read more

Carbon reduction – Group net Greenhouse Gas Emissions ('GHG') emissions fell by 27% in 2018/19. A reduction of 41% since the beginning of the AMP. Total annual net emissions 268,283 tonnes CO₂e.

Page 126

Renewable generation – Generated equivalent of 43% of our electricity needs, up from 38% in 2017/18. On track to exceed 50% target by 2020.

Page 125

Water Industry Achievement awards – Winner of the Energy and Carbon Initiative of the year.

Page 126

Biodiversity – Improved biodiversity of six hectares of SSSIs in 2018/19. On track to reach our target of 75 hectares by 2020.

Page 39

Catchment Management – Gold award winner at the Corporate Engagement Awards 2018.

Water resources – Published draft Water Resources Management Plan ('WRMP') setting out our long-term plans to accommodate the impacts of population growth, drought, and climate change uncertainty to balance supply and demand over the next 25 years.

Severn Trent website

Leakage – Hit MLE target and have delivered a reduction year-on-year of 16 ML/d.

Page 39

Water quality – 6% improvement in water quality complaints.

Page 35

Catchment management – Worked in partnership with over 820 farmers to reduce the amount of chemicals entering our raw water sources.

Page 38

Education – Engaged over 130,000 young people this year through our education programme, ahead of 125,000 annual target.

Page 35

Water efficiency – Carried out 26,000 home water efficiency checks to help customers manage their consumption. Installed 35,823 water meters.

Page 36

River quality – On track to improve at least 1,600 km of our rivers by 2020.

Page 41











Single use plastic – Supported Refill campaign, contributing to the 20,000 refill stations in the UK. We have eliminated single use plastic from our office locations.

Page 43

Environmental management system – 35% of our operations externally certified.

Environment, Social and Governance – At a Glance

continued

2020-2025 Commitments	ESG performance	Read more
<p>Creating an awesome place to work</p> <p>Training – Investing £10m in the new Training Academy in the Midlands.</p> <p>Diversity and Inclusion – Committed to recruit people from social mobility cold spots across our region, seeking to provide opportunities to all.</p>	<p>Engagement – Awarded Glassdoor Employees’ Choice Award – Top 50 Places to Work in 2019. Ranked 3.9/5 overall 4.2 for culture and values. Glassdoor reports that 74% of our people would recommend us to a friend. Employee engagement score five points above the average benchmark for UK and Ireland.</p> <p>In 2018/19 our voluntary employee turnover was 6.5%.</p>	<p> Page 108</p>
<p>Links to our strategic objectives</p> 	<p>Training – Above EU average for training investment with over 15,000 training days.</p>	<p> Page 44</p>
	<p>Diversity and Inclusion – Fourth in Hampton-Alexander Review FTSE100 for women in leadership, and the top utility.</p>	<p> Page 44</p>
	<p>Social mobility – Signatory to Social Mobility Pledge. Top 20 Company in the UK’s Social Mobility Index.</p>	<p> Page 113</p>
	<p>Gender pay gap – Mean gender pay gap of 2.8%.</p>	<p> Severn Trent website</p>
	<p>Reward – The Remuneration Committee ensures that pay is fair throughout the Company and ensures executive pay is aligned to the wider workforce remuneration; our all-employee Annual Bonus Scheme is a great example of this in practice.</p>	<p> Page 110</p>
	<p>Employee wellbeing – 70% of line managers trained in mental health, and over 400 mental health first aiders available</p>	<p> Page 45</p>
	<p>Goal zero health and safety – LTIs per 100,000 hours worked – Severn Trent Water: 0.3 and Business Services: 0.29. Upper quartile performance in the sector. No fatalities in the last 12 months.</p>	<p> Page 45</p>
	<p>Zero tolerance approach to modern slavery – Modern slavery statement ranked 16th in the FTSE100.</p>	<p> Severn Trent website</p>

Social – Our people

Social – Our customers and communities

2020-2025 Commitments

Putting our customers first

Community contribution – We're investing 1% of profits for a new community fund – to make positive impact in our region.
Vulnerable customers – We'll help nearly 50% more customers who are struggling to pay their bills by 2025 and develop a strategy to end water poverty.



Links to our strategic objectives

Supporting our communities and wider society

Innovation – Launched the World Water Innovation Fund. Our £5m investment will make a real difference to lives across the world.
 Doubled the funding for innovation in AMP7.
UN Sustainable Development Goals ('UNSDG') – Aligned our commitments with the UNSDGs, highlighting positive contribution to 11 of the 17 goals.



Links to our strategic objectives

ESG performance

Vulnerable customers – £3.5m trust fund donations annually, 2.62 social return on investment. Supported 52,838 people who struggle, against an annual target of 50,000.

Page 24

Our performance for customers – Overall customer satisfaction is 85%, 7% higher than the national average. Trustworthiness is at 73%, making Severn Trent the most trusted water company in England.

Page 36

Customer Experience – Maintained 14th position in customer Service Incentive Mechanism ('SIM') score. Upper quartile in the Institute of Customer Service's UK index as the top English water and sewerage company ('WaSC') and only slightly short of the UK average in all sectors.

Page 33

Charitable contributions – Founding partner of WaterAid and raised almost £30 million since 1981.

Fund website

Volunteering – 32% of employees volunteered in 2018/19 ahead of 30% target; improving 34 km of riverside and planting over 3,000 trees.

Page 44

Responsible supply chain – 100% prioritised suppliers signed up to our Sustainable Supply Chain charter.

Severn Trent website

FTSE4Good certified

2020-2025 Commitments

Committed to the highest standards of transparency and corporate governance



Links to our strategic objectives

ESG performance

Highly commended – PwC Building Public Trust Award for Executive Remuneration Reporting in the FTSE 350.

Purposeful Company Task Force – Only utility to be named as a pathfinder by The Purposeful Company Task Force.

Ofwat – Commended us on our 'pathfinding social purpose company' thinking.

Page 19

Ofwat – Awarded our Severn Trent Business Plan fast-track status.

Page 19

ODIs and KPIs

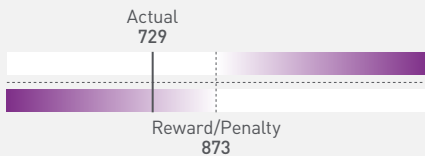
We continue to make progress against our customer ODIs and financial KPIs

Progress against our customer Outcome Delivery Incentives^{1,2,3}



Embed customers at the heart of all we do

Internal sewer flooding⁴



£42,820¹

Rate of Reward/Penalty (per incident)

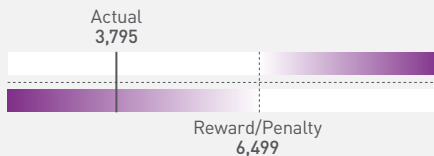
Why we measure it

To ensure we do everything we can to prevent flooding of customers' homes or businesses. It is one of our customers' most important priorities.

Progress in the year

We agreed with Ofwat to strengthen our performance commitment on internal sewer flooding from 1 January 2019, see page 37 for further details. We are reporting a performance of 729 incidents, ahead of our adjusted performance commitment of 873.

External sewer flooding⁴



£2,967^{1,5}

Rate of Reward/Penalty (per incident)

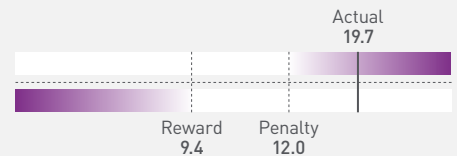
Why we measure it

To ensure we do everything we can to prevent flooding of customers' homes or businesses. It is one of our customers' most important priorities.

Progress in the year

We agreed with Ofwat to strengthen our performance commitments on external sewer flooding, from 1 January 2019, see page 37 for further details. We also agreed to reduce our incentive rate from £19,779 to £2,967 at this time. We are reporting a performance of 3,795 incidents ahead of our adjusted performance commitment of 6,499.

Minutes without supply



£1.10m¹

Rate of Reward/Penalty (per minute)

Why we measure it

Our customers value water being there when they need it. This performance commitment ensures we are driving down the impact of any interruptions to supply across our network to minimise the impact on customers.

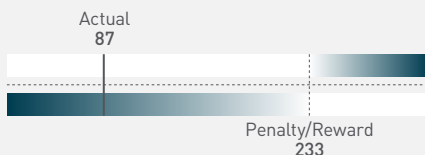
Progress in the year

We have interrupted customers supply for an average of 19.7 minutes, higher than our committed performance level of 9.4 minutes.



Drive operational excellence and continuous innovation

Improvements to river water quality



£750,000¹

Rate of Penalty/Reward (per qualifying point)

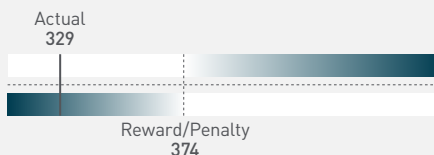
Why we measure it

We have statutory obligations to deliver, but our customers told us that we should do more where we can. This performance commitment ensures we meet our obligations and drives us to make faster progress where it is possible.

Progress in the year

We have delivered 53 qualifying Water Framework Directive points during the year and our cumulative total is 87. We are on-track for our end of AMP target of 233.

Number of Category 3 pollution incidents⁴



£53,900¹

Rate of Reward/Penalty (per incident)

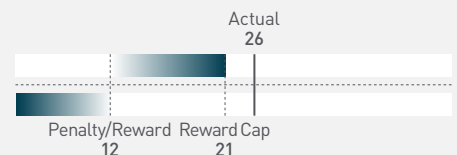
Why we measure it

Minimising the impact our activity has on the environment is a key concern for our customers. This performance commitment ensures we drive improvements in this area.

Progress in the year

We are reporting 329 Category 3 pollution incidents against an adjusted performance commitment of 374 incidents.

Successful catchment management schemes



£1.03m¹

Rate of Penalty/Reward (per scheme)

Why we measure it

Our customers want us to look for new and innovative ways to improve water quality, whilst working in partnership with other stakeholders to deliver wider benefits. This performance commitment focuses on how our approaches are encouraging farmers and land owners to change their behaviour and practices.

Progress in the year

We have delivered 26 catchment management schemes, well ahead of our performance commitment.



Invest responsibly for sustainable growth

See our Regulated Water and Waste Water performance review on page 34.



Create an awesome place to work

Severn Trent Water Limited

0.30

Lost time incidents per 100,000 hours worked
2017/18: 0.17

Progress against our financial KPIs⁷

£1,767.4m

Group turnover
 2017/18: £1,696.4m⁸

£573.6m

Group underlying PBIT
 2017/18: £539.8m⁸

145.8p

Underlying earnings per share
 2017/18: 120.5p⁸

Notes

- 1 In 2012/13 prices after tax.
- 2 These are also key measurements used to assess our Corporate Responsibility performance.
- 3 We have reported performance on our customer ODIs on a comparable basis by reporting the current year performance for the Severn Trent Water region that was in place during 2017/18.
- 4 Targets have been strengthened from 1 January 2019, see page 37 for more information.
- 5 Incentive rate reduced from 1 January 2019, see page 37 for more information.
- 6 Engagement index used for the Group since 2015/16 to support benchmarking and gain better insight about us as an employer.
- 7 Alternative Performance Measures are defined in note 45 to the Group financial statements.
- 8 Restated for implementation of IFRS 15 see note 2 to the Group financial statements.

Key

Actual
 | Severn Trent Actual Performance 2018/19

SIM – Customer experience

Not yet defined by Ofwat

81.45 SIM score

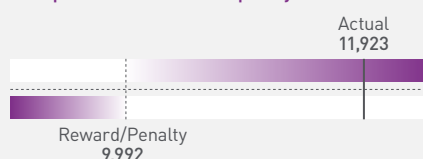
Why we measure it

Providing good quality service to our customers is key and the Service Incentive Mechanism ('SIM') provides us with a regular opportunity to understand our performance and implement initiatives to improve the quality of service we provide, but also deliver value for money.

Progress in the year

We have reported a SIM score of 81.45 for 2018/19, which is below our target of upper quartile.

Complaints about water quality



£900¹

Rate of Reward/Penalty (per complaint)

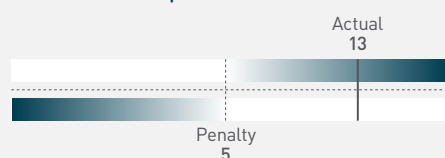
Why we measure it

Customers value the aesthetic quality of their water. This performance commitment is designed to ensure we manage our network to minimise the number of events that cause discolouration, taste or odour problems.

Progress in the year

During the year the number of drinking water complaints reduced from 12,687 to 11,923, higher than our committed performance level of 9,992.

Asset stewardship – coliform failures



£463,000¹

Rate of Penalty

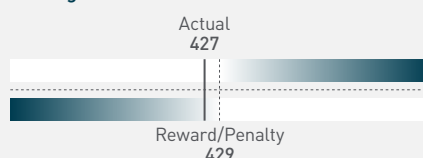
Why we measure it

The presence of coliforms in our drinking water is unacceptable as it is an indicator of poor quality so we continually monitor our works to ensure we are producing high quality water.

Progress in the year

During the year we detected coliforms at 13 of our water treatment sites, which is higher than our committed performance level of five.

Leakage



£123,000¹

Rate of Reward/Penalty (per megalitre per day)

Why we measure it

Customers see leakage as a waste of a key resource. They want us to reduce our level of leakage as a priority.

Progress in the year

We are reporting an outturn of 427 ML/d which is marginally ahead of our performance commitment of 429 ML/d.

Severn Trent Business Services

0.29

Lost time incidents per 100,000 hrs worked
 2017/18: 0.15

No change

Severn Trent engagement score improvement⁶
 2017/18: 6 percentage points

Performance review

Regulated Water and Waste Water

Our Regulated Water and Waste Water business includes the wholesale water and waste water activities (excluding Bioresources) of Severn Trent Water Limited and its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig. Unless stated otherwise the information in this section relates to Severn Trent Water which makes up 98% of our total customer base.

4.5 million

Number of households and non-household customers

2.0 billion

Litres of high quality drinking water every day

Ninth year

Number of years of the lowest bills in England for our customers



Embedding customers at the heart of all we do

From the Bristol Channel to the Humber and from Rutland to North Wales, we play an essential role in the lives of 4.5 million households and non-households. We provide them with around 2.0 billion litres of high quality drinking water daily, and treat around 2.9 billion litres of waste water every day.

