

CHAIR'S INTRODUCTION TO GOVERNANCE

Documents available at:
www.severntrent.com

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



Andrew Duff
Chair for year ended
31 March 2020



Christine Hodgson
Appointed Chair
on 1 April 2020

Board focus areas in 2019/20

- Appointed Christine Hodgson as Chair Designate and Sharmila Nebhrajani as Independent Non-Executive Director
- Reviewed the Group's strategy, five-year plan and budget
- Satisfied itself that workforce policies and practices are consistent with the Company's values and culture
- Approved the Severn Trent Plc Dividend Policy for AMP7
- Oversaw the Company's response to COVID-19
- Considered the Group's strategy for Environmental Leadership
- Considered Severn Trent's approach to Climate Change Adaptation

Read more about the key activities of the Board on pages 79 to 80.

CREATING LONG-TERM SUSTAINABILITY

Dear Shareholder

The Board announced the retirement of Andrew Duff from the Board, with effect from 31 March 2020. On behalf of the Board, I am pleased to introduce the Governance Report for 2019/20. This report seeks to update you on what the Board focused on for 2020.

During the year ended 31 March 2020, we have been compliant with the provisions and principles of good governance contained in the 2018 UK Corporate Governance Code (the '2018 Code'). The Board welcomed the move to simplify the Code, and the greater clarity it brings to how businesses should transparently report to their shareholders.

We believe good corporate governance is about how we provide confidence in the delivery of our performance to our stakeholders and is essential for the long-term sustainable success of our business.

Our aim is to set out in this report how the Board:

- sets the strategy, purpose and values for the Group;
- takes into account the views of our stakeholders, the impact of our decisions on them and the actions taken as a consequence. Read more in our dedicated s.172 statement on pages 28 to 29; and
- monitors performance, embeds our values and manages risk.

Being a company you can trust

We have a unique position in society as a company delivering a public service. We know from our customers that they want us to be a company that can be trusted and is socially purposeful.

Our business culture is key to ensuring we remain a trusted company. Our Purpose and Values, which were shaped and established by our employees, are what bind us together and guide us to act ethically, because how we go about doing things is just as important as the decisions we make.

Our Code of Conduct, 'Doing the Right Thing', sets out the cultural norms and behaviour expected of everyone at Severn Trent. Everyone who works for and with us is required to comply with this. The Board and Executive Committee also recognise the importance of their roles in setting the tone for the Company's culture and that is why we complete a Doing the Right Thing e-learning course every year, together with all of our employees.

We have always strived to be a Purposeful Company. This year we wanted to demonstrate a real commitment of this to our stakeholders – that's why the Severn Trent Water Limited Board approved a request to Ofwat for the adoption of a new Social Purpose licence condition in our Licence to make it a legally binding obligation.

AMP7 Business Plan & Strategy

As a result of our AMP7 Business Plan being fast-tracked by Ofwat, we have been able to make an early start on understanding what we have to deliver. We had a deep dive into our financial budgets and scrutinised management's detailed plans to underpin the successful delivery of AMP7.

At our separate Board Strategy Day, we also considered our carbon and energy strategy and the legitimacy of our sector, in particular, our role in demonstrating that we are delivering good-quality services at a fair price for the long term and not inappropriately taking profits out of the Company for the short-term benefit of shareholders.

Stakeholder engagement

We know that businesses are more successful and sustainable when they balance the needs of their stakeholders. For us as a Board we pride ourselves on thinking about the impact of our decisions in their broadest terms and that includes the impact on all of our stakeholders, including customers, colleagues, communities, the environment and of course our investors. We also believe it is important that we report clearly on how we have taken the views of our stakeholders into account, the impact of our decisions on them and any actions taken as a consequence. You can read more in our dedicated s.172 statement on pages 28 to 29.

Board changes

After serving as Chair for nine years, in May 2019 the Board announced Andrew Duff's retirement from the Board. Our Nominations Committee, led by our Senior Independent Director, Kevin Beeston, with support from the whole Board and our Company Secretary, Bronagh Kennedy, oversaw the succession and appointment process during the year and you can read more on how the Nominations Committee undertook its search ahead of making a recommendation to the Board to appoint a new Chair of the Board on page 90.

I would also like to extend a personal welcome to Sharmila Nebhrajani who joined us as an Independent Non-Executive Director from 1 May 2020. Further information can be found in the Nominations Committee report on page 87.

I was delighted to be appointed as Chair Designate of Severn Trent Plc on 1 January 2020. It has been a pleasure to work with Andy over the last few months to ensure we managed an effective handover and immerse myself in Severn Trent as part of my induction. This spanned 26 days, across 12 sites and I met 230 of our employees to gain a thorough knowledge and understanding of Severn Trent and our culture. You can read more about my induction on page 85.

I would like to take the opportunity to thank Andy for his time and help, but most of all for his true dedication to Severn Trent over the last nine years. I look forward to building on his legacy.

Looking forward

We will continue as a Board to maintain the highest standards of corporate governance across the Group to support the delivery of our strategy, through delivery of our five-year business plan and focus on our climate change commitments to create long-term sustainable value. Over the next 12 months we will also be focused on delivering our challenging social and environmental commitments, as well as fostering the engagement of our employees and the diverse, inclusive culture we need to deliver our plans.

Conclusion

We hope you find this report useful and we welcome any suggestions on how we can add to its qualities in the future along with any comments you have on the current content.



Christine Hodgson
Chair

19 May 2020

OUR NEW PURPOSE AND VALUES

OUR PURPOSE

TAKING CARE OF ONE OF LIFE'S ESSENTIALS

DOING THE RIGHT THING

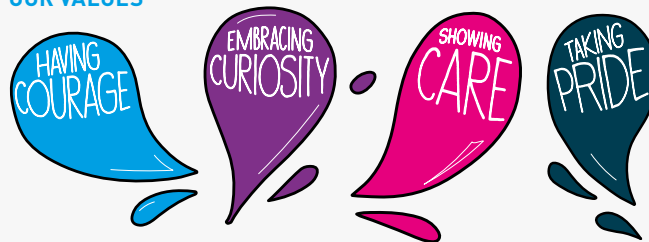
To support the creation of long-term value for the mutual benefit of our shareholders, employees, customers and communities, the Board recognises the importance of building and promoting a culture of integrity and openness, where inclusion and diversity are valued.

At the heart of Severn Trent's culture is a closely held set of values. Doing the Right Thing, our Code of Conduct helps us put our values into practice. Our values and Code of Conduct embody the principles by which the Group operates and provide a consistent framework for responsible business practices.

The Board also has oversight of a number of accompanying Group policies. These policies, together with Doing the Right Thing, codify how to identify and deal with suspected wrongdoing, fraud or malpractice; how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment.

The Board monitors and assesses the culture of the Group by regularly meeting with the Executive Committee and management,

OUR VALUES



and reviewing the outcomes of employee surveys. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity.

During the year, the Board has focused on deepening its understanding of the Group's culture even further, through a dedicated Company Purpose and Culture session in January 2020. The session was centred on the results of our employee survey, 'QUEST', and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus. Members of the Board also regularly attend the Severn Trent Company Forum, to listen directly to what employees have to say and for our employees to observe at first-hand matters that the Board is reviewing and considering.

At Severn Trent, we do not see corporate governance as something we do because we have to. We choose to see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and ultimately, how we build trust.

GOVERNANCE
AT A GLANCE

HIGHLIGHTS

11%

BAME representation
on our Board as
at 1 May 2020

100.08p

Dividend per share
in 2019; an increase
of 7.2%

4.2

Glassdoor ranking
as at 1 May 2020
(out of 5)

100%

Board independence
as at 1 May 2020

100%

Board meeting
attendance
for year ending
31 March 2020

56%

Female representation
on our Board as
at 1 May 2020

8.1

Employee
engagement score
for 2019/20
(out of 10)**Board changes**

The Board spent a significant amount of time considering succession planning during the year. The Board appointed a new Non-Executive Chair and a new Independent Non-Executive Director in accordance with its Board Diversity Policy.

- Andrew Duff retired on 31 March 2020 after nine years as Chair.
- Christine Hodgson was appointed as an Independent Non-Executive Director on 1 January 2020 and Chair on 1 April 2020.
- Sharmila Nebhrajani joined the Board as an Independent Non-Executive Director on 1 May 2020.

 **Read more:** Nominations Committee report page 87

Governance improvements

- Dedicated Board session reviewing our risk management processes, including the risk tolerance of the Group.
- Appointment of a new Head of Internal Audit.
- Launched our new Sustainable Finance Framework.
- New s.172 Board processes implemented – with training across the Group.
- Review and launch of our Sustainability Framework.
- Changed the name of the Corporate Responsibility Committee to the Corporate Sustainability Committee to reflect the increasingly wide scope of its remit.
- Awarded the Fair Tax Mark.
- Our selected method of engaging with the workforce, through the Company Forum, was enhanced during the year. All Board members attend the Company Forum on a rotation basis to understand the views of the workforce. The Board considers that this is an excellent means of making sure that views across the organisation are considered in Board discussion and decision making.
- Updated and approved the Board Committee Terms of Reference.

Major Board decisions

- AMP7 Dividend Policy.
- Seeking to enshrine Social Purpose as a licence condition.
- Scrutinised AMP7 plans, including budget.
- Strategy for environmental leadership.
- Severn Trent's approach to climate change adaptation.

 **Read more:** Key activities of the Board pages 79 to 80

BOARD OF DIRECTORS

The collective experience of the Directors and the diverse skills and experience they possess enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to ensuring the continued long-term success of the Company. Integrity and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the benefit of Severn Trent in full consideration of the impact on all stakeholders.



Christine Hodgson
CBE, BSc (Hons), FCA

Chair



Appointed:

Non-Executive Director on 1 January 2020, Chair on 1 April 2020.

Skills, competences and experience:

Christine brings extensive board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Until her appointment as Chair of the Severn Trent Board, she was the Executive Chair of Capgemini UK Plc, one of the world's largest technology and professional services groups. Christine joined Capgemini in 1997 and built her career in a variety of roles including CFO for Capgemini UK Plc and for the Global Outsourcing business, CEO of Technology Services North West Europe and the Global Head of Corporate Social Responsibility. Christine was previously an Independent Non-Executive Director of Ladbrokes Coral Group PLC until 2017. She is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles:

- Senior Independent Director of Standard Chartered Plc
- Trustee and Member of the Board of The Prince of Wales' Business in the Community
- Chair of The Careers and Enterprise Company Limited



Andrew Duff
BSc, FEI

Outgoing Chair, retired from the Board 31 March 2020



Appointed:

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

Retired: 31 March 2020.

Skills, competences and experience:

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

Other roles:

- Non-Executive Chairman of Elementis Plc
- Non-Executive Director of UK Government Investments Limited
- Member of the CBI President's Committee
- Fellow of the Energy Institute
- Senior Trustee of Macmillan Cancer Support



Olivia Garfield
BA (Hons)

Chief Executive



Appointed:

Chief Executive on 11 April 2014.

Skills, competences and experience:

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

Other roles:

- Non-Executive Director of Water UK
- CEO of the Council for Sustainable Business
- Member of the Takeover Panel and its Hearings Committee
- Director of Water Plus Limited – joint venture with United Utilities
- Member of The 30% Club



James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer



Appointed:

Chief Financial Officer on 1 April 2015.

Skills, competences and experience:

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

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



Kevin Beeston
FCMA

Senior Independent Non-Executive Director



Appointed:

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

Skills, competences and experience:

Kevin has a wealth of commercial, financial and high level management experience. Previously, Kevin spent 25 years at Serco Plc, where he held the roles of Finance Director, Chief Executive and finally Chairman until 2010. Kevin was previously Chairman of Domestic & General Limited, Partnerships in Care Limited and Equiniti Group Plc, and was a Non-Executive Director of IMI Plc and Marston Corporate Limited. Until February 2020, Kevin was Chairman of Taylor Wimpey Plc, where he had been on the Board since 2010.

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

Other roles:

- Non-Executive Director of the Football Association Premier League Limited
- Non-Executive Chairman of Elysium Healthcare Limited

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

Director	Position	Board	Audit Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Christine Hodgson	Chair (Appointed as an Independent Non-Executive Director on 1 January 2020 and as Chair on 1 April 2020)	2/2	–	1/1	1/1	2/2	–
Andrew Duff	Chair (Retired 31 March 2020)	7/7	–	2/3 ²	3/5 ¹	5/6 ¹	–
Liv Garfield	Chief Executive	7/7	–	3/3	–	–	–
James Bowling	Chief Financial Officer	7/7	–	–	–	–	5/5
Kevin Beeston	Senior Independent Non-Executive Director	7/7	4/4	–	5/5	6/6	–
John Coghlan	Independent Non-Executive Director	7/7	4/4	–	5/5	–	5/5
Dominique Reiniche	Independent Non-Executive Director	7/7	–	2/3 ²	5/5	–	–
Philip Remnant	Independent Non-Executive Director	7/7	4/4	–	5/5	6/6	5/5
Angela Strank	Independent Non-Executive Director	7/7	–	3/3	5/5	6/6	–

- 1 Andrew Duff did not attend the Nominations and Remuneration Committee meetings in relation to his succession.
- 2 Andrew Duff and Dominique Reiniche were unable to attend a Corporate Sustainability Committee meeting due to long-standing commitments. They were provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.



John Coghlan
BCom, ACA

Independent
Non-Executive Director



Appointed:

Independent Non-Executive Director on 23 May 2014.

Skills, competences and experience:

John has a wealth of experience in financial and general management. He spent 11 years at Exel PLC as Chief Financial Officer and ultimately as Deputy Chief Executive Officer until retiring in 2006. Since then, he has been a Director of publicly quoted and private companies across several sectors.

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

Other roles:

- Non-Executive Director of Associated British Ports Holdings Limited
- Non-Executive Director of O.C.S. Group Limited
- Non-Executive Director of Clarion Housing Association



Sharmila Nebhrajani
OBE, MA (Hons), ACA

Independent
Non-Executive Director



Appointed:

Independent Non-Executive Director on 1 May 2020.

Skills, competences and experience:

Sharmila brings extensive board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. She brings sectoral experience from a range of regulated sectors including medicine, bioethics, financial services and the media. She is Chair Designate of the National Institute of Health and Care Excellence ('NICE') the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care. Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chairman of the Human Tissue Authority, Deputy Chairman of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund. In 2014, Sharmila was awarded an OBE for services to medical research.

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

Other roles:

- Chair Designate of the National Institute of Health and Care Excellence
- Non-Executive Director of National Savings & Investments
- Trustee Director of Lifesight Limited
- Governor of the Health Foundation



Dominique Reiniche
MBA

Independent
Non-Executive Director



Appointed:

Independent Non-Executive Director on 20 July 2016.

Skills, competences and experience:

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

Other roles:

- Chair of Eurostar International Limited
- Chair of CHR Hansen Holdings A/S
- Non-Executive Director of Mondi Plc
- Non-Executive Director of PayPal (Europe)



The Hon. Philip Remnant
CBE, FCA, MA

Independent
Non-Executive Director



Appointed:

Independent Non-Executive Director on 31 March 2014.

Skills, competences and experience:

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

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

Other roles:

- Senior Independent Director of Prudential Plc
- Deputy Chairman of the Takeover Panel
- Chairman of City of London Investment Trust Plc
- Director and Trustee of St Paul's Cathedral Foundation



Angela Strank
DBE, FRS, FEng, CEng, FICChemE, DSc, PhD

Independent
Non-Executive Director



Appointed:

Independent Non-Executive Director on 24 January 2014.