As part of the development of our Severn Trent Water PR19 plan, we focused on customer insight gleaned from our most intensive customer engagement activity in our history. This gave us a solid foundation on which to create a comprehensive, detailed business plan – one that was co-created with customers and put their wishes right at its heart. As we developed the plan we asked our Customer Challenge Group, the Water Forum, to rigorously challenge every aspect of our customer engagement to make sure we'd addressed the issues most important to them. The Forum gave us really constructive feedback that led to us making further changes and reassured us that we really were putting our customers first.

The issues that matter

Our engagement programme confirmed that the issue that matters most for our customers continues to be affordability – keeping bills low for our essential service is their top priority,

as well as making sure that our most vulnerable customers have the support they and their families need.

Their next most important issue is something that's fundamental for us as a business – providing a reliable supply of clean water and taking away waste water without customers having to worry about it.

Customers also want us to continue to invest in infrastructure, not just for today but for future generations, in the same way that the Victorians did for us. They also want us to have a positive impact on our local environment and in the communities we serve. And they want to be able to talk to us if, when and how they want to, while also keeping them informed about what we're doing.

This detailed engagement means we truly understand what matters to our customers – and that gives us a huge amount of clarity around what we have to do for them in the months and years ahead.

So, if those are the issues on customers' minds for the future, how are we doing on those today?

Reducing customer bills

This was the ninth consecutive year that Severn Trent Water customers have enjoyed the lowest bills in England. Our average combined bill for the year was £348 – less than £1 a day – which was more than £59 lower than the average bill and £152 lower than the highest.



Understanding different customers' needs

As part of our development of the PR19 plan, we undertook the most extensive customer engagement activity in our history. More than 32,000 individual customers took part in our face-to-face research and 15,000 people joined our online panel. We also evaluated 24,000 complaints and considered 1.9 million customer views. From this we created our customer hierarchy of needs.



15,000

People joined our online panel

Similarly, our Hafren Dyfrdwy customers enjoyed the lowest bills in Wales at £311. Over AMP7, we're going to be reducing bills in England by a further 5% in real terms, whilst at the same time investing to make further improvements to the services which we provide to our customers. In Hafren Dyfrdwy we're increasing investment by 4% per customer to improve services, whilst limiting the increase in customer bills to 1.9% in real terms over the five year period.

We understand that even though our bills are low, some customers have difficulty paying – so we do everything we can to help those who are genuinely struggling to pay their bills. We do this through a range of measures, such as water saving devices and fitting meters for smaller and low occupancy households. We also offer our Big Difference Scheme which has helped over 35,000 customers who are struggling to pay their bills access discounts of up to 90% over the last 12 months.

Looking ahead, we intend to help even more of our customers. For example, our PR19 plan includes a commitment to support almost 50% more people between 2020 and 2025, through schemes such as our social tariff and through other options, such as payment breaks.

Working hard to provide the quality service that customers expect

Our waste water performance continues to be sector leading both in terms of performance and efficiency. We have continued to reduce the number of sewer flooding incidents that occur on our network, that we know can lead to the worst possible experience for our customers. We will never be complacent about our performance and will continue to push for year-on-year improvement through further investment.

After demonstrating strong customer support for our proposal, we were pleased that, in December, Ofwat agreed to lift the customer ODI cap on our waste water measures for the remainder of the AMP. This supports our desire to do more for our customers and the environment even earlier than previously agreed with Ofwat.

This year, we have made continued progress on key clean water metrics such as water quality complaints, with a further 6% improvement, building on our achievements of last year when complaints were down 12%. We've also worked well with our supply partners to resolve issues on 35 properties which were at risk of low pressure. We're continuing our multi-year journey to improve our coliform performance in our distribution service reservoirs, surface water works and groundwater works – for which coliforms are a key measure of asset health.

The ODI measure focuses on coliform detections at surface and groundwater sites, which have increased slightly this year. Our investment in distribution service reservoirs has delivered significant performance improvements, and we are confident that the next phase of our plan will deliver similar improvements in the ODI measure next year.

The resilience of our water supply was tested through one of the hottest, driest summers on record – which saw a 22% increase in demand for water from our customers at peak times. We worked tirelessly to give our customers the level of service they expect and deserve, without the need for a hosepipe ban or other restrictions.

Supply interruption events were impacted during this period and this has affected our full year performance. We have increased our efforts in this area, our focus being on 'Prevent, Restore, Repair', and we delivered a 64% improvement in our performance in the second half of the year. Additional information can be found on page 38.

We are particularly pleased with the progress we are making in partnership with landowners and farmers across our region to improve the ecology of rivers in our region. Our industry leading Catchment Management Programme has yielded great results over the past year and demonstrates the power of strong collaborative working. We talk more about this on page 38.

Engaging with the customers of the future

We're getting even more involved in the communities in which we live and work, for example through our Wonderful Water Tour – an innovative educational roadshow that every primary school in the Midlands will have the chance to take advantage of.

The Wonderful Water Tour is targeted at children aged between seven and 11, to inspire them about water. Comprising two buses and a whole host of gadgets and hands-on activities, the Tour educates children on three key messages: the importance of using water wisely; helping them understand what they can, and can't, put down the toilet and sink; and the health benefits of staying hydrated.

During the last 12 months, our tour has engaged with over 130,000 young people, and will be available across our region from 2020-2025.



The Severn Trent Wonderful Water Tour helped launch our Wild Water topic with a splash! It inspires and educates the children, catering for all children's interests and abilities. The knowledgeable, friendly and helpful staff engaged the children at all times and helped bring our water topic to life."

Tracey Gillin
 St Anne's Catholic Primary School,
 Nuneaton



Performance review continued

Regulated Water and Waste Water

Investing for future generations

This year has seen our biggest single year of capital investment in the last decade, demonstrating our commitment to continued investment in long-term infrastructure. All of our current major capital schemes made good progress during the year including our Birmingham Resilience Project, which is the biggest water enhancement capital project in the sector to be completed within AMP6. This will ensure security of supply to Birmingham for generations. Please see page 40 for more details on this and other key capital projects.

Listening, every moment of every day

We've made it even easier for our customers to contact us through whichever mode they prefer, whatever the time of day. People can phone us, talk to us on webchat on the website, through various social media platforms, or write to us.

We also launched Tap Chat during the year. This new online community panel gives us feedback about how we're doing and, more importantly, how we can do even better. With 15,000 active participants, representing all walks of life and areas across our region, Tap Chat played an important role in shaping our PR19 business plan and provides ongoing engagement with our customers.

Serving local communities

We're very aware of the central role we play in our community – this is not only where we work, but where most of our employees live. We know that our customers want us to do more – to help improve the environment, support education, and give something back.

We carry out an enormous number of projects to enhance rivers and other natural resources – many of them supported by our employees who dedicated over 2,000 days to volunteering during the year. Our supply chain also supports us in our environmental ambitions, undertaking a variety of charitable environmental projects such as the Northshore Beach Walk Project at Draycote.

Looking ahead, through our new community dividend we will invest 1% of our profits in community projects – a really exciting opportunity to make a positive impact in our region. Our hope is that the community dividend will benefit thousands of our customers, together with their communities, to make a positive difference to their everyday lives.

We are also doing more to engage with our customers of the future through the Wonderful Water Tour, see page 35.

Customers trust our performance

We are proud to have been acclaimed the most trusted water company in England, by the most recent independent customer satisfaction tracker. We feel that this reflects the huge progress we've made in delivering on the issues which matter most to customers: investing in the resilience of our network and renewable energy, as well as doing more for our most vulnerable customers.

We know we've still got more to do on SIM, Ofwat's current customer service measure and we were disappointed to finish the year in 14th place. However, we were pleased to again be in the top quartile of utility companies in the UK Customer Service Index, which will be relevant in AMP7 when Ofwat's new customer satisfaction measure ('C-MeX') is set to be introduced. C-MeX will be partly based on customer contact, as with SIM, and partly on customer perception which is a much wider measure. We welcome this change as C-MeX will ensure that the totality of the experience of all our customers is represented.



Here when you need us

We can't deliver great service to our customers unless we're aware of the issues that matter to them. So it's important that they can contact us at a time that's convenient to them. We offer a wide range of contact channels – they can ring us, talk to us through our live-chat on our website or via social media. They can even write us a letter if they prefer. Whatever method they choose, they will be certain of a response.

More than 1.9 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 1.6 million customer contacts. And the hard work of our customer communication team was recognised by a Silver Award at the European Contact Centre and Customer Service Awards.

Helping customers to help us

Extra demand for water as a result of increasing population and climate change means it's vital that our customers know how to use water wisely. First, we need to give them the right advice to help them save water. And second, we need to provide them with the tools they need to achieve that.

Last year, we carried out around 26,000 home water efficiency checks to help customers manage their consumption, save money and protect future supplies.





Driving operational excellence and continued innovation

Our customers expect us to improve our core services every year. That means providing them with clean drinking water which is there when they need it – and taking waste water away efficiently before recycling it safely to the environment.

We're committed and long-term supporters of Ofwat's customer Outcome Delivery Incentives ('ODIs'), which reward companies when they exceed targets for measures that customers feel are the most important, and also penalise companies for poorer performance. In our view, this is the best way to ensure high quality performance for the benefit of all stakeholders – our customers and communities, our investors and the environment. We've agreed with Ofwat to share our expertise with the rest of the industry so that all customers in England and Wales may benefit.

We've continued to deliver on our track record in the waste water measures that customers have told us are the most important. Overall, 2018/19 was also an encouraging year for our water performance as we continue to make progress on our multi-year improvement journey on water quality and provided a high quality product to our customers, whilst protecting public health.

Another strong year for waste water performance

Removing waste water safely and efficiently is hugely important for customers – so we're very pleased to report that our excellent track record continued during 2018/19, with significant outperformance against internal and external sewer flooding, Category 3 pollution targets and a whole host of other environmental measures.

On a like-for-like basis, we earned £103.1 million from waste water ODIs in the year which was reduced to £7.1m by the impact of the regulatory cap agreed with Ofwat and changes to our ODI incentives and targets for the remainder of the AMP. After providing evidence of support from our customers, in December 2018, Ofwat agreed to raise the cap and we accepted even more challenging measures. This will allow us to deliver an even better service for customers earlier than previously planned and to continue to drive improvements in the industry.

Sewer flooding

We've continued our focus on sewer flooding and during 2018/19 we outperformed our internal and external sewer flooding targets by 16% and 41% respectively. We're continuing to drive performance through targeting proactive work on sewer flooding hotspots across our waste network.

Alongside investment in infrastructure we have used innovative chemical treatments to help reduce the build-up of fats, oils and greases ('FOG'). We're also working with communities and industries to reduce the amount of FOG that ends up in our sewers. Our programmes to educate customers and their children on sewer misuse are an important element of our approach, see page 35 for more information. Additionally, we're identifying and taking legal action against businesses that clog our sewers with FOG and recovering operational costs in cases where prosecution is not possible. These are important factors in our goal to create a calm network and ensure an enhanced and sustained service provision into AMP7 and beyond.

Fighting the fat(berg)

A major cause of sewer flooding are blockages which can be caused by fatbergs, the common name for the build-up of wet wipes, fats, oils and grease into a solid mass which has potential to block pipework.

Our fight against fatbergs is based on education and prevention. For example, while cleaning the sewers of Stratford-upon-Avon in December 2018, we found and removed several build-ups that could have developed into major blockages. Working with 24 food service outlets and officers from Environmental Compliance and Services, we launched a programme aimed at educating catering outlets about the right – and wrong – ways to dispose of fats, oils and greases.



Making more informed decisions

Our continued investment in monitoring technology such as sensors and loggers has further informed our teams' decision making. In fact we have more data points than any other water company in England or Wales. Armed with real time awareness of supply and demand across our region, we're able to forecast stresses and strains on the network and proactively take action to ensure that customers are provided with an excellent service. We now have 19,500 additional 'eyes and ears' on the network and are on track to have 35,000 by the end of March 2020.



Performance review continued

Regulated Water and Waste Water

Pollutions

We work hard to manage our impact on the environment. We were pleased to have continued to outperform against the challenging targets we set ourselves for Category 3 pollution incidents. Our performance was flat, in line with last year despite a challenging start to 2018. By re-doubling our efforts we've delivered significantly better performance in the second half of 2018 which we have sustained throughout the beginning of 2019.

We have more work to do on serious and Category 4 pollution incidents and are disappointed that we missed our targets on these measures. During the year we continued our programme to roll-out more monitors which will significantly improve our ability to detect issues and prevent pollution incidents occurring in future. We are focusing our efforts on the highest risk areas to ensure we get the best possible outcome as quickly as possible.

Focusing on water quality and supply

Good progress on water quality

Following our renewed focus on water quality in recent years, complaints fell again by 6% during 2018/19 in line with the target agreed with the DWI. This builds on our achievements of last year, when complaints were down by 12%.

Water catchment initiatives have played a major part in this improvement and we're continuing to work with farmers and other stakeholders to raise the quality of the water that enters our rivers. We see this as a key long-term focus for us in ensuring the stability of our treatment processes and quality of our product to customers.

We have introduced new technology to drive further improvements in water quality in years to come by ensuring we proactively intervene to address risks to water quality. For example, bacterial analysis can take 30 hours from taking a sample to receiving a result. Our innovation team analysed technology across a range of different sectors and created a bespoke solution that is acknowledged as the world's first online bacterial monitoring system. This gives us high quality analysis in real time, allowing us to identify issues quickly and take action to prevent bacteriological failures at our treatment works and distribution service reservoirs. By the summer of 2019, we will have 20 units available, most as fixed installations, as well as others that we can use on a mobile basis.

Meeting water demand

The summer of 2018 saw a period of prolonged hot, dry weather – and we saw a 22% increase in demand for water from our customers at peak times.

We demonstrated resilience and flexibility in our network during this time – and focused on prioritising resources to meet the additional demand and minimising the impact on our customers. We proved financially resilient, and were able to absorb the increased costs associated with pumping up to an extra 400 million litres of water per day at peak times and the 24/7 use of a fleet of water tankers to top up service reservoirs. Our operations were largely resilient and we came through the heatwave without imposing any restrictions on usage such as a hosepipe ban. However, some of our water network measures, including supply interruptions, were adversely impacted during the period, as outlined below. Our focus during this time was on prioritising resources to meet the additional demand and minimising the impact on our customers.

Supply interruptions

Supply interruptions ended the year at 19.7 minutes against our target of 10.8 minutes. We have increased our focus on this area and we are starting to see definite improvements through our 'Prevent, Restore, Repair' strategy, which focuses on preventing asset failure where possible, and restoring supply at speed if it happens. Performance in the second half of the year improved by 64% and we delivered our best ever performance in February and March.