Skills, competences and experience:

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

Other roles:

- Non-Executive Director of Rolls Royce Holdings Plc
- Non-Executive Director of SSE Plc
- Member of the Royal Society's Science, Industry and Translation Committee
- Member of the Royal Academy of Engineering Research Committee

EXECUTIVE
COMMITTEE

Olivia Garfield
BA (Hons)

Chief Executive



Please see full biography
on page 72.



James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer



Please see full biography
on page 72.



Shane Anderson
BA (Hons) Econ

Appointed as Director of
Strategy and Regulation
on 1 April 2020



**Skills, competences
and experience:**

Shane was appointed Director of Strategy and Regulation in April 2020 having held the position of Head of Economic Regulation within Severn Trent since July 2015. Shane is an experienced regulatory economist, having spent the majority of his career dealing with regulatory issues for both regulated companies and regulators across the UK and Australia. He led on the development of the PR19 Business Plan, which led to Severn Trent being one of only three companies to receive Fast Track status.



Dr. Tony Ballance
BSc (Hons), MA (Econ),
PhD

Director of Strategy and
Regulation, who left the
Company on 31 March 2020



**Skills, competences
and experience:**

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

Other roles:

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



Sarah Bentley
BSc (Hons)

Chief Customer Officer



**Skills, competences
and experience:**

Sarah is responsible for Customer Retail and Network operations, Group Technology and Transformation. She previously worked for Accenture as Managing Director of their £3 billion global digital business focused on digital marketing, mobility and analytics for customers, employees and the enterprise. Prior to Accenture, Sarah was CEO of Datapoint, an Alchemy backed company delivering CRM services, and Senior Vice President of eLoyalty, a global CRM and marketing consultancy. She was SVP of the European Business, led the sales and operations activity in North America and ran eLoyalty Ventures L.L.C. working in Silicon Valley, Austin and New York.

Other roles:

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



Dr. James Jesic
BEng (Hons), PhD,
MChemE, CEng

Managing Director
of Production



**Skills, competences
and experience:**

James brings a wealth of operational, strategic and environmental expertise to the Executive Committee. He has over 16 years' regulated business experience, gained in a number of senior leadership roles spanning the water sector. Throughout his career, James has delivered industry-leading customer service, environmental performance and operational transformation. In 2017, James was appointed as Managing Director of Production at Severn Trent, with responsibility for the operation of the Group's multi-billion pound asset base and the production and supply of drinking water to Severn Trent's 4.5 million customers. James is a chartered engineer, with a PhD in Chemical Engineering. He also attended Harvard Business School.

- A Audit Committee
- C Corporate Sustainability Committee
- N Nominations Committee
- R Remuneration Committee
- T Treasury Committee
- D Disclosure Committee
- E Executive Committee
- Denotes Committee Chair



Martin Kane
BSc, CEng, CEnv, MICE,
MIWEM, FIW
Special Adviser

E

Skills, competences and experience:

Martin joined Severn Trent Water in 1975 holding various senior roles, giving him an extensive and unique understanding of the design, construction and operation of water and waste water treatment plants, water distribution networks and sewerage systems. Martin was Director of Customer Relations for Severn Trent Water from May 2006 until January 2012, Chief Executive Officer of Severn Trent Services and Chief Engineer until November 2018. Martin remains on the Executive Committee advising on many key projects for the business.

Other roles:

- Chairman of the Guarantors of International Society for Trenchless Technology
- Chairman of the Coventry and Warwickshire Growth Hub



Bronagh Kennedy
BA (Hons)
Group General Counsel
and Company Secretary

D E

Skills, competences and experience:

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

Other roles:

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



Helen Miles
CIMA
Capital Delivery and
Commercial Director

E

Skills, competences and experience:

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

Other roles:

- Non-Executive Director of the Royal Navy



Neil Morrison
BSc (Hons), FCIPD
Director of
Human Resources

E

Skills, competences and experience:

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



Andy Smith
BTech (Hons)
Managing Director,
Business Services

E

Skills, competences and experience:

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

Other roles:

- Non-Executive Director of Diploma Plc
- Director of Water Plus Limited – joint venture with United Utilities



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

E

Skills, competences and experience:

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

Other roles:

- Director of the World Water Innovation Fund

GOVERNANCE FRAMEWORK

Governance Framework

We pride ourselves on having a high-functioning, well-composed, independent and diverse Board and being transparent in all that we do. Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board is effective in both making decisions and maintaining oversight, whilst also adhering to our well-established culture of Doing the Right Thing.



Documents available at:
www.severntrent.com

- [Articles of Association](#)
- [Matters Reserved to the Board](#)
- [Charter of Expectations](#)
- [Committee Terms of Reference](#)



THE BOARD

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our strategy through which value can be created and preserved for the mutual benefit of our shareholders, customers, employees and the communities we serve. The Board provides rigorous challenge to management and ensures the Group maintains an effective risk management and internal control system.

p72-73 Biographies

p79-80 Board Activities

p81 Roles and Responsibilities

Informing

Reporting

THE BOARD DELEGATES CERTAIN MATTERS TO ITS PRINCIPAL COMMITTEES – WHICH REPORT TO THE BOARD AT EVERY MEETING

Nominations Committee

Assists the Board by keeping the composition of appointments to the Board under review. The Committee also assists the Board on issues of Executive Director succession planning, conflicts of interest and independence.

p87 Report

Corporate Sustainability Committee

Provides guidance and direction to the Company's Sustainability Strategy based on our Code of Conduct 'Doing the Right Thing'. The Committee also reviews the Group's non-financial risks and opportunities.

p99 Report

Remuneration Committee

Determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chair of the Board. The Committee also reviews workforce policies and practices.

p102 Report

Treasury Committee

Provides oversight of treasury activities in implementing the policies and the funding and treasury risk management plan approved by the Board. The Committee also reviews and approves the Group Treasury Policy Statements.

p97 Report

Audit Committee

Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.

p91 Report

Informing

Reporting

THE CHIEF EXECUTIVE AND THE SEVERN TRENT EXECUTIVE COMMITTEE ('STEC')

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive who is supported by STEC.

Informing

Reporting

DISCLOSURE COMMITTEE

An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

CORPORATE GOVERNANCE STATEMENT

Structure of the Governance section

We have restructured and simplified the Governance section in our report this year to follow the structure of the 2018 UK Corporate Governance Code (the '2018 Code'), to demonstrate how we have met the new requirements and aid navigation of the report. We welcome feedback on this new approach.

The 2018 UK Corporate Governance Code is available at www.frc.org.uk

BOARD LEADERSHIP AND COMPANY PURPOSE

An effective Board

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

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

The requirements of the Board are clearly documented in the Severn Trent Plc Articles of Association, Charter of Expectations and Schedule of Matters Reserved to the Board. The Board reviewed and approved the Schedule of Matters Reserved to the Board in March 2020. All of these documents are available on the Severn Trent Plc website.

As outlined on page 81, there is a clear division of responsibilities between the roles of Chair and CEO. To allow these responsibilities to be discharged effectively, the Chair and CEO maintain regular dialogue outside the Boardroom, to ensure an effective flow of information.

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

The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and FRC Guidance on Board Effectiveness. You can read more about this year's process on page 83.

Strategy

Responsibility to all of our stakeholders for the approval and delivery of the Group's strategy and for creating and overseeing the framework to support its delivery sits with the Board. The Board also holds a dedicated strategy meeting with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive who is supported by the Executive Committee.

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2020. The performance review of the Company can be found within the Strategic report. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2020.

Stakeholder engagement

Stakeholder engagement is central to our strategy. We are focused on driving long-term sustainable performance for the benefit of our customers, shareholders and wider stakeholders. The Board's role is not to balance the interests of the Company and those of stakeholders; its role is to consider all the relevant factors and select the course of action that best leads to the success of Severn Trent in the long term. Our dedicated stakeholder engagement and s.172 statements on pages 28 and 29 respectively set out how the Board is supported in doing exactly that.

Shareholder engagement

Investor meetings

Investor meetings are predominantly attended by our CEO, CFO and Head of Investor Relations, although other Executive Committee members also attend. During the financial year ended 31 March 2020, we held over 152 investor meetings and met with over 277 existing and potential investors. These meetings were attended by 61 shareholders, representing c.62% of our register.

The meetings focused on the Group's AMP7 strategy, Board succession, environmental leadership and climate change adaptation. The Chair and individual Directors regularly engage with major shareholders to understand their views on governance and performance against strategy. Committee Chairs also engage with shareholders on significant matters related to their area of responsibility.

Investor presentations and tours

On 4 March 2020, we hosted our Capital Markets Day where we invited our investors, analysts and key stakeholders to attend the event. We presented our new Purpose and Values, our Sustainability Framework, which covered our Triple Carbon Pledge, biodiversity and nature approach, our water management plans, the new interconnector (transferring water from the North to the South), how we are engaging our communities and colleagues and our approach to social purpose and governance to help deliver on our promises.

Annual General Meeting ('AGM')

Our 2019 AGM was held on 17 July 2019 at which 74.91% of our shareholders (voting capital) voted. We were delighted to receive in excess of 98% votes in favour for all of our resolutions, including over 99% approval to extend our long-term incentive plans and Remuneration report. All Directors made themselves available to answer questions from shareholders.

Annual Report

Our Annual Report is available to all shareholders and we aim to make our Annual Report as accessible as possible. Shareholders can opt to receive a hard copy in the post, a PDF copy via email or download a copy from our website. Please contact the Company Secretary to request a copy.

CODE COMPLIANCE

During the year ended 31 March 2020, we have been compliant with the provisions and principles of good governance contained in the 2018 UK Corporate Governance Code (the '2018 Code'). The Board welcomed the move to simplify the Code, and the greater clarity it brings to how businesses should transparently report to their shareholders.

We believe good corporate governance is about how we provide confidence in the delivery of our performance to our stakeholders and is essential for the long-term sustainable success of our business.

This table shows where shareholders can evaluate how the Company has applied the principles of the 2018 Code and where key content can be found in this report.

PRINCIPLES OF THE 2018 CODE	PAGE
Board Leadership and Company Purpose	
The role of the Board	77
Chair's Introduction to Governance	69
Board Engagement with Stakeholders	77
Section 172 Statement	28 – 29
Establish Purpose and Values	70
Oversight of Strategy	77
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Division of Responsibilities	
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Principal Risks	58
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Corporate website

We have recently updated our website, severntrent.com, to make it more user-friendly for our stakeholders. This has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section including information which may be of interest to our shareholders.

CAPITAL MARKETS DAY



On 4 March 2020, we held our sustainability-led Capital Markets Day. The objective of the day was to share our Environmental, Social and Governance ('ESG') ambitions with stakeholders and demonstrate how our ambitions on the environment and society make good business sense and deliver benefits for investors. We did this through covering five key areas:

- Our Triple Carbon Pledge – demonstrating our plans to reduce demand and increase renewable supplies to meet our carbon commitments.
- Restoring the natural habitat – how we're embracing natural solutions, and using data and customer behaviour to enhance our catchments.
- Managing water scarcity – the role we play in the national water resource market and what we're doing on our own network and in customers' homes.
- Helping people to thrive – what we do to support customers, colleagues and communities, to make a real impact on people's lives.
- Being a company you can trust – outlining our approach to governance and our new Purpose and Values.

We were joined by 76 external attendees, higher than our prior year attendance. There was representation from a range of investors and analysts, ESG-specific organisations, UK Government, Business in the Community and Will Hutton from the Purposeful Company.

For those unable to attend, we issued a detailed announcement to the market on the morning of the event, and published content on our new corporate website dedicated to the day, which included all of the materials and videos of each session.

KEY ACTIVITIES OF THE BOARD IN 2019/20
















Key Stakeholder Groups

-  Customers
-  Communities
-  Shareholders and Investors
-  Workforce
-  Suppliers and Contractors
-  Regulators and Government

The key activities considered by the Board during the year are set out below.

The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Group's purpose. The Group's key stakeholders and their differing perspectives are taken into account as part of the Board's discussions. You can read more in our s.172 statement on pages 28 to 29.

Board meetings follow a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Company Secretary. Each meeting starts with an update from the Chairs of our Board Committees on the proceedings of those meetings, including the key discussion points and any particular areas of concern. A typical Board meeting will comprise reports on operational and financial performance, legal and governance updates and one or two detailed deep dives into areas of particular strategic importance. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page 73.




PERFORMANCE		
CEO Review	Operational Performance Reviews	Commercial and Capital Delivery Reports
		
The CEO led discussions focusing on general business performance, key strategic initiatives under way, environmental matters such as biodiversity, environmental leadership and climate change and health and safety.	Received separate reports for the Regulated Business and Business Services, detailing performance against key targets and ODIs, environmental matters and health and safety.	Reviewed progress on delivering against our ODI targets for major capital programmes and health and safety.
FINANCIAL		
CFO Review	Group Budget	Dividend and AMP7 Dividend Policy
		
The CFO led discussions focusing on financial performance across the Group. Discussions included: <ul style="list-style-type: none"> Group Financing Updates – overseen by the Treasury Committee; and Tax Updates – including the approval of the Group's Tax Strategy. Read more about our Fair Tax Mark on page 39. 	Considered performance vs the 2019/20 Group Budget and agreed the 2020/21 Group Budget.	Reviewed dividend cover and shareholder returns, taking into consideration financial performance, liquidity, credit metrics and Ofwat's Back in Balance dividend guidance and agreed the Severn Trent Plc Dividend Policy for AMP7.
Results and Regulatory Reporting	Viability Statement Updates	Pension Scheme Updates
		
On the recommendation of the Audit Committee, reviewed and approved the half and full year results announcements, presentations to analysts, Annual Report and Accounts, Notice of Meeting and Annual Performance Report.	Agreed the viability statement period to be reported in the Annual Report and Accounts. Read more on page 66.	Received updates on the Group's pension schemes and triennial actuarial valuation.
ENVIRONMENTAL		
Climate Change Adaptation	Strategy for Environmental Leadership	Biodiversity
		
Received an update on climate change projections and considered climate risks applicable to Severn Trent. Reviewed the approach for the Company's Climate Change Adaptation report, including PR24 considerations and stakeholder engagement.	Considered the Group's Environmental Strategy and committed to steps in respect of biodiversity, water treatment wetlands, tree planting and catchment management.	Received regular updates on the Company's target to improve at least 75 hectares of SSSIs and other designated sites by the end of AMP6. Read more on page 30.
RISK MANAGEMENT		
Enterprise Risk Management	Review of Effectiveness of Risk Management and Internal Controls	Deep Dives on Risks
		
Conducted half-yearly reviews of the Group's ERM Risk Register, covering core internal and external risks, risks driven by business change and emerging risks. Read more on page 63. A separate Board risk workshop was also held during the year.	Reviewed the risk management and internal controls in place across the Group and determined their effectiveness. Read more on page 93.	Cyber Risk – Assessed the progress made to maintain and improve cyber security systems. Reservoir Risk – Scrutinised the processes, internal controls and resources in place to manage reservoir risk, extend asset life and guarantee serviceability.

STRATEGIC DEEP DIVES

At each meeting, the Board receives one or two detailed deep dives into areas of particular strategic importance to evaluate progress, provide insight and, where necessary, decide on appropriate action. Some examples are provided below.

AMP7 Preparedness	Bioresources Advanced Digestion Investment	Birmingham Resilience Programme Update
		
Received an update on the detailed AMP7 delivery plan and considered the learnings of the PR19 Draft and Final Determinations.	Considered and approved investment in advanced anaerobic digestion through thermal hydrolysis and biomethane enhancement.	Received regular updates on the Birmingham Resilience and Elan Valley Aqueduct programmes. Members of the Board also visited the site during the year.
C-MeX	Becoming a Purposeful Company	World Water Innovation Fund Update
		
Received a detailed update on the refreshed C-MeX approach to improve customer outcomes.	Discussed and approved a request to Ofwat for the adoption of a new Social Purpose licence condition in Severn Trent Water's Licence to demonstrate our commitment to being a Purposeful Company.	Received an update on the work of the Fund in sharing best practice and conducting innovation trials to enable more rapid technology adoption across the sector.
Brexit	Board Strategy Day	COVID-19
		
Discussed preparations, scenario planning and impact assessments along with the options for mitigating potential risks.	We held a dedicated Board Strategy Day in June 2019 to consider AMP7 delivery, sector legitimacy and the Group's carbon and energy strategy.	Received at least weekly updates on the Company's preparations, scenario planning and impact assessments along with actions being taken across the Group. Further detail can be found on pages 10 to 11.