Managing our catchments

When it comes to improving water quality, prevention is always better than a cure – so over the last year we've continued to make investments to ensure that the water that enters our rivers is as clean as possible in the first place. Known as Catchment Management, this approach is not only great for the natural environment by reducing pollutants entering watercourses, it also ensures that the quality of the water we abstract is improved. This improves the quality of our final product and in some cases reduces the processing requirement at our treatment works, reducing the cost of producing our wonderful product.

We've already established an excellent record in this area, particularly through the success of our Farm to Tap scheme.

This innovative and industry-leading scheme has seen over 820 farmers sign up to protect raw water sources from pesticides and other chemicals – and resulted in peak concentrations of metaldehyde – an anti-slug pesticide which is expensive and difficult to remove at water treatment works – reducing by 64%.

This is good news for the environment because it enhances biodiversity, good news for customers because it reduces treatment costs and enables us to invest elsewhere in the network, and good news for investors because it's generated £11.4 million in customer ODI outperformance payments. We are expanding our catchment schemes to include biodiversity options in our farmer grants and aim to increase grant uptake by 42% by 2025.



Over the last year we've achieved a dramatic improvement in the speed at which we arrive on site, this has significantly reduced – supported by our new video calling service which enables us to assess an issue remotely, deploy the right resources to site quickly and support us in fixing the issue, first time.

At the same time we've continued to invest in technology that provides us with valuable insight into how the network is operating. Technological innovations such as low point loggers, acoustic loggers and advance analytics are all now hard at work across our network. We now have 19,500 additional 'eyes and ears' on network and are on-track to have 35,000 by the end of March 2020. Furthermore, we are focusing on understanding the true causes of failure which lead to supply interruptions and addressing them at source – investing in operating a calmer network to reduce the failure rate across our network.

Driving improvement in leakage

The first half of the year was operationally challenging, with the tail end of freeze-thaw followed by the hot, dry summer putting pressure on some of our key water measures. Our significant focus in the second half means we have hit our performance commitment for leakage and delivered a reduction year-on-year of 16 ML/d by:

- maintaining our strong operational focus on leakage recovery and improving processes to reduce known network leaks – including a 67% increase in leakage fix teams;

- introducing innovative ways of finding leaks faster, and fixing them more efficiently – including accelerated installation of acoustic loggers, targeted WIP reduction and the use of more innovative solutions such as satellite technology; and
- spending time to better understand our leakage component data – giving us more clarity on how we can best target leakage and providing more accurate reporting going forward.

As in prior years, we base our customer ODI on 'unaccounted water'. The weather events earlier in the year, which led to an increase in pipe bursts and an increase in demand, also led to an increase in unaccounted water. The considerable momentum we generated has reduced this impact, though has still resulted in a penalty. Our key focus is now on retaining that energy to reduce leakage and hit our target in 2019/20, keeping us on the right track to meet the 15% challenge in AMP7.

As outlined on page 18 we have recently launched the World Water Innovation Fund – joining forces with like-minded companies across the globe to find new ways of working – pooling resources and ideas to develop and accelerate new technologies. Our £5 million investment in the Fund will make a real difference to peoples' lives across the world. The Fund's initial focus will be on leakage, which is a key issue for all companies.

Improving our environment

The way a company interacts with the environment it operates in has risen to the top of the agenda for all of our stakeholders. Increasingly, these groups expect utility companies to demonstrate performance beyond financial return. We take great care to understand and control the impact we have on the environment in everything we do – when taking water from our rivers and reservoirs, and when safely returning it back to the river in a clean state.

We're committed to creating thriving bird, insect and plant habitats in our region. We improved biodiversity on six hectares of Sites of Special Scientific Interest ('SSSIs') during the year, and we're on-track to reach our target of 75 hectares by 2020. By 2025, we're aiming to work with organisations such as the Wildlife Trusts to improve biodiversity on a further 1,015 hectares. That's an area equivalent to around 1,400 football pitches and represents more than a tenfold increase over our current target.

As well as putting significant new effort behind our Catchment Management initiatives, we've also been working with other partners to improve raw water. Rivers in the UK, including the rivers Severn and Trent in our region, are now cleaner than at any time since the industrial revolution.

Proud to hold the Carbon Trust Standard

We've been proud to hold the Carbon Trust Standard since 2009. This certification recognises that we take a best practice approach to measuring and managing our environmental impacts. In the last 12 months, our Group net GHG emissions fell by 27%.

Read more on page 126.



Improving raw water

We are working with our partner Moors for the Future on a project that's transforming a moorland area around Ladybower Reservoir. We've invested over £1 million during the current AMP to help re-vegetate 114 acres of peat, protect 16 hectares of blanket bog and dwarf shrub, and plant new trees across 170 hectares. This has cut peat erosion and protected one of our region's most diverse habitats, while also improving the quality of the raw water which will further reduce our treatment costs.



Performance review continued

Regulated Water and Waste Water



Investing responsibly for sustainable growth

Since privatisation, we've invested £22 billion in today's money and the pace and scale of our ambition continues to grow. In 2018/19 we invested over £750 million in our asset base as well as a further £141 million in renewing our infrastructure network – our biggest year of capital investment in a decade. And we're on-track with our commitment to invest £1,300 for every household we serve over AMP6.

We've worked hard to maximise the value we get from this investment and continue to forecast AMP6 Totex efficiencies of £870 million. These efficiencies have enabled us to re-invest £220 million to improve our water networks, making them more resilient and reliable through utilising the latest technology available. This investment will benefit customers today and also generations to come.

Investing for today... and for future generations

Our mission is to create a lasting legacy for future generations. We do this by investing in new infrastructure, by exploring and investing in ways to provide additional capacity, and by taking our Wonderful Water Tour around schools to inspire the next generation to use water wisely.

We've replaced 230 km of our water network, enabling us to make further progress on water quality and again meet the low pressure customer ODI target. We've also completed 28 capital projects to improve our waste network, helping us to maintain upper quartile on cost and performance.

All of our major schemes made good progress during the year, including the Birmingham Resilience Project ('BRP'). This will secure a second source of water supply for Britain's second city and safeguard one of our oldest, but most strategic and efficient, water resources for years to come. The BRP is the biggest AMP6 water enhancement capital programme in the sector and will be ready to deliver anticipated benefits to customers in 2020. Thanks to the way we have delivered the project it is on track to deliver supply resilience benefits – in the event of both water resource and treatment failures – and to enable effective proactive maintenance of some of our most important assets for the long term. This is the result of considerable hard work and effort from our people and supply partners, as well as some bold decisions, such as our decision in spring 2017 to replace our original supply partner. Progress in the year included completion of the 25 km raw water pipeline that will transport water from the River Severn to our Frankley water treatment site.

In Nottinghamshire, we made great progress on a scheme to improve our services in Newark, where a £60 million programme will benefit 400 local homes and businesses. We're installing 4 km of high volume sewers to reduce flooding risk, as well as 10 km of new water network to improve water supply. We achieved a major milestone this year, with the completion of a 3 km tunnel which encircles the town 15 metres below ground. This hugely complex project was carried out through the town centre and under a major railway line – and our efforts to limit disruption were acknowledged by the Community Engagement Award at the New Civil Engineer Awards for high-quality community engagement.

As part of our commitment to invest £1,300 for every home and business we serve in the five years to 2020, this year we started work on a new £11 million investment to improve the resilience and reliability of the clean water supplied to around 55,000 people in Stroud, Gloucestershire. The upgrade project will see 16 km of new pipeline stretching from Minchinhampton reservoir to Whaddon.



Investing to keep water flowing

Every year, we invest significant capital to improve water supplies to communities with a history of poor supply in times of high demand, such as through the summer months. In 2018/19 we carried out works that are now providing an improved service to farmers and other residents in the uplands around Breamfield in Derbyshire. These works included commissioning a borehole, installing new valves to reduce airlocks and connecting existing pipework to other parts of the network so that water can be quickly pumped into the area when necessary.

Seizing opportunities to improve our environment

We have a duty – and a great opportunity – to use our experience, expertise and resources to protect local environments across our estate.

Environmental sustainability is hugely important to our capital programme, and we're constantly looking for ways to reduce our environmental impact. We're working on the development of innovative solutions at our sewage treatment works which will enable us to meet the needs of a growing population in a sustainable manner. We're on-track to deliver a number of schemes in the final year of the AMP under our sustainable sewage treatment works ODI, including our site at Rugby.

We also remain committed to creating and sustaining cleaner rivers. We've invested significant time and resource to fulfil our obligations under the Water Framework Directive ('WFD') to achieve 'good' status for all watercourses.

This year we have completed an additional 27 sewage treatment upgrades, which are helping us improve over 430 km of river. We're on track to improve at least 1,600 km of our rivers in AMP6 – and a further 2,100 km in AMP7.

New partnership model with our supply chain

We revised our capital project operating model during the year in order to boost our internal capabilities and deliver better value, for all of our stakeholders.

Implementation of the new model began early in 2019 and, when complete, we will have a skilled and capable in-house team able to provide design and feasibility study services that have historically been outsourced. The design team will take full responsibility for some projects, while also providing support and expertise to existing suppliers where appropriate.

In AMP7 we also plan to work with a larger number of contractors than previously, contracting directly with our Tier 2 suppliers as well as our network of larger suppliers – known as our One Supply Chain ('OSC').

Receiving fast-track status has allowed us to make an early start on our capital programme of over £2 billion construction investment in AMP7. In March we announced the contractors we will be working with for the first two lots of our AMP7 capital delivery framework – Lot 1 (Capital Delivery Design and Build Framework) and Lot 2 (Capital Delivery Build Framework). Over the next 12 months we will start to work with our new construction partners to define the key projects which we will deliver for our customers.

Our suppliers and partners

A core principle of our supplier contracts is that they sign up to our Sustainability Supply Chain Charter and support our corporate social responsibility agenda, including commitments on safety, sustainability and human rights. Targets for individual suppliers are tailored to their circumstances and role, but as a minimum we expect them to adopt our values, comply with national laws, demonstrate alignment with the United Nations Global Compact initiative and take proactive measures to avoid environmental and social harm.



Making the right connections

With an increasing population and hotter, drier summers continuing to drive up demand for water, we're working with our peers and regulators to identify solutions that deliver for the whole of the UK – not just for our region. And we were pleased that our collaboration with United Utilities and Thames Water on a potential Severn-Thames interconnector took another important step forwards during the year.

The proposed interconnector is expected to be a large bore pipe that will move water quickly from the wetter north and west of England and Wales to the drier south and south-east. In our PR19 business plan, we've committed to completing all planning and design activity to get the scheme 'shovel ready' by 2025.

Ofwat has endorsed the concept of the interconnector and is expected to set up a regulatory alliance with the DWI and the EA. This will help manage the project through the legislative and licensing stages, and ensure it delivers the anticipated benefits.

4%

The percentage of water supplies transferred today

Performance review continued Regulated Water and Waste Water



Changing the market for the better

England and Wales have seen a transformation in water services over the last 30 years. Drinking water is cleaner, supply is more reliable, sewer flooding is much less frequent and rivers are in a better state of health than at any point since the 18th century. All this has been achieved while keeping bills affordable, with Severn Trent leading the way with the lowest bills of all.

At Severn Trent, we're committed to changing the water market for the better – by playing our part and doing even more for our customers, the environment and wider society. We work with companies and other organisations both within and outside our industry, combining our joint expertise and resources to make a difference for our people, customers and broader society.

Many of our Corporate Social Responsibility commitments echo the United Nations Social Development Goals, and during the year we explored how best to express our support for these, as part of the creation of our PR19 business plan. Looking ahead, we'll continue to refine our reporting and better align our internal policies to these goals.

Our latest business plan set out our ambitious programme with four key elements:

- to provide our customers with world class services – this sits at the heart of everything we do;
- to treat our customers as individuals, with their own unique needs and preferences. In our view, service should be personal;
- do more for society as a whole. For example, by investing in educating future generations to preserve water and reduce the quantity of unwanted items into the sewer network; and
- do everything we can to build trust. Among many examples, this means ensuring that our decisions are guided by feedback from our 15,000 strong customer panel, and also establishing our new community dividend.

At the same time, we're also working hard to lead the way in how local services are delivered. Having already integrated Dee Valley Water into the business, we were pleased to officially launch our Welsh business Hafren Dyfrdwy in July 2018. This has aligned our operations with the England-Wales border, with all customers in Wales now being served by the new business – bringing clarity to the water market in the area.

Driving innovation in waste water

A new test-bed facility under construction at Redditch in the West Midlands is set to transform the way we evaluate and commercialise a wide range of new technologies.

It is the result of our £6 million investment, plus further significant capital support from European and UK research organisations. The test-bed will enable us to identify how the best ideas from academia can be applied in a practical way to benefit the water sector as a whole. These ideas include exploring how we can turn phosphorus, proteins, cellulose and bioplastics extracted from our waste streams into marketable products.





Creating an awesome place to work

Our people are fundamental to the success of our business. We're fortunate to have a team of dedicated, skilled individuals that serve our customers 24 hours a day, 365 days a year. We're a team that's not only passionate about what we do – but also brilliant at making things happen. We work very hard to keep it that way, by ensuring that Severn Trent is an awesome place to work.

In the Group we employ around 6,500 people, most of them at locations across the East and West Midlands and in North and mid-Wales. Each member of our team plays an important role in helping us provide excellent services to customers and build a lasting water legacy – and they deserve our wholehearted support at all times. We work hard to create a workplace that's welcoming and safe, where good work is well-rewarded and people are treated with respect.

We engage with our employees at every opportunity, helping them progress and enjoy satisfying, rewarding careers. We look after their health, safety and wellbeing and forge strong links with the communities that most of our people call home.

Employee engagement

We believe in open and honest communication between our management team and our employees at all times, and continually engage with them via formal and informal routes.

For the last two years, our employee survey ('QUEST') has achieved a participation rate of over 90%, which is five points ahead of the UK and Ireland benchmark. This feedback informs our engagement strategy and acts as a catalyst for continued improvement and positive change. Recent developments that have been shaped by the survey include greater visibility of pay structures, helping our employees understand how their pay is set and how they can progress their careers to increase their earning potential.

We're also pleased to maintain our strong engagement scores following our QUEST survey. In a year of intense activity this underlines the positive relationship that exists between the Group and our people. Our employees want to engage with us and shape our business, they know that their concerns are listened to and acted upon – and they're proud to work with us to improve every aspect of our performance.

This approach is yielding positive results. We've been honoured with a Glassdoor Employee's Choice Award, recognising the Best Places to Work in 2019, and Glassdoor reports that 74% of our people would recommend us to a friend. Our average retention over the year was 90% and QUEST results reported that 92% of our people say they're proud to work for us and 93% feel we trust them to do their job.