GOVERNANCE, LEGAL AND REGULATORY

Governance, Regulatory and Legal Updates	Board Succession Planning and Diversity	Board Effectiveness Evaluation
		
<p>Monitored regulatory and legislative developments, including renationalisation, and considered any potential impact on the Group's operations.</p> <p>Received regular litigation reports from the Group's legal team.</p> <p>Approved arrangements for delegated financial authority across the Group.</p> <p>Considered and agreed to proposed Licence modifications.</p> <p>On the recommendation of the Corporate Sustainability Committee, approved the Modern Slavery Statement.</p>	<p>On the recommendation of the Nominations Committee, considered the arrangements for Board Succession Planning and approved:</p> <ul style="list-style-type: none"> The appointment of Christine Hodgson as Chair Designate; and The appointment of Sharmila Nebhrajani as Non-Executive Director. <p>Read more on page 90.</p>	<p>Reviewed progress against the Action Plan for 2019/20 and set the Action Plan for 2020/21. Conducted an internally facilitated Board evaluation covering the Board's effectiveness, processes and ways of working.</p> <p>Read more on page 83.</p>

WORKFORCE, CULTURE AND VALUES

Our Culture

Reviewed the results of the annual QUEST survey and identified areas for improvement and appropriate courses of action. On the recommendation of the Remuneration Committee, satisfied itself that workforce policies and practices are consistent with Company's values and culture. Received updates from Non-Executive Directors following attendance at the Company Forum. Discussed gender pay, the development of women into senior roles and driving greater diversity and inclusion in terms of gender, ethnicity and social background.

Talent Development and Succession Planning	Severn Trent Academy	Company Purpose and Values
		
Received an update on the evolution and development of talent acquisition and succession planning.	Monitored progress towards developing our Academy to enable us to be technically brilliant where it matters most.	Reviewed our new Company Purpose and Values, including inputs from the workforce and Company Forum in its development.

OPERATIONAL AND SITE VISITS

The Board, and individual Directors, undertook site visits during the year, to deepen their understanding of the Group's operations and further inform the Board's decision making in creating sustainable long-term value for the mutual benefit of stakeholders. Christine Hodgson undertook 12 site visits as part of her induction. Further detail can be found on page 85.

Agrivert	Wonderful Water Tour	Hafren Dyfrdwy
The Board received an overview and demonstration of the anaerobic digestion process and operations, including implementation of technological advances. Members of the Board met teams across the site and observed a practical demonstration of health and safety considerations on complex operational sites.	Our Board immersed themselves in our Wonderful Water Tour, an innovative educational roadshow available to every primary school in the Midlands.	Members of the Board visited Llwyn Onn Water Treatment Works to observe water treatment processes first-hand and met the teams involved.
Birmingham Resilience Programme		
Members of the Board visited the site of our largest capital project to observe progress first-hand and met the teams involved.		

DIVISION OF RESPONSIBILITIES

There is clear division between Executive and Non-Executive responsibilities which ensure accountability and oversight. The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board.

Director	Responsibility
Chair Andrew Duff – retired from the Board 31 March 2020. Christine Hodgson – appointed as Independent Non-Executive Director on 1 January 2020 and as Chair on 1 April 2020.	<ul style="list-style-type: none"> Leads our unified Board and is responsible for its effectiveness. Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Company Secretary. Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process. Facilitates contribution from all Directors and ensures that effective relationships exist between them. Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making.
Senior Independent Non-Executive Director Kevin Beeston	In addition to his responsibilities as a Non-Executive Director, Kevin also: <ul style="list-style-type: none"> Supports the Chair in the delivery of their objectives. Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chair, CEO or CFO. Leads the appraisal of the Chair's performance with the Non-Executive Directors. Undertakes a key role in succession planning for the Board, together with the Board Committees, Chair and Non-Executive Directors.
Independent Non-Executive Directors John Coghlan Sharmila Nebhrajani Dominique Reiniche Philip Remnant Angela Strank	<ul style="list-style-type: none"> Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. Satisfy themselves that internal controls are robust and that the External Audit is undertaken properly. Engage with internal and external stakeholders and feed back insights to the Board, including in relation to employees and the culture of the Company. Constructively challenge and assist in the development of strategy. Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID. Serve on various Committees of the Board.
Chief Executive Liv Garfield	<ul style="list-style-type: none"> Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, suppliers and the communities we serve. Develops and implements the Group's strategy, as approved by the Board. Sets the cultural tone of the organisation. Facilitates a strong link between the business and the Board to support effective communication. Responsible for overall delivery of commercial objectives of the Group. Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our strategic framework and values. The CEO's review can be found on page 12.
Chief Financial Officer James Bowling	<ul style="list-style-type: none"> Manages the Group's financial affairs. The CFO's review can be found on page 51. Supports the CEO in the implementation and achievement of the Group's strategic objectives. Oversees Severn Trent's relationships with the investment community. Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.
Company Secretary Bronagh Kennedy	<ul style="list-style-type: none"> Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments. Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements. Ensures compliance with Board procedures and provides support to the Chair. Co-ordinates the performance evaluation of the Board in conjunction with the Chair. Provides advice and services to the Board.

Board independence

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board evaluation exercise. Particular focus is applied to the Directors who have served six years on the Board. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence. In accordance with the 2018 Code, all the Directors, with the exception of Andrew Duff who retired from the Board on 31 March 2020, will retire at this year's AGM and submit themselves for appointment or re-appointment by shareholders. Each of the Non-Executive Directors seeking appointment or re-appointment are considered to be independent in judgment and character.

Conflicts of interest

Severn Trent Plc has a Conflicts of Interest Policy in place for all Group companies. Our Board and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months with any conflicts being recorded in the Conflicts of Interest Register. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, the Board considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

The Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Group companies. Modifications were made to the Severn Trent Audit Committee meeting structure during the year to facilitate dedicated Committee focus for Hafren Dyfrdwy regulatory matters and remove a potential conflict of interest in relation to Directors of both Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

COMPOSITION, SUCCESSION AND EVALUATION

Board composition

As at the date of this report, our Board comprised the new Chair (who was independent on appointment), six independent Non-Executive Directors and two Executive Directors. The details of their career background, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 72 to 73. Further detail on the role of the Chair and members of the Board can be found on page 81.

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

The composition and effectiveness of the Board is subject to regular review by the Nominations Committee which, in particular, considers the balance of skills, experience and independence of the Board, in accordance with the Board Diversity Policy, the statement for which is available on the Severn Trent Plc website. Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved for the Board). Further information on the work of the Nominations Committee can be found on page 87.

The Board and the Nominations Committee have fully considered Board succession during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide constructive challenge and promote diversity. Additional detail can be found within the Nominations Committee report on page 87.

Board training and development

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, environmental, technological and social considerations. Our Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters. The Board activities schedule on pages 79 to 80 sets out further detail on the topics covered during the year.

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

Informal Board interactions

The Board also meets more informally, in the form of Board dinners, outside of the scheduled Board meeting calendar. These sessions are important in building and maintaining successful relationships and promoting a culture of openness in Board discussions. Senior management and external stakeholders are often invited to attend these sessions.

Directors' resources

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section and briefings on Board training session topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Directors' skills and experiences

An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Group.

The matrix opposite details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy.

Board skills and experience

Topics	Olivia Garfield	James Bowling	Christine Hodgson	Kevin Beeston	Philip Remnant	John Coghlan	Dominique Reiniche	Angela Strank	Sharmila Nebhrajani
Strategy	●	●	●	●	●	●	●	●	●
M&A	●	●	●	●	●	●	●	●	●
Corporate finance/treasury	●	●	●	●	●	●	●	●	●
Accounting	●	●	●	●	●	●	●	●	●
Regulation	●	●	●	●	●	●	●	●	●
Technology/innovation	●	●	●	●	●	●	●	●	●
Customer	●	●	●	●	●	●	●	●	●
Brands	●	●	●	●	●	●	●	●	●
Engineering	●	●	●	●	●	●	●	●	●
Utility sector	●	●	●	●	●	●	●	●	●
Environmental science, including climate change	●	●	●	●	●	●	●	●	●
People management	●	●	●	●	●	●	●	●	●
Commercial procurement	●	●	●	●	●	●	●	●	●
Construction/infrastructure delivery	●	●	●	●	●	●	●	●	●
Large capital programmes	●	●	●	●	●	●	●	●	●
Political affairs	●	●	●	●	●	●	●	●	●

Board evaluation

Our annual Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion and for each member to consider their own contribution and performance. This year, the review was facilitated internally by the Company Secretary, who is well placed as an independent sounding board to the process. The approach we took was to explore some of the themes from last year's action plan and design an interview matrix to understand where improvements had been made and where further focus is needed. The matrix was discussed in comprehensive one-to-one meetings with the Company Secretary, with additional input from the Chair, Senior Independent Director and Committee Chairs. These meetings took place during February 2020. The key themes were shared with the Board and its Committees along with a 2020 action plan. An externally facilitated evaluation was last conducted by Manchester Square Partners in 2017/18. The 2020/21 process will be externally facilitated, and potential providers are currently being considered.

Step 1

2019/20 Process Planning

The Company Secretary undertook a detailed review of the Board Effectiveness evaluation process in 2018/19 and restructured our interview matrix to cover matters highlighted in the prior year review and recommendations of the 2018 Code, Parker Review and FRC Guidance on Board Effectiveness.

Step 2

One-to-One Meetings

Board and Committee members participated in comprehensive one-to-one meetings with the Company Secretary, with additional input from the Chair and Senior Independent Director. Separate discussions were held to consider the effectiveness of the CEO, led by the Chair. The outgoing Chair's performance evaluation was led by the Senior Independent Director. Discussions to consider the effectiveness of Board Committees were led by the respective Committee Chairs.

Step 3

Evaluation and Reporting

The Company Secretary compiled the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation was provided to the Chair for consideration. The Company Secretary and Chair met to discuss the findings, with the resulting report being tabled to the Nominations Committee and Board in March 2020.

Step 4

Agree Actions and Monitor Progress

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

Evaluation findings

The evaluation concluded that excellent progress had been made in respect of areas for further focus identified in the 2018/19 review as detailed below.

Evaluation Action 2018/19	Progress
Succession Planning Opportunity to apply more focus to succession planning, in full consideration of Director tenure and the Parker Review recommendations on diversity.	Talent and Succession Planning is now a standing Nominations Committee and Board agenda item. Significant focus has been given to Board succession during the year in full consideration of the Parker Review, with Christine Hodgson and Sharmila Nebhrajani joining the Board. A forward programme for Non-Executive Director recruitment, including a skills matrix, has also been developed during the year. Our Board skills matrix can be found on page 83.
Balance of Debate The Board noted the excellent chairing of Board discussions despite challenging agendas during the year. Opportunity to allocate additional time on the Board agenda to engage personally with presenters and discuss matters more informally.	Board meetings have been restructured to allow additional time to engage informally with presenters and discuss matters as a Board. A broader pool of presenters now attend Board and Board Committee meetings and attend informal Board dinners.
Remit of Board Committees Opportunity to review the duties within the respective Committee Terms of Reference and ensure that Committee meetings have sufficient time allocated to them.	New 'Discharge of Committee Duties' reporting implemented during 2018/19. This provided an annual update to the Board Committees on the work completed during the year in fulfilling their duties and satisfying the remit of their Terms of Reference. Board Committee meetings have also been restructured to ensure sufficient time is allocated and to allow for informal interaction with presenters.

The key theme highlighted in the 2019/20 evaluation was positive Board discussion dynamics. It was noted that all Directors fostered a culture of open, constructive debate, undertaken by a respectful and cohesive, and appropriately challenging Board.

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

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

Board Forward Agenda The Board noted the excellent chairing of Board discussions despite challenging agendas to consider the PR19 process and outputs. Opportunity to allocate additional time on the Board agenda to consider fewer, more strategic, visionary and forward-looking topics with a focus on the opportunities available through the deployment of technology and innovation. The Board observed that significant time had been devoted to the performance review section of the agenda, which had enabled Non-Executive Directors to gain a deep understanding of the operational challenges facing the business and really get to know the accountable Executive Committee members. Now that this knowledge was well embedded, the time allocated to this section of the meeting could be reduced, with regular updates being considered outside of the formal meeting environment with deep dives into specific topics as required. Opportunity to spend even more time in the business through more Board meetings being held at operational sites.
Risk Management Opportunity to make additional enhancements to the Group's Enterprise Risk Management ('ERM') approach to risk. A dedicated ERM Board workshop was held in March 2020, scheduled outside of the normal Board meeting calendar, to discuss and agree next steps. An update is scheduled to be discussed by the Board in October 2020.

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. Directors' other appointments were reviewed, including the time commitment required for each. The Nominations Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc. No approvals were sought during the year for any significant external appointments. The full list of external appointments held by our Directors can be found on pages 72 to 73. All of our Non-Executive Directors are considered to be independent.

Induction programme

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. They have one-to-one meetings with the CEO, CFO and the Company Secretary along with other members of the Executive Team. They also meet members of the operational teams and visit our key operational sites and capital projects to ensure they get a first-hand understanding of the water and waste water businesses. New Directors receive a briefing on the key duties of being a Director of a regulated water company and they also meet with Ofwat as part of the appointment process.

We continually enhance the Board's induction process, building in feedback from new appointees and the Board Effectiveness evaluation. For an in-depth look at Christine Hodgson's induction, please see below.

Chair's induction

Christine's induction spanned 26 days. She visited 12 sites and met 230 of our employees to gain a thorough knowledge and understanding of Severn Trent and our culture. A member of our Executive Team, Martin Kane (who has over 45 years' experience at Severn Trent), accompanied Christine on all of her induction meetings in order to answer any questions in the moment and reinforce her understanding of our business. A summary of her key induction visits and events is set out below.

Meeting our people and stakeholders

November 2019 – January 2020	Individual meetings with Non-Executive Directors
November 2019 – January 2020	Individual meetings with Executive Committee members
6 December 2019	Deep dives into Internal Audit and risk management processes
16 December 2019	Briefing on the Remuneration Committee to gain an overview of how our Remuneration Policy ensures a clear link between performance and pay for executives. Meeting with remuneration advisers, PwC
January-February 2020	Meetings with key stakeholders, including Ofwat, DWI, Defra, EA, CCW
4 February 2020	Deep dives into Treasury and Pensions
March 2020	Christine attended our Company Forum to understand first-hand the views of our workforce across the organisation
Operational site visits to understand our key business areas first-hand:	
20 December 2019	Water Distribution – including site visit to Edgbaston Distribution Works
23 December 2019	Water Treatment – including site visit to Church Wilne Water Treatment Works
7 January 2020	Waste Water – including site visit to Spernal Sewage Treatment Works
9 January 2020	Sewerage Network – including site visit to Barnhurst Works
27 January 2020	Business Services – including site visits to Coleshill and Minworth
11 February 2020	Capital Projects – including Birmingham Resilience Programme ('BRP'), Frankley and Elan Valley Aqueduct ('EVA') schemes – see case study overleaf



“My induction into Severn Trent has been very comprehensive and professionally organised. The highlight for me has been meeting, and listening to the views of, our people and experiencing the Severn Trent culture first hand. Their passion and commitment to serve all our stakeholders is palpable.”

Christine Hodgson
Chair

INDUCTION DEEP DIVE

Birmingham Resilience Programme ('BRP')

BRP will secure a second source of water supply for Birmingham and safeguard one of our oldest, but most strategic and efficient, water resources for years to come.

09.00
–
09.15

TEAM INTRODUCTION

Introduction to the team delivering the BRP scheme, the biggest water enhancement project in the sector in AMP6.

Christine met the team responsible for delivering BRP, including:

- Programme Director;
- Head of Capital Delivery;
- Project Manager – Raw Water Workstream; and
- Regional Director of the Supply Chain Partner.

She heard the views and experiences of the workforce delivering BRP and received an update on progress to date.

09.15
–
09.30

HISTORY OF BIRMINGHAM WATER

Executive Committee member Martin Kane provided an overview of the 100 year old, 120 km long Elan Valley Aqueduct, the primary water supply to Birmingham, and outlined how BRP would safeguard this important asset.

09.30
–
10.00

WHAT WE ARE DELIVERING FOR BRP

Our BRP Programme Director provided an overview of the two elements of the scheme as follows:

- New abstraction point on the River Severn together with a raw water pumping station and 20 km pipeline; and
- New treatment stream at Frankley Water Treatment Works capable of treating raw river water.

She also provided Christine with an overview of the benefits and success factors for BRP and the use of innovative techniques being deployed by teams to achieve the progress to date.

10.00
–
10.15

RAW WATER TEAM INTRODUCTION

Introduction to the team delivering the raw water project at Lickhill, including supply partners. Detailed safety induction to understand how our health and safety procedures operate in practice.

Christine spent time meeting our supply chain partners' teams, listening to their views and experiences working with, and for, Severn Trent on BRP.

The health and safety briefing enabled Christine to observe first-hand the robust health and safety processes we have in place for our workforce.

14.00
–
15.30

BRP FRANKLEY SITE TOUR

Christine was accompanied by the Contractor's Project Director, the BRP Project Director and the Treated Water Technical Lead on a tour of the new treatment works stream assets at Frankley Water Treatment Works commencing from Frankley reservoir.

Christine observed the scale of the treatment processes described during the 3D model presentation earlier in the day.

13.45
–
14.00

TREATED WATER SAFETY INDUCTION

Prior to undertaking a tour of the site Christine undertook the safety induction which is given to everyone on site to ensure they are aware of the hazards presented by the existing treatment plant and the construction work.

12.45
–
13.45

LUNCH AND INTRODUCTION TO THE TREATED WATER TEAM

The Technical Lead took Christine through the new treatment process using a 3D modelling tool to put this new innovative process plant into context.

10.15
–
12.45

INTAKE AND PUMPING STATION SITE VISIT

Christine visited the Lickhill intake, which has a gravity pipeline running to the pumping station. The station has the capability of pumping 140 ML/d of river water along the 26 km pipeline to Frankley water treatment works.

15.30
–
16.00

ELAN VALLEY AQUEDUCT SCHEME

Christine received an overview of the EVA scheme to understand first-hand the scale of the scheme and complexity of the connections required.

16.00
–
16.30

PROJECT MILESTONE UPDATE

Our BRP Programme Director updated Christine on the final milestones to be delivered to complete the project.



BRP Frankley

NOMINATIONS COMMITTEE REPORT

Quick facts

- All members of the Committee in 2019/20 were Independent Non-Executive Directors of the Board, with the exception of Andrew Duff and Christine Hodgson (who were independent on appointment).
- Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, the Director of Human Resources, senior management and external advisers may be invited to attend meetings as and when appropriate.
- The Committee's Terms of Reference were updated in March 2020.



Committee members
Christine Hodgson
Chair of the
Nominations Committee

Kevin Beeston
Senior Independent
Non-Executive Director

John Coghlan
Independent
Non-Executive Director

Andrew Duff
Outgoing Chair
(Retired from the Board
31 March 2020)

Sharmila Nebhrajani
Independent
Non-Executive Director
(Appointed 1 May 2020)

Dominique Reiniche
Independent
Non-Executive Director

Philip Remnant
Independent
Non-Executive Director

Angela Strank
Independent
Non-Executive Director

Quick links

[Terms of Reference](#)
[Board Diversity Policy](#)

Dear Shareholder

This report details the role of the Nominations Committee and the important work it has undertaken during the year. The pages that follow provide additional detail on the activities and discussions of the Committee and share the matters considered and steps taken by the Committee in the year ended 31 March 2020.

Chair introduction

I am delighted to have been given the opportunity to chair Severn Trent Plc and the Board has been particularly welcoming to me. Following my appointment to the Board, we completed a thorough recruitment process for the role of an additional Non-Executive Director.

In line with the Principles of the Parker Review, the Board has been actively looking to appoint a Non-Executive Director from a BAME background for the last few years. After careful deliberation the Committee unanimously recommended the appointment of an outstanding candidate, Sharmila Nebhrajani, to the Board from 1 May 2020. The Committee recognises the importance and benefit of greater diversity throughout our Company and on the Board itself. Sharmila's appointment continues our priority of diversifying our Board and bringing different perspectives into our discussions, in line with our Board Diversity Policy.

The Committee plays a key role supporting the Board within the Governance Framework in reviewing the composition of the Board and its Committees. During the year, we oversaw the evaluation of the Board, its Committees and Directors. This includes assessing whether the balance of skills, experience, knowledge and independence on the Board is appropriate to enable it to operate effectively. Further information about the Board Effectiveness evaluation can be found on page 83. The Committee also assisted the Board in its consideration of conflicts of interest and independence issues. No conflicts of interest or independence issues were identified as a result of this activity.

Talent development

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

Our senior leadership population is a source of future Executive Committee talent, with three members of our Executive Committee, James Jesic, Bob Stear and Shane Anderson, progressing through this route. We're proud of our continually evolving graduate, apprenticeship and placement programmes. We have a total of 61 graduates in training, with 20 places offered in 2019/20. We currently have five entry programmes for graduates – Business Leadership, Finance, Technology, Engineering and Project Management. Our placement programme for undergraduates offers a range of summer and 12 month placements across Engineering, Finance and the Visitor Experience teams. We filled 15 roles in 2019. We currently have 104 apprentices in training. In 2019, we launched two new apprenticeship programmes in Bioresources and Quantity Surveying. We now have 12 active apprenticeship programmes, and we expect these to increase to at least 14 in 2020.

We were a key partner in the development and implementation of the water industry apprenticeships standards through the Government's Trailblazer initiative and we ensured that Severn Trent has been at the forefront of its development. Our innovative delivery model for the water process technician standard has allowed us to design a programme that ensures high quality apprenticeship training delivered in just 24 months – significantly faster than any previous schemes. Elsewhere in the industry this course would take at least 36-48 months to complete.

Director conflicts and independence

In March 2020, the Committee conducted its annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. Additionally, the Board and its Committees consider conflicts of interest at every meeting, and the Board reviews the authorisation of any potential conflicts of interest every six months.

The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the

NOMINATIONS COMMITTEE REPORT CONTINUED

Board in line with their statutory duties. When reviewing conflict authorisations, the Committee considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation. Following the review, the Committee recommended to the Board that each conflict authorisation remained appropriate. There were no new potential conflict situations during the year.

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board evaluation exercise. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all

Non-Executive Directors continue to demonstrate independence. In accordance with the 2018 Code, all the Directors, with the exception of Andrew Duff who retired from the Board on 31 March 2020, will retire at this year's AGM and submit themselves for appointment or re-appointment by shareholders. Each of the Non-Executive Directors seeking appointment or re-appointment are considered to be independent in judgment and character.

Christine Hodgson
Chair of the Nominations Committee

19 May 2020

Focus areas in 2019/20

The Committee provides Board oversight that there are formal plans in place for an orderly succession to both Board and senior leadership positions and oversees the development of a diverse pipeline for succession. The composition of the Board is regularly reviewed and refreshed and there is a rigorous and transparent procedure for the appointment of Directors. The Committee leads the process for Board appointments and makes recommendations to the Board. Some key areas of discussion for the Committee during 2019/20 included:

Key areas of discussion

Board succession planning, including oversight of the process to recruit our new Chair and Non-Executive Director ahead of making a recommendation to the Board.

Review of how the Company involves employees, and considers the views of the workforce, in its decision-making processes and workforce engagement mechanism.

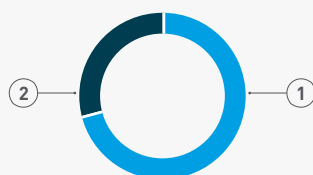
Oversight of the Group's diversity and inclusion policy and initiatives.

Executive Committee succession planning and talent development.

Approval of revised Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.

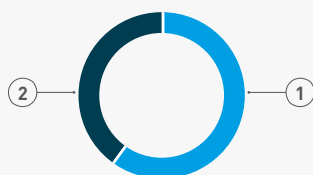
Gender Diversity % as at 31 March 2020

Group



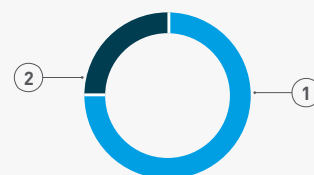
1. Male	4,875 (71%)
2. Female	1,989 (29%)

Strategic leader and Director population



1. Male	36 (60%)
2. Female	24 (40%)

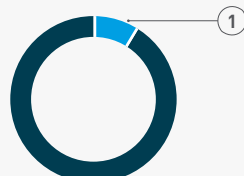
Apprentices and Graduates



1. Male	124 (75%)
2. Female	41 (25%)

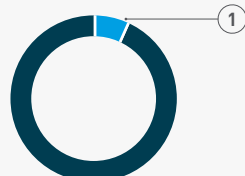
BAME Diversity % as at 31 March 2020

Group



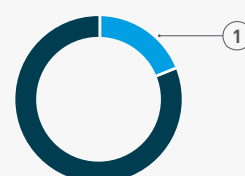
1. Ethnic minority	8.86%
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Strategic leader and Director population



1. Ethnic minority	6.67%
--------------------	-------

Apprentices and Graduates



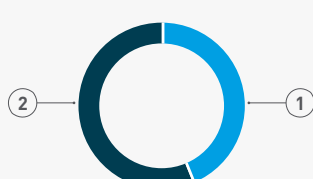
1. Ethnic minority	19%
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Diversity

As highlighted earlier in the report, the Board and Committee continue to drive the agenda of diversity across the Group and are proud of the progress made, especially in respect of female representation on the Board and Executive Committee (now at 56% and 36% respectively). We are also very proud to have both a female Chair and a female Chief Executive. A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2020 is set out opposite.

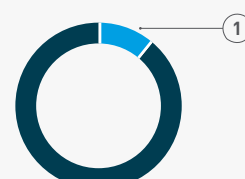
Board Diversity % as at 1 May 2020

Director gender split



1. Male	44%
2. Female	56%

Director BAME split



1. Ethnic minority	11%
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Parker Review – BAME diversity

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

The Board Diversity Policy (the 'Policy') was reviewed by the Committee in April 2020, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths throughout the organisation, including on the Board itself. The objectives and targets of the Policy, and an update against each of them, are set out below. A copy of the Policy is available on the Severn Trent Plc website.

Board Diversity Policy – Objectives and progress against targets

When recruiting for our new Chair and Non-Executive Director the Committee ensured that the recruitment processes were in line with our Board Diversity Policy to include candidates from diverse backgrounds and those with non-listed company experience for the Committee to consider. We were pleased to appoint Sharmila Nebhrajani on 1 May 2020 as a Non-Executive Director of the Company. Sharmila went through a rigorous recruitment process overseen by the Committee and we are delighted to welcome Sharmila to the Board and look forward to her contribution over her tenure with the Company.

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition by the Nominations Committee with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considers the composition of the Board and the contribution, commitment and independence of individual Directors.	At its March meeting, the Committee formally reviewed the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board. Regular updates in respect of succession planning fully consider the Board's Diversity Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith reviews.
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself. On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.	Two Board appointments were made during the year: (1) the Non-Executive Chair and (2) a Non-Executive Director. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, 2018 Code and additional relevant guidance. We were pleased to appoint a female Chair and a female Non-Executive Director from a BAME background. The Committee ensured that Korn Ferry presented a diverse potential candidate list, including candidates with no listed company Board experience.
Ensure Board appointment 'long lists' include diverse candidates, including diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.	Two Board appointments were made during the year: (1) the Non-Executive Chair and (2) a Non-Executive Director. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, 2018 Code and additional relevant guidance, with a selection of diverse candidates being included in the long lists. We were pleased to appoint a female Chair and a female Non-Executive Director from a BAME background.
Ensure the Board and Nominations Committee only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.	The Company only engages with executive search firms that have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.	We continue only to engage with executive search firms that have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.
Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board and Nominations Committee consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Group's talent pipeline and on the Board itself.	At its March meeting, the Nominations Committee considered diversity and inclusion within the Group. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board Succession Planning discussions that took place during the year. The diversity of our Executive pipeline is disclosed on page 88.
Policy Targets	Progress against Target	
33% female share of Board Directors by 2020.	56% female representation on our Board as at 1 May 2020.	
Minimum of one Board Director from an ethnic minority background by 2021.	In line with the Principles of the Parker Review, the Board has been actively looking to appoint a Non-Executive Director from a BAME background for a few years. The calibre of the candidates identified in this year's search was outstanding and it was after careful deliberation that the Committee unanimously recommended the appointment of Sharmila Nebhrajani to the Board.	

Chair Succession

One of the key activities during the year was the Committee's search for a new Chair. This process was led by our Senior Independent Director, Kevin Beeston, with support from the whole Board and Bronagh Kennedy, Company Secretary. A summary of the process overseen by Kevin Beeston is set out below. Kevin Beeston chaired all meetings of the Committee when it met to discuss the appointment of Andrew Duff's successor.

In line with the provisions of the Board Diversity Policy, the executive search firm selected by the Company, Korn Ferry, was signed up to the voluntary code of conduct on gender and BAME diversity and best practice. You can find additional detail in this report on page 89.