Our Employee Forum brings together around 20 employee representatives in quarterly meetings and is co-chaired by a member of the Executive and a member of the Trade Unions. Our Chairman and Chief Executive rotate attendance and in 2019/20 our Non-Executive Directors will be invited to attend. These sessions cover a range of topics. Discussions over the last year have included health and safety, the content of our PR19 plan and our social purpose. These discussions have led to practical changes in how we work – such as a full refresh of our induction experience, the education of our workforce on modern slavery and installation of gender neutral changing rooms at all locations – including operational sites – to support our commitment to greater diversity.

Read more on page 108.

Helping our customers to reduce plastic

We're delighted to support Refill across our region – a fantastic scheme that promotes the health benefits of tap water, while helping to protect the environment. There are now over 20,000 refill stations in the UK where you can fill up a water bottle for free, including shops, cafés, restaurants and museums – simply look for the blue sticker in the window.

20,000

refill stations in the UK

150

enthusiastic Severn Trent volunteers

This year, we organised ten volunteer-led action days in some of our key towns and cities, encouraging local businesses to sign up to Refill. The reception was overwhelmingly positive. With the help of over 150 enthusiastic Severn Trent volunteers, and the support of local councils and environmental groups, we're helping to make it as easy as possible for our customers to refill when they're out and about. All our visitor experience sites have signed up as refill stations too.

In our region there are now over 1,700 refill stations. If each of these are used twice a day instead of a customer buying a new plastic bottle, then this would save over 1.2 million plastic bottles in a year.



Performance review continued

Regulated Water and Waste Water

Promoting diverse talent

We're dedicated to providing opportunities for all – and that starts by giving people the chance to enjoy a great career regardless of their postcode, education, gender, ethnicity or whether they join as apprentices, graduates or from other organisations.

With around 30% of the UK's social mobility coldspots in our region, we've refined our recruitment process to remove some of the barriers that traditionally prevent people from those areas applying to companies like Severn Trent. For example, we've removed some of the qualification requirements for applicants. We've also sent some of our younger employees into schools to demonstrate that people from all walks of life can succeed. These actions help to ensure that the make-up of our workforce reflects the diversity of our region – and brings employment and money into areas that need it most. Details of some of the outcomes of our Social Mobility Programme can be seen in the case study on page 45.

8.7% of our employees consider themselves to be Black, Asian or Minority Ethnic ('BAME'). The number of BAME graduates rose by 4.6% during the year. We're equally proud of our track record in gender diversity, and were ranked fourth among all FTSE100 companies and the first utility once again in the Hampton-Alexander Review. We've continued our focus on providing a more inclusive working environment for our LGBT+ employees, and during the year it was great to see Severn Trent represented prominently at both the Coventry and Birmingham Pride events. We also launched our LGBT+ Ally Programme this year, an opportunity for all employees to challenge behaviour and actively support their LGBT+ colleagues.

Our employability initiative with Hereward College in Coventry – a college for young people with disabilities and additional needs – is another example of how we're making a real difference to people's lives. We offer one year placements to Hereward students, with the aim of turning these short-term posts into real, long-term jobs – and we were delighted to offer full-time jobs to individuals in the most recent cohort.

The year also saw us continue to perform well on gender diversity, with the gender pay gap now standing at 2.8%, a small increase on last year's 2.4%. Further details on our gender pay gap reporting can be found on page 112.

Providing careers not just jobs

We strive to create careers with purpose and meaning. Our aim is to attract and retain talented, hard-working people who want to progress in their careers and provide great customer service. We support the development of all colleagues at all stages of their career and want every employee to feel competent and confident in their everyday work. During the year, we provided our teams with over 15,000 training days and delivered more than 25,000 e-learning hours.

As part of our preparations for AMP7, we're creating the Severn Trent Academy, which will be a step change in the way we provide training and development to our colleagues. This will ensure that our people have the right mindset, technical competence and leadership skills for now and in the future. By offering foundation apprenticeships and graduate entrants, through to higher and degree level apprenticeships and Masters degrees, we will ensure that our workforce is resilient for the future.

Playing our part

Our volunteering programme continues to prove popular, with all employees being given two fully paid days to volunteer in local communities. In 2018/19, this amounted to a total of 2,000 days of labour, much of it dedicated to our Community Champions Programme where we worked alongside partners such as the Canal and River Trust to improve 34.4km of riverside environment. In AMP7, we're expanding the volunteering programme to work with Heart of England Forest, planting trees to create and protect a huge broadleaf forest across the Midlands. We look forward to providing further detail on these plans over the coming months.

Our teams again supported a wide range of charities during the year, raising over £390,000 for our long-term partner WaterAid as well as providing facilities and people to operate call centres for Comic Relief and Children in Need. We have recently agreed our new partnership agreement with WaterAid for the period 1 April 2019 to 31 March 2024 and will be raising money to fund a climate change resilience project in Bangladesh.

32%

of our employees volunteered in 2018/19

Over 1,900 days

dedicated to our Community Champions Programme.



Our graduate and apprentice schemes are always in demand, as we strive to offer people a way into the Group regardless of their educational, social or cultural background. In 2018, we launched three new apprenticeship programmes within our HR, Legal and Vehicle Technician populations. We now have 11 active apprenticeship programmes, and expect this to increase to 13 in 2019, to include Degree Level Quantity Surveying and Level 2 Tanker Driver Apprenticeships.

Rewarding our employees

As part of being an awesome place to work it is important that our people are properly rewarded. During the year, in response to feedback raised through the Employee Forum and QUEST, we communicated with our teams to make sure that they understand how their pay is set and how they can earn more by progressing through the business.

We also ensure we help all employees keep an eye on the future. We offer a market-leading defined contribution pension scheme and double contributions that our employees make (up to a maximum of 15% of salary), regardless of their level or seniority. As our people approach retirement we provide education and support to help them plan for the next stage of their lives.

It's an indication of our employees' pride in Severn Trent and their appreciation of the advantages of the pension arrangements that, during the year, 98% were members of the pension scheme and 57% paid contributions above the minimum of 3% with 36% contributing to receive the maximum Company contribution.

Many of our colleagues are shareholders as well, either directly through our share plans, such as Sharesave – which nearly 70% of our employees participate in – or indirectly through private pensions, FTSE index trackers or other investments.

Promoting health, safety and wellbeing

We believe passionately that no-one should be hurt or become unwell by what we do. With this in mind we provide extensive training on all aspects of health and safety. We are pleased that over the last two years we have been consistently upper quartile in Water UK benchmarking on Lost Time Incidents ('LTIs'). However, whilst we experienced no major safety incidents and no fatalities in the last 12 months, unfortunately we did see an increase in LTIs, mainly due to slips, trips and falls. This is the subject of regular discussion at the Employee Forum, Executive Committee and Board and in April 2019 we revamped our Goal Zero Strategy, with dedicated quarterly awareness campaigns.

We've continued to campaign to remove the stigma associated with mental health and have trained a further 28 mental health first aiders. More than 70% of our line managers have now been trained on mental health awareness. We have 400 mental health first aiders in place to help those who need support. We continued our work to help people understand how menopause affects individuals and families and we've shared our approach with other organisations, including Ofwat and the DWI.

Supporting our communities

The vast majority of our employees are also customers and members of the communities in our region. Our people don't just serve our local communities, they are an integral part of them. The case study below demonstrates the passionate support our people have for their friends, family, neighbours and the local environment in volunteering to make a difference.

Turning up the heat on social mobility coldspots

Our region includes 30% of the nation's social mobility coldspots. We're working hard to redress the balance, and the evidence suggests that we're already making a difference.

We were placed 20th in the Social Mobility Index, up 18 places on the previous year.

Several members of our Executive Team grew up in coldspots, and over 50% studied at non-Russell Group universities.

Raising awareness of modern slavery

Modern slavery is a growing global and local issue, impacting an estimated 40.3 million people worldwide. We're committed to eradicating forced labour and using our influence within our supply chain and wider stakeholders to help them do the same. To date, no instances of modern slavery have been raised.

This year, our focus has been on training and raising awareness. Working with our expert charity partners, Hope for Justice, we delivered six half-day workshops for our contract managers, procurement and construction project managers. We selected these employees because they have frequent and direct engagement with our highest risk area, our supply chain.

Attendees gave us very positive feedback, with 98% reporting that they now felt confident in identifying modern slavery indicators and reporting it. Our senior management team have also received a dedicated briefing.

We were pleased that our 2018 Modern Slavery Statement was ranked 16th among FTSE100 companies by the Business Human Rights Resource Centre – improving for the second consecutive year. This is a complex issue, and we're committed to continually reviewing and improving our approach as our understanding evolves. A key focus for next year is to roll-out a bespoke e-learning module. Our full 2018 statement is available on the Severn Trent website.



Performance review continued

Business Services

Our Business Services team made good progress in the last year. We established a standalone Bioresources business ready for market opening in 2020, expanded our Green Power business with the acquisition of Agrivert, and sold surplus land that will enable the construction of around 1,000 much needed homes in our communities.

Enabled construction of around

1,000

homes in our communities

43%

Generation of our energy needs

Re-focusing our portfolio

Following the sale of our US and Italian businesses, we've now successfully re-focused on operations in the UK. Accordingly we've changed the way we report on our Business Services segment, splitting our performance reporting into five areas:

- Bioresources – continuing to generate green energy from the treatment of sewage sludge. We are well positioned for the opening of a new regulatory environment and competitive market in 2020.
- Green Power – generating even more green energy from a diverse range of renewable technologies including food waste, crop, solar, wind and hydro.
- Operating Services – we're continuing to deliver great service to customers such as the Ministry of Defence on our contracts to maintain and operate water and waste water assets.
- Property Development – selling surplus land that investment in innovation and new technology has allowed Severn Trent Water to free up.
- Other – including Developer Services and our Property Searches and affinity partnership businesses.

Turning waste into energy

We continue to build our track record of generating valuable green energy by transforming waste materials and using renewable sources. From food waste and crop digestion technologies to wind turbines and solar PVs, our green energy assets are reducing our carbon footprint, saving costs and supporting our drive to generate the equivalent of 50% of our energy needs by 2020.

The period of prolonged hot, dry weather in 2018 increased customer demand for water which meant we increased our energy usage to treat it and pump it to customers. Nonetheless, we've still been able to boost the amount of energy we self-generate to 43%. And we're confident that our continuing investment in this area will enable us to exceed our target by the end of 2020.

In November 2018, we acquired Agrivert's operational business for £61 million. This brought five food waste plants into our portfolio, taking our total number to eight. We've also completed the construction of our new food waste facility in Derby, which is the first food waste facility in the UK to incorporate innovative thermo-pressure hydrolysis autoclave technology. This plant will enable us to take in food waste from a broader range of sources.

We were pleased to see the Government release its Resources and Waste Strategy during the year. This sets out its ambition to move to full food waste segregation by 2023 and supports our strategy of further investment in food waste assets. Our new combined team – comprising our existing people and those who joined us from Agrivert – has a proven track record of working with councils and businesses in England and Wales to win contracts to receive and treat food waste. We're now well placed to grow our business in this exciting and changing market.

Food waste plants power 60,000 homes

The purchase of Agrivert in November 2018 is a milestone in the development of our Green Power business. Before the acquisition, we knew Agrivert well and admired the company's expertise and experience, having appointed it to provide the design and engineering for two of our own sites. This close working relationship and shared knowledge was a key factor behind the acquisition. Together, we have the skills and the commercial track record to ensure that our food waste portfolio continues to further drive our excellent progress towards our renewables target.



Launched in April 2018, our new standalone Bioresources business is ideally positioned to operate in the new competitive market, given our central geographical location and the quality of our treatment assets. Our decision to operate this as a standalone business has enabled us to focus on driving improvements along the value chain in logistics, treatment, generation and disposal.

During the year, we opened a new Thermal Hydrolysis Plant ('THP') at our biggest sewage treatment works at Minworth, near Birmingham, which treats waste water from over a million homes and businesses. THP works by using heat and pressure to treat sewage sludge in a similar way to a pressure cooker, and under ideal conditions enables extraction of up to 30% more energy than conventional processes. Our next THP plant is already under construction at Strongford, near Stoke-on-Trent, with work expected to be completed in 2019.

Creating new homes and opportunities in our communities

Established in 2017, our Property Development Business aims to dispose of surplus land which is made available by investment in new technology which means we're now able to operate on a smaller footprint than ever before.

We have committed to deliver £100 million profit for the Group through land disposals by 2027. We sold a substantial portion of land north of Nottingham, which will enable 831 homes to be developed, and surplus land in Atherstone, North Warwickshire, which will be brought forward for industrial development. We've made significant progress over the last 12 months, generating a £20 million profit. These profits will be shared with our customers through lower future bills.

In the last two years, our land sales have enabled around 1,000 homes to be developed in our communities. We're continuing our work with local authorities and developers to create added value for our land for the benefit of our communities, both in residential and commercial markets.

Delivering for customers

We're delighted to be delivering new water and waste connections better than ever. In Ofwat's comparative tables we were upper quartile for water and waste, and will be pushing to top the tables next year. In AMP7, Ofwat is introducing a new D-MeX measure to assess the performance of our Developer Services team. This will focus on the efficiency and speed with which we manage water and waste connections for new homes, offices and industrial developments.

Building a new community

In April 2018, we completed a joint land sale with Gedling Borough Council of c.135 acres of land near Stoke Bardolph, Nottinghamshire. The sale enables the development of 831 new homes alongside new leisure areas for the community to use. These include sports pitches, allotments and children's play areas. There will also be an ecology park, a new community building and a new primary school, all bringing people and jobs into the area.

With planning approval for the first phase of the housing scheme for 199 two, three, four and five bedroom homes including much-needed affordable houses, the developer started on site straight away bringing an estimated 855 jobs to the local area and providing a huge boost to the local economy. The first houses have been completed with new families moving in during March 2019.



Chief Financial Officer's review

CFO's review



James Bowling
Chief Financial Officer

We have built on our good financial performance in the first half of the year to deliver a strong set of results for 2018/19. Our Regulated Water and Waste Water ('RWWW') business delivered good growth in PBIT even after an additional £22 million of operating costs due to the hot, dry summer and our recovery after it. In Business Services, strong performance in the second half of the year produced growth both in revenues and PBIT for the year as a whole. In May 2018 we announced the sale of surplus land near Nottingham, and this, together with other smaller disposals later in the year, generated property profits for the Group of £19.9 million.

Growth in underlying PBIT, lower finance costs and a reduction in our effective tax rate drove a strong increase in underlying basic earnings per share of 21.0% to 145.8 pence per share in the current year. Basic earnings per share from continuing operations were 133.4 pence.

We have delivered good performance on Regulated Equity ('RoRE') for the year end 2018/19 which was 8.1%. Whilst this year's return was partly held back by reaching our Waste ODI cap, our strong financial performance helped us to an AMP6 cumulative RoRE of 9.1%, putting us amongst the very best in the sector, with outperformance on all three levers.

In line with our dividend policy for the remainder of AMP6 of growth of RPI plus at least 4% per annum, the proposed dividend for the year has increased by 7.9%.

Our funding position continues to be strong, with all our projected investment and other cash flow needs covered by cash or committed facilities through to September 2021 and we continue to actively monitor and manage our interest rate exposure.

We completed the acquisition of Agrivert in November 2018 and this has been combined with our Green Power business.

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy and the Carbon Reduction Commitment, as well as the corporation tax included in our tax charge in the income statement. This year we have published a Tax Report that sets out details of all of the taxes we incur and pay out on our website.

Our corporation tax charge for the year was just below the statutory rate at 18%, reflecting the fact that some items will be taxed in future periods when the corporation tax rate falls to 17%. Our cash tax payments were reduced by the benefit of tax allowances on our capital programme, contributions to our pension schemes and by the timing of instalment payments to HMRC under the current rules.

A brief overview of our financial performance for the year is as follows:

- Group turnover from continuing operations was £1,767.4 million (2017/18: £1,696.4 million), an increase of 4.2%, as RWWW revenue increased by 4.0%, mainly due to the RPI-linked tariff increases, and growth in Business Services' external turnover.
- Underlying PBIT was up 6.3% to £573.6 million (2017/18: £539.8 million). Underlying PBIT in our RWWW business grew by £29.4 million, Business Services PBIT grew by £0.7 million and Corporate and other growth was £12.8 million.
- We recorded net exceptional costs of £9.6 million (2017/18: £12.6 million) arising from the High Court judgment in the Lloyds Bank case relating to Guaranteed Minimum Pension rights.
- Reported Group PBIT was up 6.8% to £563.3 million (2017/18: £527.2 million).
- Net finance costs were £194.2 million (2017/18: £219.5 million). Our effective interest rate of 3.9% was down from 2017/18 (4.5%) due to: the continued benefit from replacing expensive fixed rate debt with new low cost fixed rate debt; low interest rates; and reduced RPI inflation on our index-linked debt.

£573.6m

Underlying Group PBIT¹
2017/18: £539.8m²

145.8 pence

Underlying Group EPS¹
2017/18: 120.5 pence²

£769.3m

Group cash capex
2017/18: £591.0m

£563.3m

Reported Group PBIT¹
2017/18: £527.2m²

133.4 pence

Reported Group EPS¹
2017/18: 101.8 pence²

63.0%

Gearing
2017/18: 60.6%

¹ PBIT is profit before interest and tax, underlying PBIT excludes amortisation of acquired intangibles and exceptional items as set out in note 45.

² Restated for the implementation of IFRS 15, see note 2 a) of the Group financial statements.

- Our full effective tax rate was 18.0% and our underlying effective tax rate was 11.6%, down from 12.7% in 2017/18 largely due to higher capital allowances from the larger capital programme in the year.

Changes to segmental presentation

In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, RWWW. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These activities are now managed as a single Bioresources business within Business Services.

Implementing innovative treatment techniques and finding ways to use our resources more effectively enables us to free up land for development. The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and average agreements relating to the development potential. In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in RWWW and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

The segmental analysis that follows and in the financial statements shows:

- current period performance on the new and old basis; and
- comparative information on the old basis.

Comparative information for the new segments is not available and the cost to develop it would be excessive. All year-on-year comparisons are on the old segmental basis. Please see note 5 in the Group financial statements for a reconciliation from the old to the new segmental basis.

Regulated Water and Waste Water

Turnover for our RWWW was £1,583.1 million and underlying PBIT was £527.0 million on the new reporting basis. On the old basis turnover was £1,637.6 million (2017/18: £1,574.6 million) and underlying PBIT was £544.3 million (2017/18: £514.9 million).

Hafren Dyfrdwy (formerly Dee Valley Water) was acquired on 15 February 2017 and integrated into the RWWW segment. On 1 July 2018, the licences of Severn Trent Water and Hafren Dyfrdwy were amended to align with the national boundaries of England and Wales but the operating activities within the RWWW segment were unchanged by this. The following commentary on the RWWW business in both years therefore includes the same activities in each year.

Turnover increased by 4.0% to £1,637.6 million. The components of this were:

- RPI and the K factor increased revenue by £55.7 million;
- Customer ODI rewards taken in the current year were £9.6 million lower than the previous year;
- The reduction in from the Wholesale Revenue Forecasting Incentive Mechanism was £13.9 million more favourable than the previous year;
- Additional revenue from the higher consumption during the hot weather was around £5 million; and
- Other small factors reduced revenue by £2.2 million.

Net labour costs of £134.4 million were £7.4 million (5.2%) lower. Gross employee costs increased by 5.8%, due to the annual pay award and the continuation of our strategy to bring more work in-house (including the new design team).

The growth in activity on capital projects increased the level of own labour capitalised, up £23.2 million on the previous year.

Net hired and contracted costs of £165.6 million were up £17.9 million (12.1%) primarily in relation to costs incurred over the hot, dry summer and resulting operational recovery activities in the second half of the year.

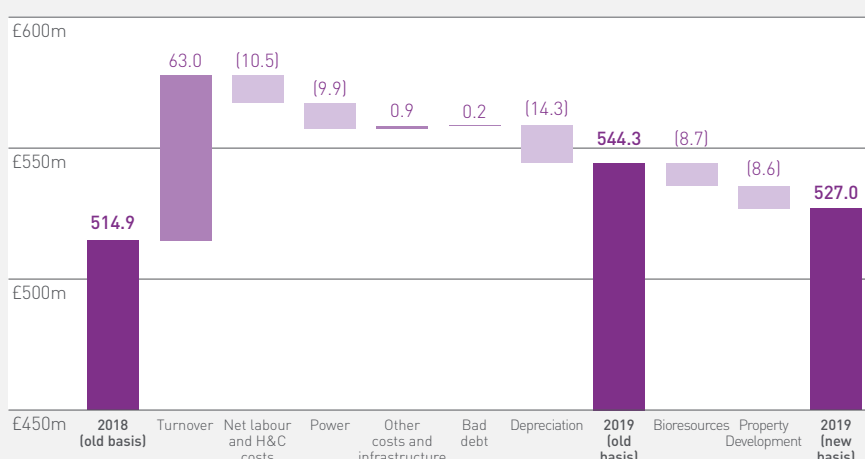
Power costs were up £9.9 million to £105.8 million, driven by higher pass-through costs as forecasted, and a higher demand for water during the summer. The Group manages its power costs through a combination of demand management, self-generation and forward price contracts.

Our bad debt charge decreased by £0.2 million this year, and represented 2.0% of household revenues (2017/18: 2.2%). We continued to improve the pace of collection for new debt but also experienced slightly slower recovering of older debt, which we are actively targeting our efforts on this year.

Other costs decreased by £7.1 million to £185.8 million, following increased profit on the disposal of tangible assets (mainly property) during the year.

Infrastructure renewals expenditure of £141.1 million was £6.2 million higher in the year. The increase was driven by additional activity to reduce leakage and an acceleration of our trunk mains renewal programme.

Regulated Water and Waste Water – Underlying PBIT



Chief Financial Officer's review continued

Depreciation of £334.8 million was £14.3 million higher than the prior year, partly driven by the shift towards more investment in technology assets with shorter lives. There was also an increase in abandonment charges of £5.4 million as we upgraded some of our ageing assets.

Return on Regulated Equity (RoRE)

RoRE is a key performance indicator for the regulated business and reflects our combined performance on Totex, customer ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE, calculated in accordance with Ofwat's guidance, for the year ended 31 March 2019 and for the four years ended on that date is set out in the following table:

	2018/19 %	AMP6 to date %
Base return	5.6	5.6
Outperformance		
Totex	-	1.2
ODIs	(0.1)	1.0
Financing	2.6	1.3
Regulatory return for the year	8.1	9.1

We have delivered RoRE of 8.1% in the year thanks to our significant outperformance on financing. ODIs were broadly neutral, impacted by hitting the Waste cap of 2% of RoRE. We reinvested Totex savings for the benefit of our customers so performance was flat here as well. Our cumulative AMP6 RoRE remains strong at 9.1%, with four-year outperformance broadly based from sustained customer service, delivery on ODIs, early delivery of Totex efficiencies and strong performance on financing.

Business Services

Business Services turnover was £200.9 million and underlying PBIT was £64.1 million on the new basis.

The division delivered growth in revenues (up 3.8%) and underlying PBIT (up 2.0%) on a comparable basis. The prior year figures have been restated to reflect the impact of the implementation of IFRS 15 on the recognition of revenue and costs for the MOD contract (see note 1).

In our Operating Services business, turnover and underlying PBIT decreased by £6.8 million and £0.6 million respectively. An improvement in performance on our HomeServe contract was offset by lower rechargeable activity on our MOD contract and additional costs as a result of the hot, dry summer.

In the Renewable Energy business, turnover increased by 20.2% and underlying PBIT increased by 6.5%. Higher energy prices contributed to the increase together with the expansion of our crop energy plant near Nottingham; the impact of a full year of operations for our West Birmingham food waste plant; and, the purchase of Agrivert (a food waste company acquired in November 2018), which contributed £9.2 million of revenue and £1.6 million of underlying PBIT.

Corporate and other

Corporate overheads of £13.4 million (2017/18: £8.9 million) included £3.6 million acquisition costs for Agrivert. Our other businesses generated a net profit of £11.7 million (2017/18: loss of £0.8 million) including a profit of £11.3 million from Property Development (2017/18: £2.1 million), which is included in Business Services on the new basis.

Exceptional items before tax

We recorded a net exceptional charge of £9.6 million (2017/18: charge of £12.6 million).

On 25 October 2018 the High Court issued a judgment in the Lloyds Bank case in relation to gender equality in Guaranteed Minimum Pension rights that has an impact on the Group's defined benefit pension liabilities. We have obtained independent advice from the Group's actuaries to determine the amount of the additional liability and have made provision for our best estimate in this year's financial statements.

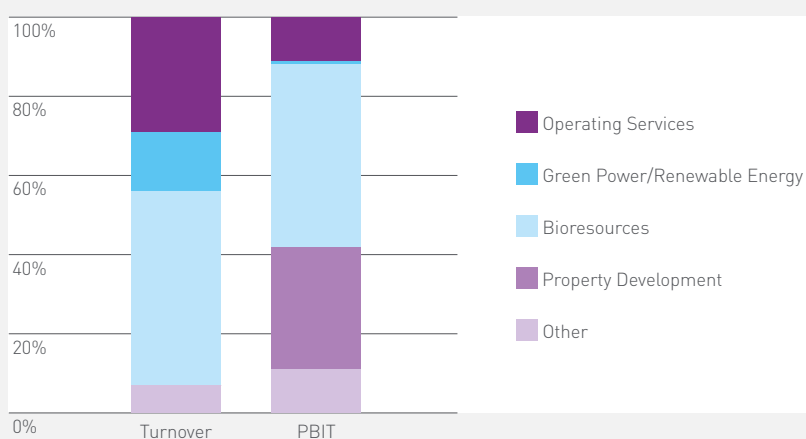
In 2017/18 the exceptional charge of £12.6 million comprised exceptional restructuring costs of £20.9 million preparing our Bioresources business for AMP7 and an exceptional gain of £8.3 million from the net benefit of a Pension Increase Exchange arrangement.

Net finance costs

Our net finance costs for the year were £194.2 million, £25.3 million lower than the prior year. The reduction was driven by a lower effective interest rate as a result of recent low cost fixed debt issues and lower RPI inflation on our index-linked debt (down £14.5 million), which more than offset the impact of higher average net debt.

Our effective interest rate was 3.9% (2017/18: 4.5%) and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was also down to 3.1% (2017/18: 3.4%). Net pension finance costs were broadly in line with the previous year. Capitalised interest of £33.2 million increased by £7.4 million year-on-year due to the higher level of capital activity in the year. Our earnings before interest, tax, depreciation and amortisation (EBITDA) interest cover was 5.1 times (2017/18: 4.3 times) and PBIT interest cover was 3.2 times (2017/18: 2.6 times). See note 18 for further details.

Business Services – Turnover and Underlying PBIT



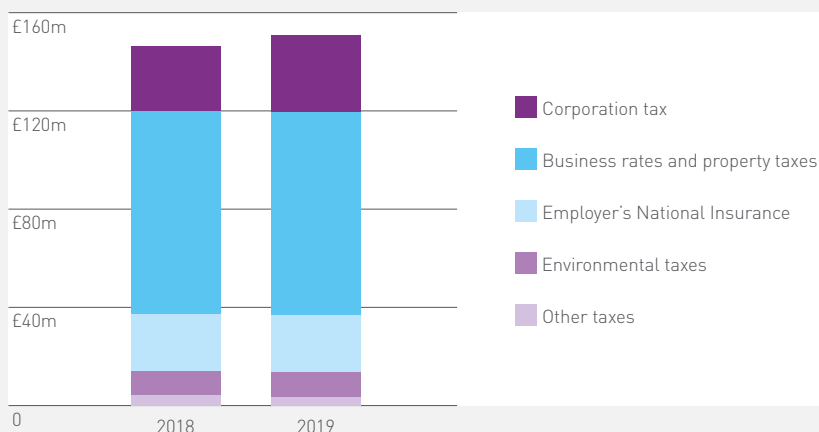
The chart shows the relative contribution of the various businesses to Business Services Turnover and Underlying PBIT.