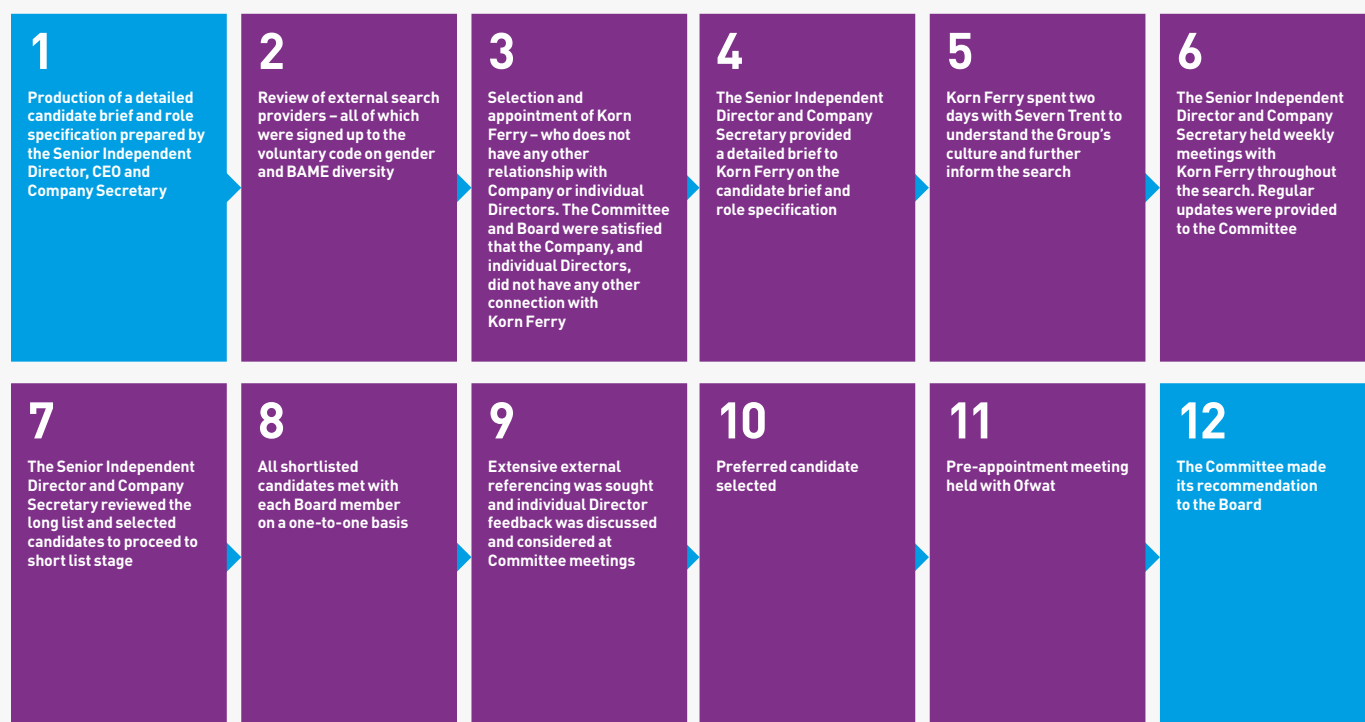
A key factor in the Chair succession plan was the importance of retaining the culture of the Group, which is a valuable core strength of Severn Trent. The Committee was clear that as part of the recruitment process for the new Chair due consideration had to be given to the suitability of the candidate to continue to build on the Company's purpose, values and culture. The Board approved the Chair's role specification and the Committee provided regular feedback to the Board throughout the recruitment process. Extensive references were sought in respect of the preferred candidates, from investors, peers and companies they had worked for. It was after careful deliberation that the Committee unanimously recommended the appointment of Christine Hodgson as Chair Designate of the Company.

In advance of finalising the succession plans, the Company consulted with the Group's key stakeholders to inform them of the Chair Designate's appointment. During discussions with stakeholders, the Company provided assurance that the Committee had factored the principles of good corporate governance into its planning. This included the following 'safeguards' to ensure the separation of leadership between the Chair and Chief Executive:

- The Chair's appointment was for a three-year term, subject to annual re-election by shareholders. The term can be renewed by mutual agreement, up to a maximum term of nine years;
- The Chair was independent on appointment; and
- The responsibilities of the Chair and Chief Executive are separate and clearly defined in our Charter of Expectations which is subject to regular review.

Chair succession planning process in action

One of the key activities during the year was the Committee's search for a new Chair. This process was led by our Senior Independent Director, Kevin Beeston, with support from the whole Board and Bronagh Kennedy, Company Secretary. A summary of the Chair succession process in action can be found below.



Following Christine's appointment, the Committee implemented its plan to induct her as Chair to work alongside Andrew Duff before her appointment as Chair.

Christine brings extensive board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for

companies to serve all of their stakeholders effectively and deliver their social purpose. Following Christine's appointment to the Board, she embarked on an extensive induction programme. Further detail can be found on page 85.

AUDIT COMMITTEE REPORT

Quick facts

- All members of the Committee are qualified accountants and are considered by the Board to have recent and relevant financial experience and competence relevant to the sector.
- Other regular attendees at meetings at the invitation of the Committee included the former Chairman of the Board, the current Chair of the Board, the CEO, the CFO, the Company Secretary, the Head of Internal Audit, the Group Financial Controller, other members of senior management, representatives from the External Auditor, Deloitte, and non-financial operational performance and data assurers, Jacobs. None of these attendees are members of the Committee.
- The Committee regularly holds private discussions with the Head of Internal Audit and the External Auditor separately, without Executive management present.



Committee members

John Coghlan
Chair of the Audit Committee

Kevin Beeston
Senior Independent
Non-Executive Director

Sharmila Nebhrajani
Independent
Non-Executive Director
(Appointed 1 May 2020)

Philip Remnant
Independent
Non-Executive Director

- The Committee Chair regularly holds separate one-to-one meetings with the CFO, the Head of Internal Audit, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.
- The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

Quick links

[Terms of Reference](#)

[Non-Audit Services Policy](#)

[Anti-Bribery Policy](#)

Dear Shareholder

We have revised the format of our report this year to provide shareholders with a clearer understanding of the work we have done as a Committee to provide challenge and assurance on the integrity of the 2019/20 Annual Report and Accounts and the Group's regulatory reporting requirements.

As a Committee, we assist the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of principal risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision making processes. We updated the Committee's Terms of Reference this year to reflect our continued commitment to this. Additional information on how the Board, and Audit Committee, have considered stakeholders in their decision making can be found on pages 28 to 29.

One of our key roles is to advise the Board that we are satisfied that the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 130 to 136. We were pleased to advise the Board that the 2019/20 Annual Report and Accounts are fair, balanced and understandable and that Directors have provided the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. Our review process is described in further detail on page 93.

During the year, the Committee reviewed and agreed with management's proposal to maintain the Company's long-term viability statement to cover a seven-year period (see page 66). It was agreed that this approach was appropriate given the nature of the regulatory regime in the water sector and Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions.

You will see that this report contains an overview of the Company's whistleblowing arrangements (page 96). The Board carefully considered the 2018 Code and in 2018/19 implemented many of the new principles earlier than required, as disclosed in our 2018/19 Annual Report. As part of this process, the Board agreed that the responsibility for oversight of whistleblowing arrangements should continue to be delegated to the Audit Committee and Corporate Sustainability Committee and not as a matter reserved solely to the Board. However, the Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Audit Committee and Corporate Sustainability Committee continue to receive reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board continues to receive regular updates from the Committees and completes an assessment of the effectiveness of the Group's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

AUDIT COMMITTEE REPORT CONTINUED

Much of our work relates to the regulated activities of Severn Trent Water, which represents over 98% of Group revenues, and Hafren Dyfrdwy. This reflects our continued commitment to our shareholders and other stakeholders, particularly our customers and regulators.

The annual Board Effectiveness evaluation assessed our performance as a Committee and I'm pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries and all members have competence relevant to our sector with significant recent and relevant financial experience. You can read more on page 83.

I would like to thank the members of the Committee, the management team, Internal Audit, Deloitte and Jacobs for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

John Coghlan
Chair of the Audit Committee

19 May 2020

Focus Areas in 2019/20

The Committee has an extensive agenda focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with management, the External Auditor, Internal Audit and the finance and regulatory compliance and assurance team. For all Board and Committee Statements we have a detailed proof-point process that provides assurance to the Board and Committee that an appropriate level of assurance activity has been undertaken with satisfactory findings. Throughout this activity, we ensure that high standards of financial governance, in line with our regulatory framework as well as market practice for audit committees, are maintained. There were four scheduled meetings of the Committee during the year. Key items of business considered during the year are set out below.

Key areas of discussion

Reviewed the long-term viability statement, in particular the maintenance of the period at a seven-year term (including scenario testing), prior to making a recommendation to the Board. It was agreed that this approach was appropriate given the nature of the regulatory regime in the water sector, including Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions. The Committee reviewed and confirmed this recommendation having carefully considered the potential impacts of the COVID-19 outbreak. Additional detail can be found in our viability statement on page 66.

Reviewed the basis of preparation of the financial statements as a going concern (prior to making a recommendation to the Board) as set out in the accounting policies.

Internal Audit

- Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions.
- Reviewed and approved the approach and Internal Audit plan for 2020/21.
- Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.

External Auditor

- Reviewed the proposed audit plan for the 2019/20 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2019/20 audit. Management continues to make continual improvements to the Group's internal controls and risk management systems.
- Assessed the effectiveness of the External Auditor and made a recommendation to the Board on the reappointment of Deloitte as the External Auditor.
- Agreed the statutory audit fee for the year ended 31 March 2020 and agreed the fee approach for subsequent years.
- Reviewed and approved the non-audit services and related fees provided by the External Auditor for the year and approved the updated policy on non-audit services provided by the auditor for 2020/21.

Reviewed and discussed the reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments, and the policies being applied and assessed the findings of the statutory audit in respect of the integrity of the financial reporting in respect of full and half year results.

Reviewed the integrity of the regulatory reporting process relating to the annual performance reports, and other regulatory submissions, for Severn Trent Water and Hafren Dyfrdwy as required to be submitted to Ofwat.

Reviewed the 2019/20 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy'.

Reviewed the effectiveness of the risk management and internal control systems prior to making a recommendation to the Board.

Monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the Group's whistleblowing processes and procedures, prior to reporting to the Board on this activity.

Oversight and monitoring of the Group's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).

Review and approval of the Committee's Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.

Separate, dedicated meetings were held to consider the PR19 plans for Severn Trent Water and Hafren Dyfrdwy.

Fair, Balanced and Understandable ('FBU') reporting

At the request of the Board, the Committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The following process was followed by the Committee in making its assessment:

- 1 The Committee reviewed the Annual Report at an early stage, and throughout the process, to enable sufficient time for comment and review and ensure overall balance and consistency.
- 2 Internal Audit reviewed the Annual Report and oversaw a verification process for all factual content and reported back to the Audit Committee on its assessment and findings.
- 3 The Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. We were satisfied that all the key events and issues reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Report.
- 4 The External Auditor presented the results of its audit work. The significant issues we considered as a Committee were consistent with those identified by the External Auditor in its report (see pages 130 to 136 for more detail).
- 5 The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Directors' Responsibilities Statement on page 129 of this Report.



External Auditor

As a Committee, we have primary responsibility for overseeing the relationship with the External Auditor, including assessing its performance, effectiveness and independence annually and making a recommendation to the Board in respect of its reappointment or removal.

Following a formal tender process in 2015/16, Deloitte LLP was reappointed as External Auditor at the 2016 AGM. The senior statutory Auditor, Kari Hale, has overseen the audit of the Severn Trent Group since 2015/16. Under independence rules, Kari will be rotating following completion of the 2019/20 statutory audit and Jacqui Holden will oversee the audit for 2020/21. Further information on Jacqui Holden's experience can be found on the Deloitte website. The Committee anticipates that the next competitive tender will be conducted no later than 2025 in accordance with current regulation that requires a tender every 10 years. Deloitte will not be able to participate. The proposed tender date is in the best interests of members and the Company as Deloitte has a detailed knowledge of our business, an understanding of our industry and continues to demonstrate that it has the necessary expertise and capability to undertake the audit.

The Company has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review in respect to audit tendering and the provision of non-audit services.

Effectiveness of the External Auditor

The Committee considers the effectiveness of the External Auditor every year and a full effectiveness review was conducted this year. This involved assessment of the Auditor by the Committee, key Executives and relevant senior management including an evaluation of whether the Auditor met the minimum standards of qualification, independence, expertise, effectiveness and communication. All members of the Committee, as well as key members of management and those who have regular contact with the External Auditor, completed a feedback questionnaire focusing on the below areas:

- Robustness of the External Audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.

- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of Severn Trent's business.
- Expertise of the audit team conducting the audit.
- Degree of independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

The feedback was collated and presented to the Committee in March 2020. We discussed the conclusions and any opportunities for improvement, which were brought to the attention of the External Auditor. No significant issues were reported as part of this process and we concluded that the External Audit process and services provided by Deloitte were satisfactory and effective. The feedback was shared with Deloitte and an action plan has been drawn up with them and built into the 2020/21 audit programme.

External Auditor independence and non-audit services

To preserve objectivity and independence, the External Auditor is not asked to provide other services unless it is in the best interests of the Company that these are provided by Deloitte rather than another supplier, in accordance with our Non-Audit Services Policy. We reviewed and updated the policy during the year to reflect the FRC's new Ethical Standard and the more restrictive list of services that are now permitted. The Policy requires Committee approval for all non-audit services. The Policy also prohibits aggregate fees for non-audit services in excess of 70% of the average audit fee for the previous three financial years. Non-audit services where the External Auditor may be used include: audit-related services required by statute or regulation and other audit or assurance services as set out in the Ethical Standard.

During the year, Deloitte received £689,000 in fees for work relating to the audit services it provides to the Group. Non-audit related work undertaken by Deloitte amounted to fees of £188,000 this year, which amounts to 27.3% of the total audit fees paid to it (as shown in the chart on page 94). The more significant non-audit services provided by Deloitte were the audits of the financial information contained within

the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports and the independent review of the Company's half-yearly financial report. Audit and non-audit fees paid to Deloitte are set out in note 7 to the financial statements on page 154.

In approving these non-audit fees, we considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services. Where Deloitte was chosen, this was as a result of its detailed knowledge of our business and understanding of our industry as well as demonstrating that it had the necessary expertise and capability to undertake the work cost effectively.

Internal Audit and internal controls

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

The role of Internal Audit is to provide assurance that the Group's risk management and internal control systems are well designed and operate effectively and that any corrective action is taken in a timely manner. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee; this is supported by regular reporting that enables us to monitor delivery of the audit plan. Our role as a Committee is to challenge the plan, specifically whether the key risk areas identified as part of our ERM process are being audited with appropriate frequency and depth. Individual Committee members also bring an external view of risks the Company may be exposed to.

Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the

findings of the audit, including any action that may be required. Where any failings or weaknesses are identified in the course of the review of internal control systems, management puts in place robust actions to address these on a timely basis. Action closure is reported to and monitored by the Committee and we are pleased to confirm that our review established that management places a strong focus on closing audit actions and ensuring timely completion.

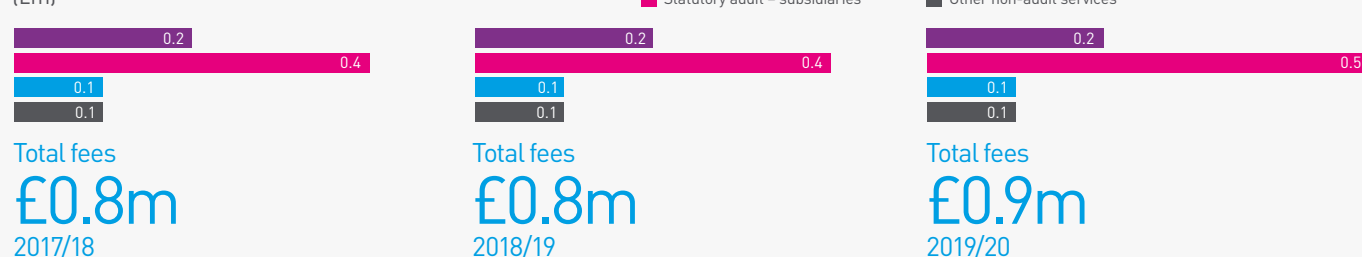
An internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, we carried out a review of the effectiveness of the Internal Audit function in January 2019. The review, performed by BDO, concluded that the Internal Audit function is fit for purpose, is operating efficiently and effectively, and in line with good practice. An internal review was also carried out during the year.

Risk management

The Group has a risk management process in place through which our principal risks and related controls are identified and assessed. The Board has overall responsibility for setting the Group's risk appetite and ensuring that there is an effective risk management framework and has delegated responsibility for review of the risk management methodology and effectiveness of internal controls to the Audit Committee.

We review the processes for, and outputs from, the Group's ERM process, through which our principal risks and related controls are identified. We also review the effectiveness of the risk management system on behalf of the Board and keep under review ways in which we can enhance the control and assurance arrangements. We received half-yearly reports from the Head of Risk, detailing the significant risks and uncertainties faced by the Group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary. Individual risk 'flightpaths' facilitate a more thorough review of the target risk positions, consider risk appetite and assess whether actions are on target, with

Audit and Non-Audit Fees 2019/20 (£m)



Details of significant non-audit work undertaken is set out below.

Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor. The same safeguards that apply to the full-year External Audit also apply to this work.	54
Assurance of regulatory returns	Audit of sections 1 and 2 of the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	79
Reporting under Group financing documents	These documents require reports and it is normal practice for the External Auditor to provide these.	38
Subtotal		171
Other assurance services		
Other assurance		17
Subtotal		17
Total 2019/20 non-audit fees		188

Significant issues considered and addressed in relation to the financial statements

We looked carefully at those aspects of the financial statements that required significant accounting judgments or where there is estimation uncertainty. These areas are explained in note 4 to the Group financial statements. We received detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believed should be drawn to our attention. The draft External Auditor's report on the financial statements was also reviewed, with particular reference to those matters reported as carrying risks of material misstatement.

We discussed the range of possible treatments both with management and with the External Auditor confirming that the judgments made by management were robust and supportable. For all of the matters described below the Committee concluded that the treatment adopted in the Group financial statements was appropriate.

Significant Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement.	<p>The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic report on going concern and long-term viability.</p> <p>In particular the Committee considered the scenarios modelled in relation to the impact of the COVID-19 outbreak on the Group's financial position and prospects, noting the stress tests performed by management and the potential mitigating actions identified.</p> <p>Our business model can be found on pages 6 to 7.</p> <p>Principal risks and uncertainties can be found on page 58.</p> <p>The viability statement can be found on page 66 and the going concern statement on page 68.</p>
<p>Determination of the provision for impairment of trade receivables in Severn Trent Water Limited.</p> <p>At 31 March 2020, the provision in the Group's financial statements was £141.7 million and the charge for the year was £42.9 million. Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid. This increases the risk of bad debts. In addition, it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis.</p>	<p>The Committee scrutinised the changes made to the methodology for calculating the provision during the year and critically appraised management's explanations for these changes. The Committee also challenged management's assumptions regarding the impact of the COVID-19 outbreak on the expected credit losses for trade receivables existing at 31 March 2020, noting the independent forecasts of the likely economic impacts and the historical evidence indicating a link between macroeconomic conditions and the Group's bad debt experience.</p> <p>The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision. The Committee determined that no adjustment to the amounts recorded was required.</p>
<p>The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited.</p> <p>Severn Trent Water Limited has a significant capital programme that includes projects made up of a combination of expenditure and activities, some of which are recognised as property, plant equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.</p>	<p>The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year.</p> <p>The Committee enquired of management whether the policies had been applied consistently from year to year and sought explanation for the increase in amounts capitalised. The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>
<p>Determination of the amount of the Group's retirement benefit obligations.</p> <p>At 31 March 2020, net retirement benefit obligations amounting to £234.0 million were recognised. The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made regarding expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management. Furthermore, in the current year more judgment was required in assessing the fair values of the schemes' assets as a result of the impact of the COVID-19 outbreak on asset valuations.</p>	<p>The Committee scrutinised the assumptions underlying the valuation of the obligations, and obtained explanations for the significant reduction in the deficit recorded. The Committee considered whether the assumptions taken as a whole were appropriate, taking into account the work of the External Auditor and the benchmark information provided.</p> <p>The Committee also scrutinised the methodologies applied in assessing the fair values of the schemes' assets and considered the estimation techniques used for assets where an up to date valuation was not available.</p> <p>The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements.</p>
<p>Consideration of whether the Group's loans to its joint venture, Water Plus, should be classified as long-term interests that in substance form part of the Group's net investment in the joint venture.</p> <p>At 31 March 2020 the Group had loans receivable from the joint venture amounting to £102.4 million comprising a revolving credit facility of £92.6 million and Zero Coupon Subordinated Loan Notes of £9.8 million. The Group's share of the joint venture's net assets at 1 April 2019 was £37.0 million and the Group's share of the joint venture's loss after tax for the year ended 31 March 2020 was £51.5 million. The Group's share of the joint venture's losses is recognised up to the amount of the Group's net investment. The Group has classified the Zero Coupon Subordinated Loan Notes as part of its net investment but considers the revolving credit facilities not to form part of its net investment in the joint venture.</p>	<p>The Committee probed management's rationale for its decision not to classify the revolving credit facilities as part of its net investment in the joint venture, scrutinising the nature of the arrangements, considering the plans for recovery of the amounts loaned and the expected periods for the amounts advanced.</p> <p>The Committee considered that the judgments were reasonable and reflected the substance of the arrangements.</p>

AUDIT COMMITTEE REPORT CONTINUED

Significant Issue	How the issue was addressed by the Committee
<p>Classification of share of Water Plus loss as an exceptional item.</p> <p>In the year ended 31 March 2020 the Group has recorded its share of loss from its joint venture, Water Plus, as an exceptional item. The loss recognised was £46.8 million. The Group's accounting policy defining exceptional items is set out in note 2 to the financial statements. Further details of the components of this loss are set out in the CFO's review on page 51.</p>	<p>The Committee noted the accounting policy and management's analysis of the loss incurred by Water Plus, which indicated that £14.3 million arose from trading activities in the year excluding the impacts of COVID-19 and that £32.5 million arose from asset impairments resulting from COVID-19. The Committee considered that the impacts of COVID-19 were exceptional within the parameters of the Group's accounting policy since the impact was material and unusual.</p> <p>The Committee noted the requirement of IAS 28 that the share of loss of joint ventures be presented as a single figure in the income statement. The Committee questioned the rationale for presenting the loss as exceptional, in view of the element that arose from the underlying trading of the joint venture and noted management's explanation that the COVID-19 related losses were the significantly larger portion of the total loss.</p> <p>Having considered the explanations provided by management, the accounting requirements of IAS 28 and the views of the External Auditor, the Committee concluded that presentation of the share of loss of joint ventures as exceptional was the most useful available under the requirements of IAS 28.</p>
<p>Classification of the deferred tax charge arising from the change of tax rate as exceptional.</p> <p>In the year ended 31 March 2020 the Group has recorded the £91.8 million deferred tax charge arising from the change of prospective corporation tax rate from 17% to 19% as an exceptional charge. The charge arises from restating the net provision for deferred tax from 17% to 19%, the rate that is now expected to apply when the net liability is settled.</p>	<p>The Committee noted that the Group's accounting policy for exceptional items applies to tax charges and credits. The Committee further noted that the Group has a very significant deferred tax liability and that when prospective changes to tax rates are enacted this results in a material charge or credit in the income statement to reflect the change in the amount of the liability.</p> <p>The Committee observed that the charge in this year's financial statements was the result of the reversal of the most recent proposed reduction in the tax rate, which had been recorded as an exceptional credit in the income statement, consistently with previous rate changes.</p> <p>The Committee considered that the amount of the tax charge was material and that separate presentation of its impact would make the tax charge in the income statement more understandable.</p>

Risk management (continued)

the correct prioritisation in place. Further details of the Group's risk management systems and controls and principal risks can be found in the Strategic report on pages 1 to 68.

Whistleblowing

The Group has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy 'Speak Up' sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations

are carried out independently with findings being reported directly to both the Audit and Corporate Sustainability Committees.

The Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Audit Committee receives reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Group's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

Risk management governance process

The Group's risk management governance process is based on the three lines of assurance model and is scrutinised by the Audit Committee, through delegated authority from the Severn Trent Plc Board. As part of our continual improvement process, an update on the Group's ERM process is scheduled to be discussed at the October 2020 Board.



TREASURY COMMITTEE REPORT

Quick facts

- Other regular attendees at meetings at the invitation of the Committee included the former Chairman of the Board, the current Chair of the Board, the Group Financial Controller, and representatives from the Group's financial advisers, Rothschild. None of these attendees are members of the Committee.
- The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.



Committee members

John Coghlan
Chair of the
Treasury Committee

James Bowling
Chief Financial
Officer

John Jackson
Group Treasurer

Philip Remnant
Independent
Non-Executive Director

Dear Shareholder

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

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

The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision making processes. We updated the Committee's Terms of Reference this year to reflect our continued commitment to this. Read more on pages 28 to 29.

During the year, a key area of focus for the Committee has been considering and developing the Group's Sustainable Finance Framework, under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities. Additional detail can be found below.

The Committee has maintained its focus on the Group's financing strategy for the final year of AMP6 and AMP7, to ensure that the Group remains in a strong financing position as it moves into the new regulatory period. This included consideration of the Group's credit ratings and updating the Group's funding strategy to reflect changing market conditions and the risks and opportunities from the AMP7 regulatory allowance. In approving the Group's AMP7 funding strategy, the Committee also considered the impact of the Group's long-term financing strategy on AMP8 and beyond.

Following year end, the Committee has carefully considered and closely monitored the potential economic impacts of COVID-19, in particular on financing and liquidity. A key area of focus has been the assessment of the Group's compliance with the policy of maintaining at least 18 months' liquidity. At the balance sheet date, the Group's liquidity extended to early 2022. We continue to plan future funding as part of our normal business planning process and the Committee provides regular updates to the Board in respect of funding, solvency and liquidity matters so that the Group can respond quickly to any changes in our ability to secure financing.

The Group has been successful in accessing other capital markets to diversify further its sources of funding, and replace the European Investment Bank as a source of financing. I am delighted to report that the Group also completed its first debt issue under the Sustainable Finance Framework in March 2020 with a £200 million USPP debt issue by Severn Trent Plc.

The annual Board Effectiveness evaluation assessed our performance as a Committee and I'm pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range of financial experience across various industries and all members have competence relevant to our sector with significant recent and relevant financial experience.

I would like to thank the members of the Committee, the management team and our financial advisers, Rothschild, for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

John Coghlan
Chair of the Treasury Committee

19 May 2020

Focus Areas in 2019/20

The Committee provides Board oversight of the Group's key financing risks and opportunities. Some key areas of discussion for the Committee during 2019/20 included:

Key areas of discussion

Review of the Group's European Medium Term Note Programme and approval for Bonds to be issued pursuant to that Programme during the year.

Oversight of the Group's pension schemes and triennial actuarial valuation, ahead of making a recommendation to the Board in respect of the final settlement of the 2019 actuarial valuations.

Discussion and approval of the Group's AMP7 funding strategy, in consideration of the Group's funding position and priorities for the remainder of AMP6 and early AMP7, latest discussions with credit rating agencies and consideration of financial risks including the potential impacts of RPI reform. In approving the Group's AMP7 funding strategy, the Committee also considered the impacts of the Group's long-term financing strategy in respect of AMP8 and beyond.

Review and approval of the Group's Sustainable Finance Framework and Group Treasury Policy Statement. Read more below.

Review and approval of the Committee's Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

Sustainable Finance Framework

During the year, a key area of focus for the Committee has been considering and developing the Group's Sustainable Finance Framework, under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities.

Under the framework the Group can issue various funding instruments, including:

- Committed facilities (revolving and term debt from banks and institutional investors);
- Green, Social and Sustainable Bonds (all 'Sustainable Bonds');
- Private Placements (including US Private Placements); and
- Leases.

The Framework is based on the existing international standards:

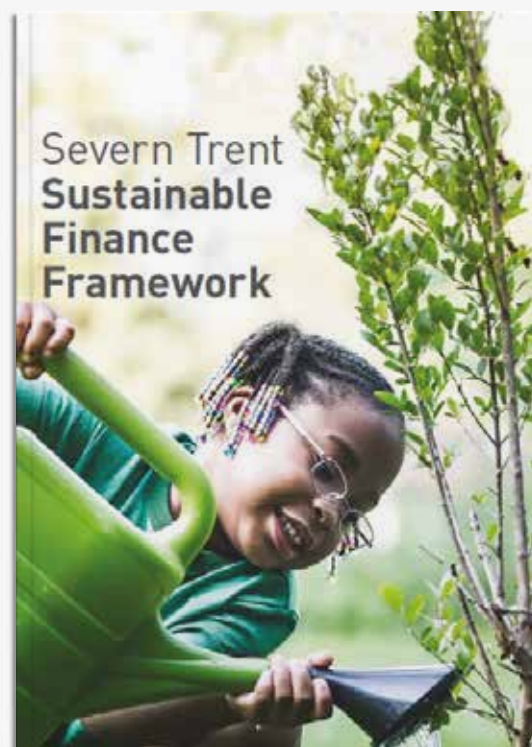
- The Green Bond Principles ('GBP'), Social Bond Principles ('SBP') and Sustainability Bond Guidelines ('SBG') as published by the International Capital Market Association ('ICMA') in June 2018; and
- The Green Loan Principles ('GLP') and Sustainability Linked Loan Principles ('SLLP') as published by the Loan Market Association ('LMA') in March 2018 and March 2019.

These principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green, Social and Sustainability Bond and Green and Sustainability Linked Loan market by clarifying the approach for this type of financing.

We aim, where possible, to adhere to best practices in the market and regularly review the Framework's alignment to updated versions of the principles as and when they are released. The Committee will also review the EU Sustainable Finance Taxonomy, or its equivalent following the UK's departure from the EU, when it is published and consider updates to the Framework accordingly.

The Committee is delighted to report that the Group completed its first debt issue under the Sustainable Finance Framework in March 2020 with a £200.2 million USPP debt issue by Severn Trent Plc. This was the first debt issue by Severn Trent Plc since 2012. The proceeds from the debt issue will be used to finance and refinance expenditure by Severn Trent Green Power Limited including the acquisition of Agrivert.

 **Read more:** in our Sustainable Finance Framework on our website



CORPORATE SUSTAINABILITY COMMITTEE REPORT



Committee members

Angela Strank
Chair of the Corporate
Sustainability Committee

Andrew Duff
Outgoing Chair, Severn Trent Plc
(Retired from the Board
31 March 2020)

Olivia Garfield
Chief Executive

Christine Hodgson
Chair, Severn Trent Plc

Sharmila Nebhrajani
Independent
Non-Executive Director
(Appointed 1 May 2020)

Dominique Reiniche
Independent
Non-Executive Director

Quick facts

- The members of the Committee in 2019/20 were Non-Executive Directors of the Board and the Chief Executive.
- Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Director of Human Resources, senior management and external advisers may be invited to attend meetings as and when appropriate.
- The Committee's Terms of Reference were updated in March 2020 to reflect the developing sustainability agenda.

Dear Shareholder

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

I'm delighted to report that we've had a particularly strong year in our wide-ranging sustainability agenda, with the introduction of our Triple Carbon Pledge. We also agreed to improve the biodiversity of the land in our region through the Great Nature Boost, using nature-based solutions to help reduce the need for chemical treatment processes, supporting customers who are struggling to pay their bills, and helping customers to improve their water efficiency. The Committee spent a significant proportion of its time focusing on Severn Trent's role as an environmental leader, considering the Company's approach to climate change adaptation and mitigation, including our new commitment to developing Science-Based Climate and Carbon Targets, and submitting our first disclosure against the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD').

The Committee plays a key role in supporting the Board within the Governance Framework, by providing guidance and direction to the Company's corporate responsibility and sustainability commitments. Reflecting the Committee's broad role in reviewing both the strategy and framework of our environmental, social and corporate governance approach and also overseeing the Company's values, in March 2020 the Committee updated its name to the Corporate Sustainability Committee. This year we reviewed our Sustainability Framework, which draws together our environmental, social and governance ambitions. While those ambitions will still be delivered as part of our business plan, fully embedded in the way we work, this framework helps us to articulate how we deliver our purpose, and how the entire workforce participates in delivering it. We are particularly pleased to report that the Sustainability Framework is well embedded as part of our culture in Severn Trent and the entire workforce participates in delivering this.

During 2019/20, the Committee reviewed the Group's performance across a range of sustainability commitments and analysed regular whistleblowing reports. We had oversight of the Health, Safety and Wellbeing Strategy and performance of the Company and were pleased to report the introduction of the real Living Wage across Severn Trent. We also reviewed our approach to modern slavery and were pleased that our 2019 Modern Slavery Statement ranked 24th in the Development International and BRE Global Governance FTSE100 Index review of FTSE100 companies.