Taxation

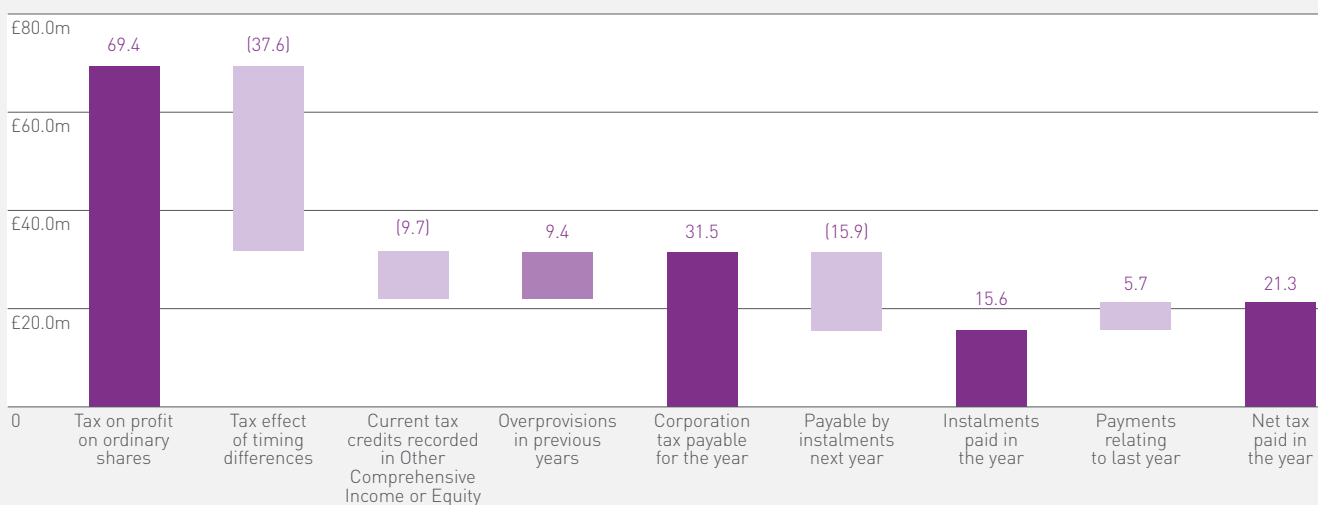
We are committed to paying the right amount of tax at the right time. As well as corporation tax on profits, which is included in the tax charge in our accounts, we incur a range of taxes, charges and levies imposed by government agencies, as shown in the chart to the right. Further details on the taxes and levies that we pay are included in our Tax Report which is available on our website.

The corporation tax charge for the year recorded in the income statement was £69.4 million (2017/18: £61.6 million) and we made net corporation tax payments of £21.3 million in the year (2017/18: £6.5 million). The difference between the tax charged and the tax paid is summarised in the chart below.

Taxes borne



Reconciliation of tax charge to tax paid



Note 13 in the Group financial statements sets out the tax charges and credits in the period, which are described below.

The current tax charge for the year was £31.8 million (2017/18: £32.9 million) and the deferred tax charge was £37.6 million (2017/18: £28.7 million).

Our full effective tax rate this year was 18.0% (2017/18: 20.5%), which is lower than the UK rate of corporation tax (19%), reflecting the fact that some of the items in our income statement will be taxed in future periods when the UK corporation tax rate falls to 17%.

UK tax rules specify the period over which tax relief can be obtained for capital expenditure. Typically this is a shorter period than that over which the assets are depreciated in the accounts and this tends to reduce the corporation tax charge in the year and the Group underlying effective current tax rate. We make provision for tax that will be paid in future periods when the tax relief on the capital expenditure has been received and we receive no allowance for the depreciation charge arising from that expenditure. This is the most significant component of our deferred tax position.

Our underlying effective current tax rate was 11.6% (2017/18: 12.7%) (see note 45).

Profit for the year and earnings per share

Profit for the year from continuing operations increased by 32% to £315.3 million (2017/18: £239.6 million).

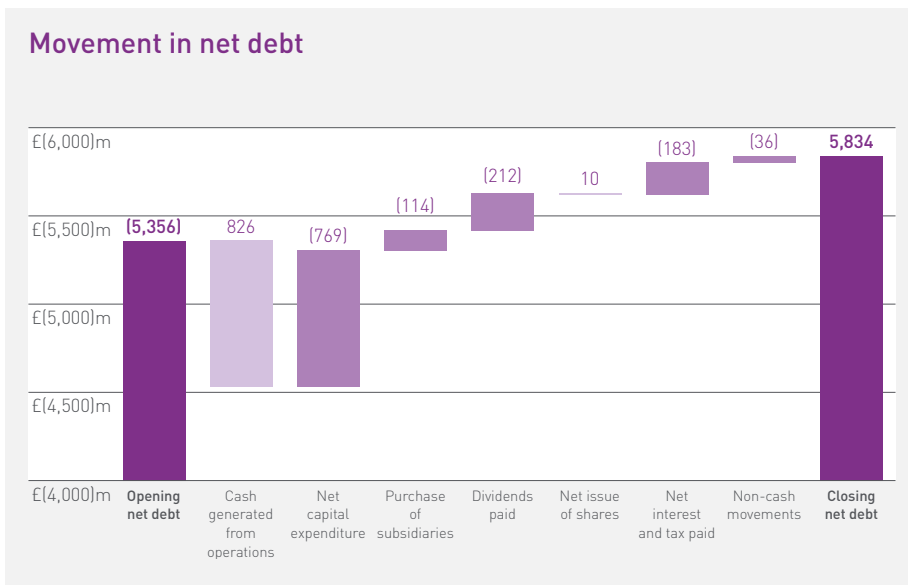
There were no discontinued operations in the year (2017/18: profit of £13.2 million).

Total profit for the year including discontinued operations in 2017/18 was £252.8 million.

Basic earnings per share from continuing operations increased by 31.0% to 133.4 pence (2017/18: 101.8 pence). Underlying basic earnings per share was 145.8 pence (2017/18: 120.5 pence). For further details see note 15.

Chief Financial Officer's review continued

Movement in net debt



Movement in net debt

We generated £826.3 million cash from operations (2017/18: £773.3 million). Operating cash flows were higher mainly due to higher PBIT, depreciation and amortisation and our increase in working capital was lower than the previous year.

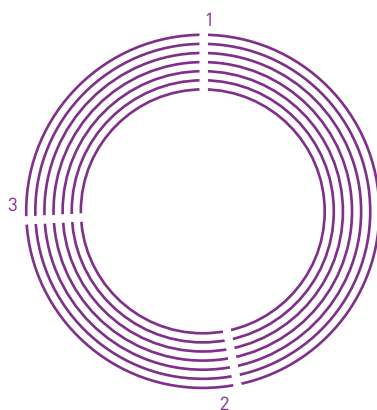
Our biggest year of capital investment in a decade led to net capital expenditure of £769.3 million (2017/18: £591.0 million). The acquisition of Agrivert resulted in a net cash outflow of £50.9 million and we also repaid £63.0 million of debt that was acquired with the business.

Our net interest payments were lower at £161.6 million (2017/18: £182.1 million). Tax payments were £21.3 million, an increase of £14.8 million. The previous year benefited from a reduction of £8 million from overpayments in earlier years.

We received £10.0 million net (2017/18: £5.6 million) in relation to employee share schemes and our dividends paid increased by 7.6% in line with our policy.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £477.5 million in net debt (2017/18: £274.2 million).

At 31 March 2019 we held £39.6 million (2018: £38.5 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2018: 15 years). Including committed facilities, our cash flow requirements are funded until September 2021.



1. Fixed	£2,663m
2. Floating	£1,543m
3. Index linked	£1,464m

Our long term credit ratings are:

Long term ratings	Moody's	Standard and Poor's
Severn Trent Plc	Baa1	BBB
Severn Trent Water	A3	BBB+
Outlook	Negative	Stable

Net debt

Net debt at 31 March 2019 was £5,834.1 million (2018: £5,356.6 million) and balance sheet gearing (net debt/net debt plus equity) was 83.3% (2018: 84.4%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2019 was 63.0% (2018: 60.6%).

The estimated fair value of debt at 31 March 2019 was £1,219.6 million higher than book value (2018: £1,184.3 million higher). The increase in the difference to book value is largely due to the decrease in the discount rates applied, driven by lower prevailing market interest rates.

We continue to carefully monitor market conditions and our interest rate exposure. Given the flatness of the yield curve we believe it is appropriate to start reducing our exposure to floating rates of interest. At 31 March 2019 53% of our debt was at fixed rates, 22% was in floating and 25% was index-linked. To that end we have:

- raised £200 million at competitive fixed rates at the end of the financial year;
- since the year end, cancelled £575 million of pay floating interest rate swaps that had a positive market value; and
- used the proceeds of the cancellations to cancel £100 million of expensive pay fixed swaps with an average fixed rate of 5%.

These actions reduced our floating rate exposure to around 15% of gross debt at the end of April 2019.

Treasury policy and operations

Our principal treasury management objectives are:

- to access a broad range of sources of finance to obtain both the quantum and lowest cost compatible with the need for continued availability;
- to manage our exposure to movements in interest rates to provide an appropriate degree of certainty as to our cost of funds;
- to minimise our exposure to counterparty credit risk;
- to provide an appropriate degree of certainty as to our foreign exchange exposure;
- to maintain an investment grade credit rating for our regulated subsidiary Severn Trent Water Limited; and
- to maintain a flexible and sustainable balance sheet structure.

We invest cash in deposits with highly rated banks and liquidity funds. We regularly review the list of counterparties and report to the Treasury Committee.

Our treasury affairs are managed centrally and in accordance with our Treasury Procedures Manual and Policy Statement. Group Treasury's role is to manage liquidity, funding, investment and our financial risk, including risk from volatility in interest and (to a lesser extent) currency rates and counterparty credit risk. The Board determines matters of treasury policy and its approval is required for certain treasury transactions. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary.

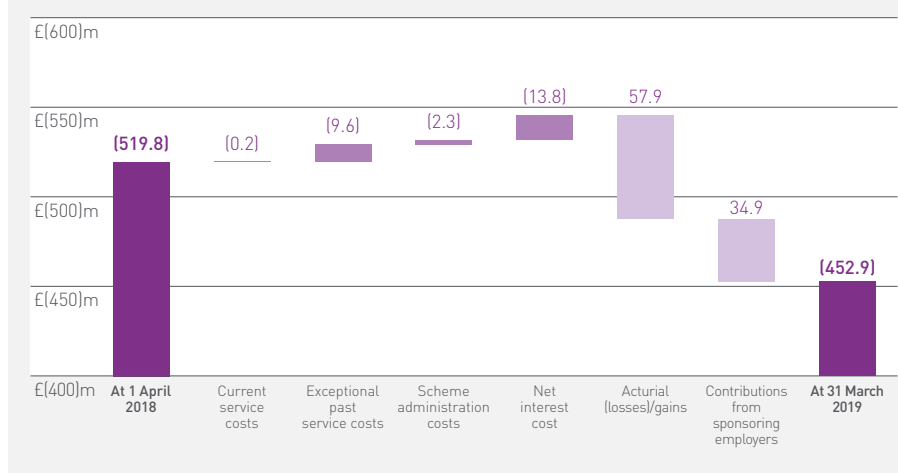
Our strategy is to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability. Our principal operating subsidiary, Severn Trent Water, is a long-term business characterised by multi-year investment programmes. Our strategic funding objectives reflect this and the liquidity position and availability of committed funding are essential to meeting our objectives and obligations. We therefore aim for a balance of long-term funding and commitment of funds across a range of funding sources at the best possible economic cost. The Group also seeks to maintain an investment grade credit rating and a flexible and sustainable balance sheet structure.

We use financial derivatives solely to manage risks associated with our normal business activities. We do not hold or issue derivative financial instruments for financial trading.

Except for debt raised in foreign currency, which is fully hedged, our business does not involve significant exposure to foreign exchange transactions.

The Group issues notes in foreign currency under its EMTN programme and uses cross currency swaps to convert the proceeds to sterling. The effect of these swaps is that interest and principal payments on the borrowings are denominated in sterling and hence the currency risk is eliminated. The foreign currency notes and the cross currency swaps are recorded in the balance sheet at their fair values and the changes in fair values are taken to gains/(losses) on financial instruments in the income statement. Since the terms of the swaps closely match those of the underlying notes, such changes tend to be broadly equal and opposite.

Pensions



Pensions

We have three defined benefit pensions arrangements, two from Severn Trent and one from Dee Valley Water. The Severn Trent schemes are closed to future accrual.

The most recent formal actuarial valuations for the Severn Trent schemes ('the Schemes') were completed as at 31 March 2016. The agreement reached with the Trustee for the Severn Trent Pension Scheme ('STPS'), which is by far the largest of the schemes, included:

- Inflation-linked payments of £15 million per annum through an asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed;
- Payments under another asset-backed funding arrangement of £8.2 million per annum to 31 March 2032; and
- A deficit reduction payment of £10 million for each of the three financial years ending 31 March 2019.

In addition to these payments, the Company will directly pay the annual Pension Protection Fund levy incurred by the STPS (£1.4 million in 2018/19).

The next formal actuarial valuations of the Schemes are currently underway.

The Schemes have entered into additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

Hafren Dyfrdwy participates in the Dee Valley Water Limited Section of the Water Companies Pension Scheme ('the Section'). The Section funds are administered by trustees and are held separately from the assets of the Group. The Section is closed to new entrants. The most recent formal actuarial valuation of the Section was completed as at 31 March 2017 and as a result deficit reduction contributions to the Section ceased.

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £452.9 million (2018: £519.8 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

On an IAS 19 basis, the funding level has improved to 84% (31 March 2018: 82%).

Accounting policies and presentation of the financial statements

Our Group financial statements are prepared in accordance with International Financial Reporting Standards that have been endorsed by the European Union. The Company financial statements are prepared in accordance with FRS 101.

Risk management

Our approach to risk

Risk is all about uncertainty. We recognise that uncertainty can manifest itself as both negative and positive impacts. Our goal is to minimise the threats and maximise the opportunities for the benefit of our customers, shareholders, employees, supply partners and the environment.

The Board has overall accountability for ensuring that risk is effectively managed across the Group. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of the Group.

On behalf of the Board, the Audit Committee assesses the effectiveness of the Group's Enterprise Risk Management ('ERM') process and internal controls to identify, assess, mitigate and manage risk. Additional information is set out in the Audit Committee report on page 91.

The Executive Committee reviews strategic objectives and assesses the level of risk taken in achieving these objectives. This 'top down' risk process helps to ensure the 'bottom up' ERM process, described below, is aligned to current strategy and objectives.

The management of risk is embedded in our everyday business activities. Across the Group, we manage risks within the overall Governance Framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with a holistic view of effective risk management.

Within Severn Trent Water and Hafren Dyfrdwy, our approach to risk reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of these businesses is such that there are some significant inherent risks. We have a strong control framework in place to enable us to understand and manage these risks in accordance with our risk tolerance and appetite.

In our non-regulated businesses we take a more commercial approach to risk. In providing products and services for clients who operate in regulated environments, we take a similar approach to risk as in our own regulated business.

The principal risks facing the Company are illustrated on pages 56 to 61.

Our Enterprise Risk Management process

We use an established ERM process across the Group to assess and manage our significant risks. The process is controlled by the central ERM team and underpinned by standardised tools and methodology to ensure consistency.

ERM champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Criteria are used to consider the likelihood of occurrence and potential financial and reputational impacts. The potential causes and subsequent impact of the risks are documented to enable mitigating controls to be assessed. This assessment allows us to put in place effective strategies to remediate defective controls or implement additional controls.

Business unit information is combined to form a consolidated view of risk across the Group – with risks being prioritised. Our significant risks form our Group risk profile which is reported to the Executive Committee for review and challenge. This is reported to the Audit Committee and Board on a six monthly basis. The report provides an assessment of the effectiveness of controls over each risk and an action plan to improve controls where necessary.

To further enhance our ERM information, we report 'risk flightpaths'. 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.

In addition, individual risks and specific risk topics are also discussed by the Board during the year.

Risk appetite

The Board keeps the relationship between our strategic ambitions and the management of risk under continual review.

The ERM process establishes target risk positions for each of our significant risks. The Board formally discusses the progress towards this position and the mitigating actions being undertaken every six months.

Financial risks

Like all businesses, we plan future funding in line with business need. This is part of our normal business planning process.

The Board receives regular updates relating to funding, solvency and liquidity matters through the Treasury Committee so we can respond quickly to any changes in our ability to secure financing (see Principal Risk 10). The Pension Fund Trustees and Company regularly monitor our pension deficit, with advice from investment managers and actuarial advisers. An annual pension fund review paper is tabled to the Board, updating them on fund performance and proposed initiatives to manage down pension liabilities and further balance pension risks (see Principal Risk 9).

The ERM process and relevant risk assessments are factored into the 'stress testing' to assess the Group's prospects as part of our Long Term Viability Statement.

Sustainability risks

Sustainability risks are treated in the same way as all our other company risks, captured at a local level by responsible teams and managed centrally through our established ERM process. By the nature of what we do, several of our principal risks have a sustainability focus, and we monitor our social and environmental impacts with the same rigour as our broader performance.

Emerging risks

Emerging risks

We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage.

Emerging risks have the potential to increase in significance and affect the performance of the Group and, as such, are continually monitored through our existing ERM processes comprising: ERM co-ordinators, ERM champions and risk owners and cross functional workshops that operate at all levels of the organisation. We also use tools such as horizon scanning and PESTLE analysis. The outputs of this process are reported to the Audit Committee and Board through our emerging risk horizon map.

Our ERM process ensures emerging risks are identified and aids the Audit Committee and Board's assessment of whether the Group is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage – so we can analyse them thoroughly and assess potential exposure.

We closely monitor emerging risks and with time they may become fully fledged ERM risks or be incorporated into existing ERM risks (as potential causes) as we learn more. Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environment in which we operate evolves. A non-exhaustive list of some current emerging risks of relevance to the Group are set out below.

Title	Detail	Area / Factor	Time Horizon		
			Short	Medium	Long
Macroeconomics	Increased macroeconomic uncertainty post Brexit.	Economic	■		
Compliance	The challenge of compliance in a more complex, disaggregated regulatory framework for AMP7 and beyond.	Legal & Regulatory	■	■	
Automation, robotics and AI	Opportunity for increased efficiency through use of automation, robotics and artificial intelligence.	Technological	■	■	
Water industry structure	Increasing social and political pressure on the structure of the water industry.	Political & Social		■	
Micro plastics	Understanding and addressing the impact of micro plastics – including on natural resources and customers.	Health, Safety & Environmental		■	
HS2	Direct impact on operational sites along the proposed route and the indirect impact on labour availability in the area.	Operational		■	■
Skills gap and labour shortage	Shortage of STEM expertise within the labour market and future talent pipelines. We are addressing this through our new Training Academy. Read more on page 28.	Operational		■	■
Rising energy costs	Opportunity to increase renewable energy generation and efficiency as technology develops. Read more on our investment in renewable energy technology on page 46.	Technological		■	■

Principal risks

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These have been categorised across:

- Customer perception;
- Legal, regulatory and political environment;
- Operations, assets and people; and
- Financial risks.

For each risk we state what it means for us and what we are doing to manage it.

Customer perception

1

What is the risk?

We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Link to our Values

We put our customers first

We are passionate about what we do

We act with integrity

ODIs

24-27

What does it mean for us?

We are a regulated utility providing essential services to our customers. We recognise that our customers increasingly expect more from us and demand an improved and more consistent experience. As other industries improve their levels of service, the bar continues to be raised. Failure to deliver the service that customers expect will lead to customer dissatisfaction. This may result in financial penalties under Ofwat's Service Incentive Mechanism (SIM) in AMP6, and C-MeX in AMP7, and associated ODI outturn.

What are we doing to manage the risk?

Understanding what our customers want is key to managing this risk. Our PR19 Severn Trent plan was shaped by consulting with 32,000 customers, evaluating 24,000 complaints and considered 1.9 million customer views. As one of only three companies to be fast-tracked we see this as a firm endorsement of our customer-focused approach.

We recognise that our performance on SIM has not been where we would have wanted. Work is now underway to prepare for Ofwat's new AMP7 customer measure of performance ('C-MeX'), which will be partly based on customer contact, as with SIM, and partly on customer perception which is a much wider measure. We are pleased to again be in the top quartile of water companies in England in the UK Customer Service Index, especially as this is an element of the forthcoming C-Mex measure.

The Retail Upper Quartile ('UQ') programme continues to deliver a number of initiatives focused on customer experience. Future initiatives include 'Customer First' interventions and Robotics Process Automation. Customers continue to tell us they are delighted when we are able to complete issues for them at Point of Contact and we will continue the work to improve our Point of Contact resolution further (with a large focus in metering) to improve the overall experience.

We set up Tap Chat during the year. This new online community panel gives us feedback about how we're doing and, more importantly, how we can do even better. With 15,000 active participants, representing all walks of life and areas across our region, Tap Chat played an important role in refining our PR19 business plan and provides ongoing engagement with our customers.

More than 1.9 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 1.6 million transactions. And the hard work of our customer communication team was recognised by a Silver Award at the European Contact Centre and Customer Service Awards.

Movement in Net Risk Exposure



Key:

- Increase in net risk exposure
- No change in net risk exposure
- Decrease in net risk exposure

Legal, regulatory and political environment

2

What is the risk?

We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Change the market for the better

Investing responsibly for sustainable growth

ODIs

n/a

What does it mean for us?

The regulated business operates in a highly regulated environment. Whilst we are broadly content with the direction of changes proposed for our industry, there remains a risk that additional future changes could have a significant impact on Severn Trent. The renationalisation of the water industry continues to be a central policy of the Opposition and therefore remains a possibility in the event of a change of Government. In the event of renationalisation, there is a possibility that the Group's regulated businesses (Severn Trent Water and Hafren Dyfrdwy) are acquired at below the value currently implied in Severn Trent Plc's share price.

What are we doing to manage the risk?

With the successful submission of our PR19 Severn Trent Plan we now have more certainty about the next five year AMP period running from 2020-25.

Severn Trent has always contributed to the debate about our industry's future. We will continue to be an active participant in these conversations, so we can help shape thinking about how to best serve our customers in the future.

We specifically continue to engage with the Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector. The renationalisation of the water industry remains a possibility in the event of a change of Government, and any associated changes in Government policy may fundamentally impact our ability to deliver the Group's strategic objectives, impacting shareholder value. Our aim is to ensure the water sector in England and Wales continues to deliver a world class service for customers, is able to invest for the future and maximises the benefits to wider society all stakeholders through the social and environmental benefits the current model allows us to deliver. We seek to minimise potential risk and maximise opportunities through regular communication and robust scenario planning as Government policy evolves.

Creating our Welsh business Hafren Dyfrdwy has aligned our interests around the England-Wales border along national boundaries, with all customers in Wales now being served by the new business – bringing clarity to the water market in the region.

Movement in Net Risk Exposure



3

What is the risk?

The regulatory landscape is complex and subject to ongoing change. There is a risk that processes may fail or that our processes may not effectively keep pace with changes in legislation leading to the risk of non-compliance.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Change the market for the better

Investing responsibly for sustainable growth

Link to our Values

We act with integrity

We protect our environment

ODIs

1-4, 19-23, 30-43

What does it mean for us?

Our policies and processes must reflect the current legal and regulatory environment and all relevant employees must be kept aware of new requirements. The Group, as a whole, may face censure for non-compliance in an individual Group company or a specific region in which we operate.

What are we doing to manage the risk?

We have established governance and control frameworks that we openly publish to provide transparency. Our engagement with customers and stakeholders, policies, internal controls, guidance and training ensure our ongoing compliance with all applicable laws and regulations including Competition Law for the operation of separate Wholesale and Retail business and between our Group businesses.

We regularly review our control frameworks to take account of changes to legislation, regulation and our business. This year we have updated to include the new boundaries of Severn Trent and Hafren Dyfrdwy. Ensuring compliance with the General Data Protection Regulation ('GDPR') has also been a key area of focus since they came into effect on 25 May 2018.

Changes to the legal and regulatory environment are captured as 'emerging risks' through our ERM process with the necessary owners and actions identified to ensure compliance when the changes come into effect. More detail on our emerging risks can be found on page 55. Our external legal advisers also provide us with horizon scanning reviews of upcoming legislation that may affect the Group. This is considered by our internal legal team, and any applicable upcoming changes are reported to the Executive Committee and Board with communication across the business as required.

Movement in Net Risk Exposure



Principal risks continued

Operations, assets and people

4 **What is the risk?**
We may experience loss of data or interruptions to our key business systems as a result of cyber threats.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do
Drive operational excellence and continuous innovation

Link to our Values

We put our customers first

ODIs

1-4, 5-18, 19-23, 24-27

What does it mean for us?

The risks arising from loss of one or more of our major systems or corruption of data held in those systems could have far reaching effects on our business. We have recognised the increasing threats posed by the possibility of cyber attacks on our systems and data. Whilst this threat can never be eliminated and will continue to evolve, we are focused on the need to maintain effective mitigation.

What are we doing to manage the risk?

We continue to commit significant resources and financial investment to maintain the integrity and security of our assets and data. We follow guidance from the National Cyber Security Centre and have defence through multiple layers of software and processes including web gateways, filtering, firewalls, intrusion and advanced threat detection. We have strengthened our security and network operations capability this year and have improved the controls around third party access to our systems and data. We have reviewed our cyber risk methodology and are using this to prioritise future investment to ensure that we protect ourselves in line with the General Data Protection Regulation ('GDPR'), Network and Information Systems Regulation and Payment Card Industry Data Security Standard best practices. We have also participated in a number of internal cyber security incident exercises to test our response capability to cyber attacks.

John Coghlan is our designated Non-Executive Director in respect of cyber risk.

Despite the enhancement of our defence during the year, considering current cyber threat levels we have recognised an overall increase in the net risk exposure.

Movement in Net Risk Exposure



5 **What is the risk?**
We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do
Drive operational excellence and continuous innovation
Investing responsibly for sustainable growth

Link to our Values

We put our customers first
We are passionate about what we do
We protect our environment

ODIs

1-45

What does it mean for us?

If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties within the current price review period, or applied to the next price review.

Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.

What are we doing to manage the risk?

Our strong wastewater performance has continued and we have made good progress on water quality, but further work is required to improve our performance for supply interruptions and leakage.

We are starting to see improvement in supply interruptions through our 'Prevent, Restore, Repair' strategy which focuses on preventing asset failure where possible, and restoring supply at speed if this happens. On leakage, we have introduced innovative ways of finding leaks faster and fixing them more efficiently, and we are pleased that we have started to see some encouraging results.

We use leading measures on our comm cells and performance meetings to track delivery against customer ODis and performance commitments so that we can intervene in a timely fashion if performance is drifting.

Movement in Net Risk Exposure



Key:

Increase in net risk exposure

No change in net risk exposure

Decrease in net risk exposure

6

What is the risk?

Failure of certain key assets or processes may result in an inability to provide a continuous supply of clean water and safely take waste water away within our area.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Link to our Values

We put our customers first

We are passionate about what we do

ODIs

1-4, 5-18, 19-23

What does it mean for us?

Some of our assets are critical to the provision of water to large populations for which we require an alternative means of supply.

Examples of risk include the failure of one of our reservoirs or water treatment works. These assets are regularly inspected and maintained and our assessment of the overall condition of these assets is good.

Other examples are our IT, telephony systems and remote monitoring systems which are also key to our operations.

What are we doing to manage the risk?

Our business plan for 2015-2020 includes considerable investment in our assets to improve the resilience of our networks, reduce interruptions and improve the service that our customers receive. There are areas where our performance is not as consistent as we would like and we are committed to improving these.

We are continuing our Cleanest Water Plan which drives the delivery of our inspection, cleaning and repair of storage tanks, increasing our capital maintenance interventions, optimising our operation and maintenance tasks and formalising our processes, standards and operating procedures involved in delivering clean water.

We have applied the learnings from the Freeze Thaw event in March 2018 and this informed our preparations for the prolonged hot, dry summer – which saw a 22% increase in demand for water from our customers at peak times. Several rural areas experienced intermittent supply interruptions and we are investing across the network to avoid such issues in the future. Our response to failures in supply, such as burst mains, has been greatly enhanced and we are now able to reach the site and initiate recovery plans much quicker than in previous years.

We have a programme of work to improve the reliability of our major Water Treatment Works and to return them to their design output capacity where they have not been in a condition to meet it.

In Nottinghamshire, we made great progress on a scheme to improve our service in Newark, where a £60m programme will benefit 400 local homes and businesses. We're installing 4 km of high volume sewers to reduce flooding risk, as well as 10 km of new water network to improve water supply.

In addition to investing in resilience improvements to our network we also have assurance plans in place to monitor, inspect and maintain our most critical assets and to ensure clean water is always available to our customers and we will always be able to safely take their waste water away.

Movement in Net Risk Exposure



7

What is the risk?

Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public as well as negatively impact our local and wider environment.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Create an awesome place to work

Link to our Values

We protect our environment

We act with integrity

ODIs

30-41, 42-43

What does it mean for us?

The nature of our assets, operations and business are such that threats to the safety of our employees, contractors, customers and the wider public exist. Operational failures or negligence could result in damage to the environment.

We are responsible for a large estate of assets and have to secure these from unauthorised access to ensure our operations are not impacted nor the safety of the public compromised.

What are we doing to manage the risk?