Other matters we have focused on this year include employee experience through our HR casework, the Company's approach and performance on social mobility and diversity and inclusivity.

The Committee reviewed our new Severn Trent Community Fund which is our commitment to invest 1% of our profits each year in community projects, providing an exciting opportunity to make a positive impact in our region. The first grants were made available in April 2020. A COVID-19 £1 million emergency fund was established in March 2020 to support projects and charities directly affected by COVID-19 in our region, with over £500k already donated to 200 organisations. Read more on page 4.

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

Angela Strank
Chair of the Corporate Sustainability Committee

19 May 2020

Focus Areas in 2019/20

The Committee provides Board oversight for the promotion of our values and standards that relate to the social and economic community in which the Company operates, in accordance with the Company's Corporate Sustainability Framework, ensuring the Company can demonstrate that it lives through these values and can act responsibly in its engagement with all stakeholders in this community, locally and nationally. The Committee also oversees the approach of environmental standards, particularly those that relate to the activities where Severn Trent has its most significant environmental impacts in respect of energy management and climate change, water quality, resource productivity (including leakage and waste), biodiversity and land use. Some key areas of discussion for the Committee during 2019/20 included:

Key areas of discussion

Corporate Sustainability Performance Report – quarterly update on all strategic elements.

Oversight of the Company's Sustainability Framework.

Oversight of environmental leadership (including our Triple Carbon Pledge), Climate Change Adaptation and Mitigation and Pollution Incident Reduction Plan.

Approval of the use of Science-Based Targets and strategy for the Company's approach to the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD').

Update on the Company's Capital Markets Day based on the Company's Sustainability Framework.

Oversight of the Group's diversity and inclusion performance.

Consideration of the Severn Trent Community Fund set up and approach.

Review and approval of the Anti-Slavery and Human Trafficking Statement 2020.

Review of Severn Trent's Health, Safety and Wellbeing Strategy and performance.

Review of our support for vulnerable customers.

Oversight of the Company's real Living Wage accreditation.

Approval of revised Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.

Consideration of employee experience through HR casework.

Review of whistleblowing reports.

BEING SOCIALLY PURPOSEFUL OUR SUSTAINABILITY FRAMEWORK

TAKING CARE OF THE ENVIRONMENT



Ensuring a sustainable water cycle



Enhancing our natural environment



Making the most of our resources



Mitigating climate change

HELPING PEOPLE TO THRIVE



Delivering an affordable service for everyone



Providing a fair, inclusive and safe place to work



Investing in skills and knowledge



Making a positive difference in the community

BEING A COMPANY YOU CAN TRUST



Living our Values



Balancing the interests of all our stakeholders



Running our company for the long term



Being open about what we do and sharing what we know

Acting in a responsible manner is integral to our purpose of taking care of one of life's essentials and having a socially purposeful culture throughout the Company. We hold ourselves to account against our Framework and agreed metrics through an effective performance management system. Our Corporate Sustainability performance is embedded within the organisation, with customer ODIs linked to the majority of our metrics, enabling the Company to focus on issues important to our customers.

Performance against the Framework will be regularly reported to the Committee, in our Annual Report and Accounts, on our website and through selected Environmental, Social and Governance ('ESG') indices. You can read more in our first standalone Sustainability Report available on the Severn Trent Plc website.

Employee rewards are directly linked to our Corporate Sustainability performance, with customer ODIs, health and safety and our key metrics contributing to a third of all-employee annual bonus. We believe that by focusing on the issues most important to our customers, our Framework has the right focus.

The Committee ensures that, in considering the matters before them, we take into account the Severn Trent Purpose and Values, and alignment with Doing the Right Thing. You can read more on page 14.

Whistleblowing

Our employees, and wider workforce, know they can raise concerns to their line manager or by contacting a member of the Executive, the HR, Legal and Internal Audit teams or through our independent whistleblowing helpline, 'Safecall'. Every single allegation is independently investigated and reported to the Corporate Sustainability Committee and the Audit Committee. In our most recent survey employees were asked if they felt confident that something would be done if they raised a concern. The Committee is pleased to report that our score on this question put us in the top 10% of energy and utility companies worldwide.

Human rights and modern slavery

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

We will always treat people in our business and supply chain fairly and have a clear zero-tolerance approach to modern slavery. To date we have had no instances of modern slavery raised, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. We know modern slavery is a growing global issue and know our customers and stakeholders share our concern. Our highest risk is through our supply chain. Therefore, we work with our suppliers to ensure they operate to the same standards we set ourselves, and we have also been working closely with our suppliers to ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states zero tolerance, and this is built into our procurement tender process. This year we have focused on education and raising awareness, creating a bespoke e-learning training module. 97% of our employees, excluding our customer contact centre teams, have completed it and 98% said they felt more confident reporting modern slavery following completion of the module. Targeted awareness will be rolled out to our customer contact centre teams over the next 12 months.

Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website.

Freedom of association and collective bargaining

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

Responsible business practices are an integral part of our business strategy. Performance against our Corporate Sustainability commitments is reported throughout our Annual Report and Accounts, reflecting their embedded nature. You can read more in our Sustainability Report and on our dedicated Sustainability webpages, on the Severn Trent Plc website.

 **Read more:** in our Sustainability Report on our website.



REMUNERATION COMMITTEE REPORT



Philip Remnant
Chairman of the
Remuneration Committee

Kevin Beeston
Senior Independent
Non-Executive Director

Andrew Duff
Outgoing Chair, Severn Trent Plc
(Retired from the Board
31 March 2020)

Christine Hodgson
Chair, Severn Trent Plc

Angela Strank
Independent
Non-Executive Director

Quick facts

- The Committee's Terms of Reference were updated in March 2020 and are available on the Severn Trent website, alongside the Remuneration Policy which was approved at the Annual General Meeting on 18 July 2018.
- All Committee members are independent Non-Executive Directors, as defined under the 2018 UK Corporate Governance Code, with the exception of the Company Chair who was independent on appointment. Full biographies of the Committee members can be found on pages 72 to 73.
- The Committee members have no personal financial interest, other than as shareholders, in the matters considered by the Committee.
- Committee attendance during the year can be seen on page 73.

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Company Remuneration at Severn Trent	112
Annual Report on Remuneration	120

Dear Shareholder

On behalf of the Remuneration Committee ('the Committee'), I am pleased to provide an overview of our work in relation to both Executive Director and wider workforce remuneration for the year ended 31 March 2020. The final year of the five-year Asset Management Period ('AMP') cycle is a period for both reflection and anticipation. This has been a year of achievement to be proud of and a culmination of strong performance throughout the AMP, reflected in the remuneration across the entire workforce.

I am immensely proud of seeing our teams adjust how they work to ensure we continue to provide our essential service during COVID-19. The health, safety and wellbeing of our colleagues, customers and communities have never been more crucial. We are fortunate to be in a position to provide stability and security of pay for our workforce, very many of whom are classified as key workers, through this difficult period, announcing that we will continue to pay our all-employee annual bonus and have agreed a three-year pay deal, as well as a commitment not to furlough or make redundancies as a result of COVID-19.

At the same time, we are actively offering support to our customers and communities through a range of initiatives, more information on which can be found on pages 10 to 11. We have announced that Christine Hodgson, our Chair, Liv Garfield, our CEO, and James Bowling, our CFO, have asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to local charities in our region which are helping the response to COVID-19.

Further details of the decisions which the Committee has made in respect of key components of executive remuneration as a consequence of COVID-19 are summarised on page 104.

As we enter the new AMP, we continue with the same enthusiasm and dedication to strive for high performance. We have strong relationships between all components of remuneration and company financial drivers, as well as strong alignment across the workforce. The Directors' Remuneration report ('the report') this year also sets out the strategy and approach as we enter the 2021 Remuneration Policy ('the Policy') review.

During the year, the Committee has taken full account of the 2018 Corporate Governance Code (the '2018 Code') in our discussions and remuneration practices. Our approach has always been for best practice reporting, disclosure and transparency and for consistent treatment of executive remuneration when compared with the treatment of the wider workforce. As we navigate the impact of the current global pandemic, we remain firmly committed to these guiding principles.

Further comment on our overall performance during the financial year is set out in the CEO's review on page 12, and highlighted in the At a Glance and Annual Report on Remuneration sections later in this report.

Our all-employee bonus scheme

Last year we communicated changes to our all-employee bonus scheme which further strengthened the alignment between reward outcomes and strategic priorities for all colleagues, including our Executive Directors.

The commitment to delivering profit before interest and tax ('PBIT') remains a significant indicator, attracting 49% of bonus. Further changes rebalanced the focus on Outcome Delivery Incentives ('ODIs') which, through a mechanism of reward or penalty, measure performance against the areas that customers have told us matter most as well as our broader environmental responsibilities. We also include 8% which is dedicated to initiatives which ensure the Health, Safety and Wellbeing of colleagues and a further 8% which is based on Customer Experience ('C-MeX'). These, together with the ODIs, make up the remaining 51% of the bonus. The changes to the bonus scheme were received positively by our employees and major shareholders.

Ensuring alignment with the Corporate Governance Code

Last year we introduced several changes to ensure that our approach to governance and disclosure reflected changes to the 2018 Code. This year the Committee has also agreed, and communicated to shareholders, the approach regarding the alignment of Executive Directors' employer pension contributions with those of the wider workforce and post-cessation shareholding requirements, both of which are covered in more detail in this section. This year we have also published our CEO pay ratio and we are pleased to present two years' worth of information for 2018/19 and 2019/20.

Remuneration for the year under review

The full Policy can be found on the Severn Trent Plc website and on pages 120 to 128 in the 2018 Directors' Remuneration report. Through our At a Glance Section, on page 105, we summarise the performance outcomes against our remuneration framework, in the context of how the Policy was applied in 2019/20.

The annual bonus will pay out at 74% of maximum opportunity, equivalent to 88.8% of salary for both the CEO and CFO, and at their request the full amount will be paid in shares, 50% of which will be deferred for three years.

The 2017-20 Long Term Incentive Plan ('LTIP') has vested at 100%, driven by the continued strong cumulative performance of our Return on Regulated Equity ('RoRE') over the three-year performance period. The component parts of RoRE are ODIs, financing and Totex (total capital and operational expenditure).

The Committee believes that the outcomes of the annual bonus and LTIP accurately reflect the performance of the Company over this period. No discretion has been exercised by the Committee to override the formulaic outcomes of either the 2017 LTIP or the 2019/20 annual bonus, nor has the share price performance over the vesting period been such to cause the Committee to adjust the level of vesting under the LTIP.

Our People at Severn Trent

Our ongoing focus on greater visibility of remuneration across our entire spectrum of workforce initiatives has led to the creation of a new section in the Strategic report on page 20. The Our People section showcases our broader people initiatives, activities and accomplishments in the areas of diversity, inclusion, culture, engagement and social mobility, and highlights how these link to our new Purpose and Values, set out in more detail on page 14.

The Company Remuneration section on page 112 now focuses wholly on pay and reward, and explains how the Committee has satisfied itself, over the course of the year, that a fair and consistent approach is applied to both the remuneration of the Executive Directors and the wider workforce.

Remuneration in the year ahead

Our commitment to delivering a leading and transparent remuneration framework is fundamental to strong governance processes and is designed to embed our Values across the Company to deliver long-term success. As mentioned above the Chair, CEO and CFO have voluntarily donated 25% of their salary during the first quarter to support local charities in our region.

Some future developments are outlined below:

- As a Committee, we believe that the alignment of all-employee interests is key to the Company's long-term success. With this principle in mind, and prior to next year's Policy review, it has been agreed that employer pension contributions for our Executive Directors and members of the Severn Trent Executive Committee will be aligned with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce) by 1 April 2022. The Committee would like to thank the Executive Directors for voluntarily supporting the phased reduction of their employer pension contributions. On page 109 we explain how the Policy will be implemented for the Executive Directors in 2020/21.

- We have retained 1.39 times the base RoRE return as our target into the new AMP for the Severn Trent Plc LTIP in spite of the demanding regulatory settlement. This ensures that we are building in a further challenge to this element of remuneration. Maximum payouts continue to be measured against upper quartile ('UQ') stretch RoRE performance. To be fully rewarded, management must continue to deliver one of the best service and cost performances compared with other companies in the sector, aligning reward with the interests of both investors and customers.
- As we enter AMP7, we will continue to apply a consistent bonus scheme design from the front line to Executive Directors, ensuring that every employee is incentivised and rewarded to deliver the same shared objectives. The focus of the bonus remains a combination of ODI and PBIT performance. We have also looked at how we can make the ODI measures more meaningful to employees in roles which directly impact these metrics. In the 2020/21 scheme, we will articulate the ODIs in language which brings to life how we work.

The Policy Summary and Implementation section on page 108 outlines how the Committee intends to implement the Policy in 2020/21.

Ongoing shareholder communication

In February 2020 we contacted our 30 largest shareholders representing over 50% of our issued share capital, as well as Glass Lewis, The Investment Association and ISS, to inform them of the Company's approach to achieving pension alignment between Executive Directors and the Company's wider workforce (as mentioned above) as well as clarifying how we intend to operate the LTIP performance targets for awards made from 2020 onwards. These are within the remit of the current Policy which is due for renewal in 2021.

In the unlikely event that Severn Trent achieves UQ RoRE performance relative to our Water and Sewerage Company ('WaSC') peers which is below 139%, but above 100%, of Severn Trent's Final Determination ('FD'), we believe that achieving UQ against peers within the performance period would represent exceptional performance and hence justify full vesting. There will be no change to how threshold and target performance will be calibrated and there will be nil payout for any performance below the FD. As a Committee, we will continue to review formulaic LTIP vesting outcomes to ensure that they are a fair and accurate reflection of business performance.

As part of the 2021 Policy review, we will introduce a post-cessation of employment shareholding requirement in line with the 2018 Code.

We will continue to maintain an ongoing and transparent dialogue with our major shareholders and actively engage with each of them individually as the formal Policy review commences later in 2020.

Committee changes

Andy Duff retired as a member of the Committee and Chair of the Board in March 2020, and Christine Hodgson has succeeded him. I would like to add my thanks to Andy for his invaluable contribution and leadership over the past nine years, and to welcome Christine to both the Committee and the Board.

Committee performance

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

Philip Remnant

Chairman of the Remuneration Committee

2019 AGM shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration report	176,315,760	1,203,205	762,069
	(99.32%)	(0.68%)	

REMUNERATION COMMITTEE REPORT CONTINUED

Key areas of Remuneration Committee focus in 2019/20

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

Our workforce	Executive and senior management remuneration	Committee governance
✓ Approved the outturn of the 2018/19 all-employee annual bonus scheme.	✓ The Committee discussed and approved the Company's approach to achieving alignment of employer pension contributions between Executive Directors, the Severn Trent Executive Committee and the wider workforce by 1 April 2022.	✓ Reviewed and approved the Directors' Remuneration report 2018/19 and agreed the framework for the 2019/20 report.
✓ Considered Severn Trent Plc's 2019 gender pay gap statistics.	✓ Approved the outturn of the LTIP awards granted in June 2016.	✓ Considered Severn Trent's 2018/19 reward and performance alignment compared with our WaSC peers.
✓ Reviewed and approved the 2019/20 all-employee annual bonus scheme structure and targets.	✓ Reviewed and approved the LTIP awards granted in July 2019.	✓ Considered an independent update, provided by PwC, on current market practice and future remuneration trends.
✓ Considered the 2020/21 all-employee annual bonus scheme structure.	✓ Considered the structure of the LTIP awards to be granted in 2020.	✓ Reviewed the expenses claim procedure for the Chair and CEO.
✓ Conducted its annual assessment of the Company's workforce policies and practices and satisfied itself that these support its long-term sustainable success. The Committee reported to the Board on this matter.		✓ Approved revised Terms of Reference to be applied from 1 April 2020, prior to making recommendation to the Board.
✓ Considered and endorsed the Company's intention to commence the process to become an accredited real Living Wage employer.		