We have a well established Health, Safety and Wellbeing Framework to ensure all of our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. Our Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do. We experienced no major safety incidents and no fatalities in the last 12 months, but we did see an increase in Lost Time Incidents ('LTI's), mainly due to slips, trips and falls. We have refreshed our strategy and have targeted interventions in the four main hazard areas causing us most harm. More detail can be found on page 45.

There are a number of ODI commitments we have made to protect our local environment, including the river water quality, pollution incidents, biodiversity improvements and environmental compliance. In AMP6 we will be delivering our largest ever environmental programme. This programme is supported by our customers who want to see us do more to improve river water quality. As part of the Water Framework Directive we're on track to improve at least 1,600 km of our rivers in AMP6 – and a further 2,100 km in AMP7. This year we expect to receive a 3* Environmental Performance Assessment status from the Environmental Agency.

We recognise the impact our operations have on the wider environment and we want to reduce our carbon footprint by seeking lower carbon ways of operating our business, driving energy efficiency and generating renewable energy. We've made excellent progress against our target of generating the equivalent of 50% of our own energy requirements, with the completion of a Thermal Hydrolysis Plant at our Minworth waste water site during the year. During the year we were re-certified by the Carbon Trust – the tenth consecutive year we have achieved this standard. This verifies that we have sound carbon management processes in place and are reducing carbon emissions year-on-year. More details can be found in our Corporate Responsibility Report on page 94.

Movement in Net Risk Exposure



Principal risks continued

8

What is the risk?

We are unable to deal with the impact of extreme and unpredictable weather events on our assets and infrastructure and/or are unable to successfully plan for future water resource supply and demand due to climate change.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Link to our Values

We protect our environment

ODIs

1-4, 5-18, 19-23, 42-43

What does it mean for us?

Climate change (hotter and drier summers, wetter winters and increased storminess) could result in an inability to meet customer demand, lower river levels, decreased raw water quality, flooding of our water or waste works, sewer capacity being exceeded and increased land movement. Climate change could also be a contributing factor for principal risks 1, 5, 6 and 7 detailed above.

There are also some potential opportunities that climate change presents for us, including aquifer recharge and increased biological treatment. It is important that we understand these opportunities to maximise the benefits.

What are we doing to manage the risk?

Extreme Weather

We have applied the learnings from the Freeze Thaw event in March 2018 and the prolonged hot, dry summer. See Principal Risk 6 above for further detail of our resilience improvements.

Our analysis for the National Flood Resilience Review ('NFRR'), that was instigated by Defra and the Cabinet Office after the flooding of winter 2015/16, identified our sites that could be at risk from river or surface water flooding using a new higher standard called the 'Extreme Flood Outline'. This has informed our contingency plans and future investment plans.

Climate Change

Our climate change adaption report sets out our strategy for coping with future changes to our climate.

Our draft Water Resources Management Plan for the next 25 years was consulted on through 2018. The plan includes a detailed assessment of climate change impact for our region and our demand management and proposed new sources are designed to offset any supply risk resulting from climate change. The final plan will be published in summer 2019.

We're also taking a national perspective by working with other water companies to develop an interconnector that can move water quickly from the wetter north to the drier south, enhancing water resilience across the UK.

Our own impact and contribution to climate change cannot be ignored and, as outlined in Principal Risk 7 above, there are a number of ways in which we are addressing our impact on the environment.

Movement in Net Risk Exposure



Key:



Increase in net risk exposure



No change in net risk exposure



Decrease in net risk exposure

Financial risks

9 What is the risk?
 Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Investing responsibly for sustained growth

What does it mean for us?

We already provide significant funding but could be called upon to provide more money to reduce pension deficits in our Defined Benefit Schemes.

What are we doing to manage the risk?

Our IAS19 deficit has reduced from £520m as at 31 March 2018 by £67m to £453m as at 31 March 2019. The main pension scheme benefits from significant levels of interest rate, inflation and equity hedging to reduce materially the impact on the scheme deficit from these risks. We are currently in discussion with the scheme Trustees to agree the triennial actuarial valuations as at 31 March 2019 and resultant deficit repair payments for the next three years. These negotiations may, in due course, also involve the Pension Regulator. Due to market conditions at 31 March 2016 (the date of the last triennial valuation) and 31 March 2019, these negotiations may result in increased annual deficit repair payments.

Movement in Net Risk Exposure



10 What is the risk?
 We are unable to fund the business sufficiently in order to meet our liabilities as they fall due.

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Investing responsibly for sustained growth

What does it mean for us?

We must ensure sufficient liquidity is available to meet our near-term financial commitments. We have a significant funding requirement in AMP6, to fund our investment programme and refinance maturing debt. This is a well-controlled risk, but it is important that we maintain these high standards to mitigate this risk.

What are we doing to manage the risk?

We have a marked improvement against this risk exposure as our liquidity position has increased materially. Due to the current political and economic landscape we have increased our available liquidity to a total of 29 months. We have been active in the Euro Medium Term Note ('EMTN') market, increased our committed bank facilities and have accessed the US Private Placement market and GBP public bond market this year. This demonstrates we are able to replace the European Investment Bank as a source of financing caused by the UK's planned departure from the European Union.

See our Viability statement on pages 62 to 63.

Movement in Net Risk Exposure



Brexit Statement

At the time of writing, the terms of the UK's departure from the EU ('Brexit') remain uncertain. Brexit does not give rise to a new principal risk for the Group. However, it does have the potential to impact risks in other areas of our operations, such as supply chain, interest rates, availability of funding, regulatory changes and uncertainty for the domestic economy.

Our preparations for a no-deal Brexit are well advanced and include a Brexit Steering Committee to oversee the contingency and scenario planning necessary to operate effectively if the UK leaves the EU without transition arrangements. The Committee covers: Incident Management, People, Procurement, Security and

Resilience, Logistics, Communications, Finance and Capital Delivery. We have been actively engaged with a Water UK coordinated group called the Operations Strategy Group ('OSG') at an executive level, focusing on industry preparedness and industry-wide testing of response plans for a no-deal scenario. We're also working with a number of Local Resilience Forums to test our approach and plans. We are confident that we are well prepared for the UK's departure from the EU and specifically the risks associated with no-deal. The most significant risk identified is associated with the availability of chemicals imported into the UK. We identified this at an early stage and have ensured we have a

robust process for maintaining stock levels. This has also been a key focus for the OSG, which accordingly has worked with suppliers to increase stock levels of chemicals across the UK. The Government and other industry regulators have been kept informed of preparations throughout. We have also increased stock for critical spare parts, where a potential risk has been highlighted, by working with our supply chain.

Progress in the Brexit negotiations will continue to be monitored and the risks and uncertainties will be managed through our existing ERM process.

Viability statement

Assessment of current position and long-term prospects

The Directors' assessment of the Group's current financial position is set out in the Chief Financial Officer's review on pages 48 to 53.

The Group's principal operating subsidiary is Severn Trent Water, which is a regulated long-term business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition, and Ofwat, the economic regulator, has a statutory obligation to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. Ofwat meets this obligation by setting price controls for five year Asset Management Periods ('AMPs'). This mechanism reduces the potential for variability in revenues from the regulated business. The current AMP runs until March 2020 and Ofwat has published its draft determination of price controls for Severn Trent Water for the AMP period 2020-2025 ('AMP7'). Severn Trent Water has made significant progress in developing its plans to deliver the operational and financial performance set out in the draft determination. Ofwat will publish its Final Determination for AMP7 in December 2019. We do not expect this to be materially different from the draft determination.

When considering the Group's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025-2030 ('PR24'), which will take place in 2024, and has not yet been specified. In making this assessment we have taken account of:

- Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions;

- Severn Trent Water's financial structure, which is close to the Ofwat notional capital structure and our plan is to retain this; and
- Severn Trent Water's progress in developing plans for AMP7, the successful execution of which would deliver benefits to all stakeholders and financial incentives that would help to improve our financial resilience in the period beyond 2025.

The Group has significant investment programmes that are largely funded through access to debt markets. The Group's strategic funding objectives reflect the long-term nature of the Severn Trent Water business and the Group seeks to obtain a balance of secure long-term funding at the best possible economic cost. The Group's Treasury Policy requires that it maintains sufficient liquidity to cover cash flow requirements for a rolling period of at least 18 months in order to mitigate the risk of restricted access to capital markets. The Group's debt maturity profile is actively managed by the Group Treasury department to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 14 years.

The Group has an established process to assess its prospects. The Board undertakes a detailed assessment of the Group's strategy on an annual basis and the output from this assessment sets the framework for the Group's medium-term plan, which is updated annually.

The Group's medium-term plan assesses its prospects and considers the potential impacts of the principal risks and uncertainties. Stress tests are performed to assess the potential impact of combinations of those risks and uncertainties. The plan also considers mitigating actions that the Group might take to reduce the impact of such risks and uncertainties and the likely effectiveness of those mitigating actions.

Period of assessment

The Directors considered a number of factors in determining the period to be covered by the assessment. The long-term nature of the Group's principal business, together with relatively stable revenues and a model of economic regulation that places a duty on the regulator to secure that water companies can finance the proper carrying out of their functions, support a longer period of assessment.

However, the changing nature of regulation of the water industry increases the uncertainty that is inherent in the Group's financial projections. The Group has an established planning and forecasting process and the Directors consider that the assessment of the Group's prospects is more reliable if it is based on an established process. The Group's latest medium-term plan extends in detail to the end of the next AMP period in 2025 with less detailed projections looking beyond this.

A longer period of assessment introduces greater uncertainty because the variability of potential outcomes increases as the period considered extends.

Bearing in mind the long-term nature of the Group's business; the enduring demand for its services; the nature of the Group's established planning process and the changing nature of the regulation of the water industry in England and Wales, the Directors have determined that seven years is an appropriate period over which to assess the Group's prospects and make its viability statement this year.

Assessment of viability

In assessing its future prospects, the Group has considered the potential effect of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described on page 54, and from the key assumptions in the financial model. The scenarios tested are described in the table to the right.

The Group has significant funding requirements to refinance existing debt that falls due for repayment during the period under review and to fund the Group's capital programme. Under all scenarios considered the Group would remain solvent and have access to sufficient funds in normal market conditions. The Group's Treasury Policy requires that it retains sufficient liquidity to meet its forecast obligations, including debt repayments for the next 18 months.

The Group's business plans are based on the current regulatory framework and do not take into account any changes that might arise if a future Government implemented a policy of renationalisation of the water sector.

Scenario tested	Related principal risk	Potential mitigating actions
<p>1. An increase in the funding deficit of the Group's defined benefit pension schemes</p> <p>The planned funding for the Group's defined benefit pension arrangements is based on current assumptions for future inflation, asset returns and members' longevity. Outcomes different from these might result in additional cash contributions being required during the period under consideration. Contributions are reviewed and agreed with the Scheme trustee on a triennial basis with the next valuation of the main scheme based on the funding position as at 31 March 2019.</p>	Risk 9: Increased funding for pension schemes	<p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p> <p>Consider use of hybrid debt instruments to protect credit ratings.</p> <p>Consider a temporary reduction in dividends.</p> <p>Identify and implement sustainable cost savings and efficiencies.</p> <p>Reduce working capital to support cash flow.</p>
<p>2. STW experiences a severe climate event, operational failure or other exceptional event with a very significant impact</p> <p>The Group's ERM process has identified a number of risks including extreme weather events, failure of key assets and cyber attacks that might have a significant impact on the Group's operational and financial performance.</p>	<p>Risk 4: Cyber security</p> <p>Risk 6: Failure of key assets</p> <p>Risk 7: Health and safety and environmental impact</p> <p>Risk 8: Impact of extreme weather/climate change</p>	<p>Reduce discretionary expenditure to cover any extra costs resulting from the event.</p> <p>Consider use of hybrid debt instruments to protect credit ratings.</p> <p>Consider a temporary reduction in dividends.</p>
<p>3. A reduction in inflation or increase in interest rates for part of the period under consideration</p> <p>Severn Trent Water's revenues are linked to inflation. Low or negative inflation tends to adversely impact profits and cash flows in increases in costs exceed increases in revenue.</p> <p>Higher costs of debt would adversely impact the Group's profits, cash flows and credit metrics.</p>	N/A – key assumption in financial model	<p>Reduce discretionary expenditure in the short term.</p> <p>Reduce working capital to support cash flow.</p> <p>Consider a temporary reduction in dividends.</p>
<p>4. STW underperforms against its performance commitments</p> <p>Severn Trent Water operates under a regulatory model which encourages companies to deliver what customers want using performance related rewards and penalties. Failure to deliver performance at the committed level can lead to significant penalties.</p>	Risk 1: Failure to deliver what our customers want	<p>Reduce discretionary expenditure to cover any extra costs resulting from penalties.</p> <p>Discuss the impact on debt covenants with lenders and seek a temporary waiver if necessary.</p>
<p>5. STW incurs higher costs than planned that are not funded</p> <p>Significant overspending could result in a deterioration in financial metrics and performance, which might adversely impact the Group's solvency.</p>	Risk 2: Changes in the regulatory environment for the UK water industry	<p>Reduce discretionary expenditure to cover any extra costs resulting from penalties.</p> <p>In the medium-term implement a cost reduction programme to deliver sustainable cost savings and efficiencies to bring costs back in line with regulated allowances.</p> <p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p> <p>Consider a temporary reduction in dividends.</p>
<p>6. A combination of scenarios 2,3 and 4</p> <p>The combined scenario represents a situation where several of the severe but plausible scenarios occur simultaneously.</p>	See above	The same mitigating actions would be available to the Group as above, but their application would be deeper.

In making its assessment the Board has made the following key assumptions:

- Any period in which the Group is unable to access capital markets to raise finance during the period under review will be shorter than 18 months.
- There is no renationalisation of the water sector in the period under consideration.

On this basis, the stress tests indicated that none of these scenarios, including the combined scenario, would result in an impact to the Group's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions and hence are not considered threats to the Group's viability.

Governance and assurance

The Board reviews and approves the medium-term plan on which this viability statement is based. The Board also considers the period over which the assessment of prospects and viability statement should be made. The Audit Committee supports the Board in performing this review. Details of the Audit Committee's activity in relation to the Viability Statement are set out in the Audit Committee report on page 85.

This statement is subject to review by Deloitte, our external auditor. Their audit report is set out on page 129.

Assessment of viability

The Directors have assessed the viability of the Company over a seven year period to March 2026, taking into account

the Company's current position and principal risks.

Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2026.

The Strategic report has been approved by the Board.

By order of the Board



Bronagh Kennedy

Group General Counsel and
 Company Secretary
 20 May 2019