COVID-19 impact on executive remuneration

The following table summarises the key components of executive remuneration and the decisions made by the Committee:

Element of remuneration	Committee decision	Rationale
2019/20 bonus	To pay the bonus in the normal manner with no adjustment. At the request of the Executive Directors the full bonus will be paid in shares, 50% of which will be deferred for three years.	<ul style="list-style-type: none"> The 2019/20 bonus is reflective of the Company's strong performance in a challenging year, prior to the impact of COVID-19. The Company bonus criteria are the same for executives and all other employees. All eligible employees will receive their 2019/20 bonuses. The final dividend will be paid. The Company's balance sheet, liquidity and finances are strong.
2020/21 salary rises	To increase the level of base salaries for the Executive Directors in line with the average rise made to all employees. The CEO and CFO have asked the Company to reduce their salaries by 25% for the first quarter of our 2020/21 financial year.	<ul style="list-style-type: none"> The Company has announced its commitment for all eligible employees to receive a salary increase in the 2020/21 financial year, as part of a three-year pay deal, as well as a commitment not to furlough or make redundancies as a result of COVID-19.
2020/21 bonus	The Committee will continue to use the performance conditions and weightings agreed with shareholders. However, in relation to Group PBIT the Committee has determined that the maximum amount of bonus capable of being paid for this element will be fixed at the target level even if the actual performance exceeds target. The Committee believes that given the external circumstances and wider impact of COVID-19 on society it is not appropriate to pay a bonus greater than target level for the 2020/21 financial year for PBIT. Therefore, in practice the maximum achievable bonus potential will be approximately 91%, rather than 120%, of salary.	<ul style="list-style-type: none"> The Company has committed publicly to the operation of a bonus plan for all eligible employees for 2020/21. The Company performance conditions are the same for employees and Executive Directors. Whilst the budget for the year reflects the anticipated impact of COVID-19, the Company's five year plan in aggregate remains materially unchanged in terms of its ambition and performance. Annual bonus targets will, therefore, be set in the light of financial and other objectives re-phased for the impact of COVID-19.
2017 LTIP vesting	The Committee intends to allow the 2017 LTIP award to vest without adjustment in June 2020.	<ul style="list-style-type: none"> The 2017 LTIP measures performance over three years and therefore has only been marginally impacted by COVID-19. The value of the shares on vesting will reflect the share price experience of our shareholders.
2020 LTIP grant	The Committee has determined to make the grant on the normal timetable and to retain the performance conditions and targets agreed with shareholders. The Company will follow its normal practice of using the three-day average share price immediately prior to the date of grant to determine the number of shares awarded.	<ul style="list-style-type: none"> The LTIP performance condition is based on the long-term RoRE performance of the Company over AMP7 and therefore remains appropriate. The Company's share price has been less impacted by COVID-19 than many other companies and is higher today than the price used for the 2019 LTIP grant. The Committee will assess the value of the 2020 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains.

Who supports the Committee?

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

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

Fees, on a time-spent basis, for advice provided by PwC to the Committee during the year were £98,643 excluding VAT (2018/19: £143,000). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. There are no connections between PwC and individual Directors to be disclosed.

REMUNERATION AT A GLANCE

The following section sets out our remuneration framework, a summary of how the Policy was applied in 2019/20 in the context of our business performance, and from page 108 details how the Committee intends to implement the Policy in 2020/21.

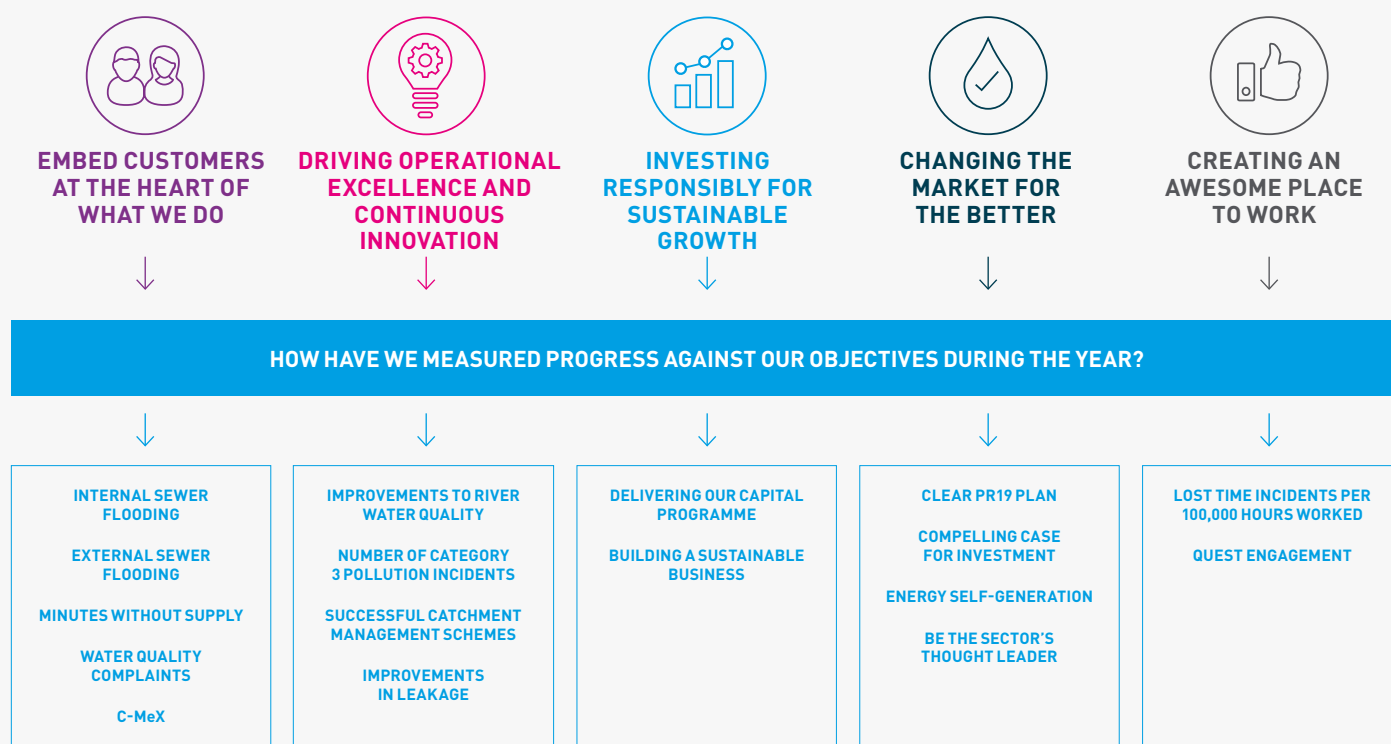
Strategic alignment of remuneration

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance

conditions applying to incentive arrangements support the delivery of the Company's strategy. The following table sets out how the annual bonus scheme and LTIP for 2019/20 reflects the strategic framework which was in place at the start of 2019/20. This will be updated next year to reflect the 2020/21 annual bonus scheme which will be linked to our new purpose of taking care of one of life's essentials.

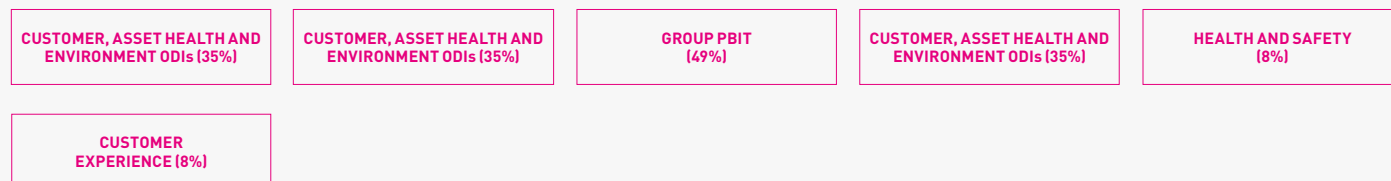
Further information on the Company's new Purpose and Values can be found on page 14.

PERFORMANCE BASED PAY LINKED TO THE STRATEGIC FRAMEWORK IN PLACE IN 2019/20

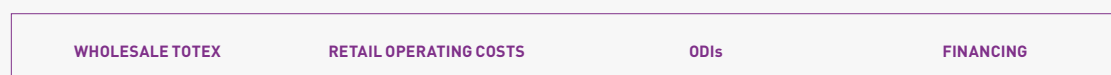


HOW ARE OUR STRATEGIC OBJECTIVES LINKED TO OUR INCENTIVE PLAN?

ANNUAL BONUS SCHEME



LTIP BASED ON 100% RoRE AND THE COMPONENTS OF RoRE ARE:

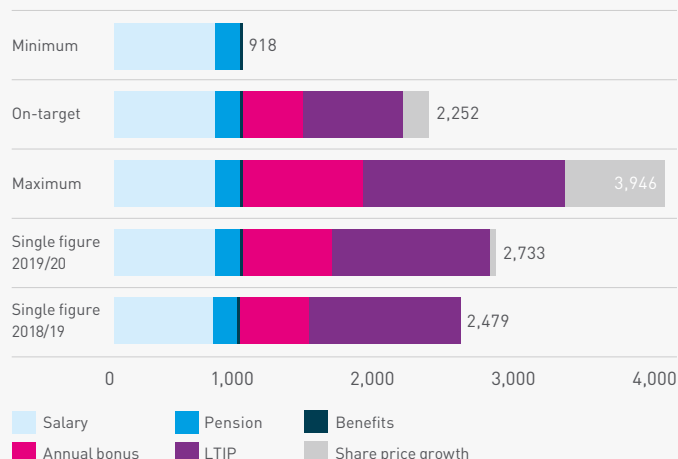


REMUNERATION COMMITTEE REPORT CONTINUED

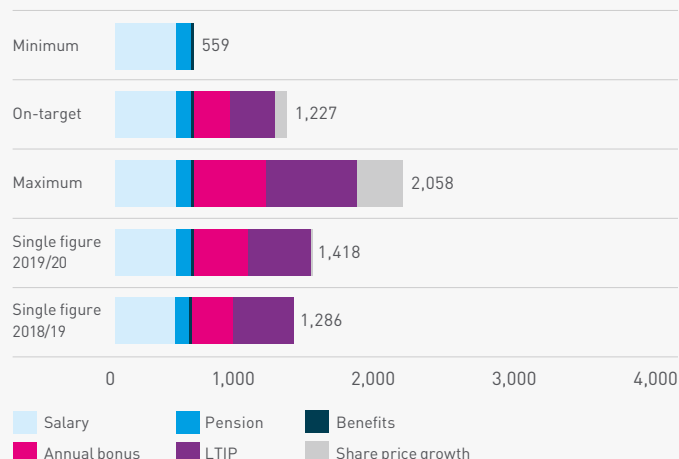
2019/20 single figure outcomes

The graphs show how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors. The full explanatory notes for each element of remuneration are detailed on page 120 in the Annual Report on Remuneration.

CEO (Liv Garfield)



CFO (James Bowling)



- Minimum pay is fixed pay only (i.e. salary + benefits + pension).
- On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for both the CEO and the CFO) and 50% vesting of the LTIP awards (with grant levels of 200% of salary for the CEO and 150% of salary for the CFO), and illustrating 25% increase in share price on LTIP shares over the vesting period.
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards, and illustrating 50% share price increase on LTIP shares over the vesting period.

- All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on the salary paid during the year ended 31 March 2020. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2020. The Executive Directors are also permitted to participate in the all-employee Sharesave scheme, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus 2019/20 outturn

A summary of performance is set out on pages 38 to 50 of the Strategic report.

Bonus element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
Group PBIT ⁽ⁱ⁾	£545.0m	£560.0m	£575.0m	49%	45.1%
	Actual £570.3				
Customer, Asset Health and Environment ODIs	£4.9m	£26.3m	£47.2m	35%	20.0%
	Actual £35.9				
Health and Safety ⁽ⁱⁱⁱ⁾	0.25	0.16	0.09	8%	2.2%
	Actual 0.20				
Customer Experience ⁽ⁱⁱⁱ⁾	14	11	8	8%	6.7%
	Actual 9				

(i) If the PBIT component is above target the additional costs are covered by incremental profit. The bonus outturn is based on the equivalent PBIT value before payment of a stretch bonus which is equal to £572.6m for the Group. After payment of the stretch bonus (£2.3m) the underlying Group PBIT is £570.3m, as defined in note 44 to the Group financial statements.

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

(iii) Measured as ranking in C-MeX the new industry-wide performance measure.

Bonus opportunity and outcome

Name of holder	2019/20 salary (£'000)*	Bonus opportunity (% salary)	Bonus outcome (% max)	Annual bonus (£'000)**	Value paid in shares (£'000)	Value of deferred shares (£'000)	2019/20 front line bonus outturn (£'000)***	2019/20 team manager/ technical expert bonus outturn (£'000)
CEO	725.0	120%	74.0%	643.5	321.8	321.7	1.2	1.7
CFO	436.9	120%	74.0%	387.8	193.9	193.9		

* Bonus calculated using salary at 31 March 2020.

** The CEO and CFO requested that the 2019/20 bonus be paid fully in shares, with 50% deferred for three years.

*** Includes operational/administrative/advisory roles.

2017 LTIP vesting in 2019/20

The chart shows the outcome of the 2017 LTIP awards, for which the performance period ended on 31 March 2020. The LTIP which is based on RoRE over the three years to 31 March 2020 will vest in June 2020.

Further information is provided on page 122 in the Annual Report on Remuneration, including a breakdown of the LTIP awards granted to Executive Directors in 2019.

2017 LTIP vesting table

	Threshold FD (25% payable)	Maximum (100% payable)	CEO outcome (vesting as % of award)	CFO outcome (vesting as % of award)
RoRE – measured against multiple of Ofwat FD	1x	1.39x	100%	100%
	Actual 1.51x			

	Number of shares granted	Award vesting (% max)	Face value of shares vesting (£'000) ⁽ⁱ⁾	Value attributable to share price movement (£'000)	Value of dividend equivalents due (£'000) ⁽ⁱⁱ⁾	Value of resultant award (£'000)
CEO	42,383	100%	1,058.7	43.2	113.0	1,171.7
CFO	17,028	100%	425.4	17.4	45.4	470.8

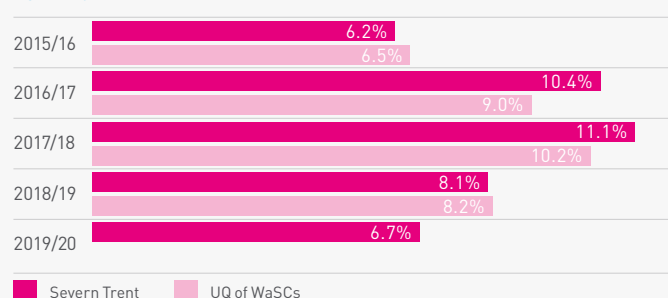
(i) Based on 3 month average share price as at 31 March 2020 of £24.98.

(ii) Based on dividends paid in the period since date of grant to 31 March 2020.

Business performance – 2019/20 outturns against Key Performance Indicators ('KPIs')

The charts show our customer ODI and RoRE performance since the beginning of AMP6. This strong sustained level of performance, when compared with our FD, has informed the level of reward received by our Executive Directors and our employees through the Company-wide bonus scheme, which is linked to the same performance measures.

RoRE %^{(i) (ii) (iii)}

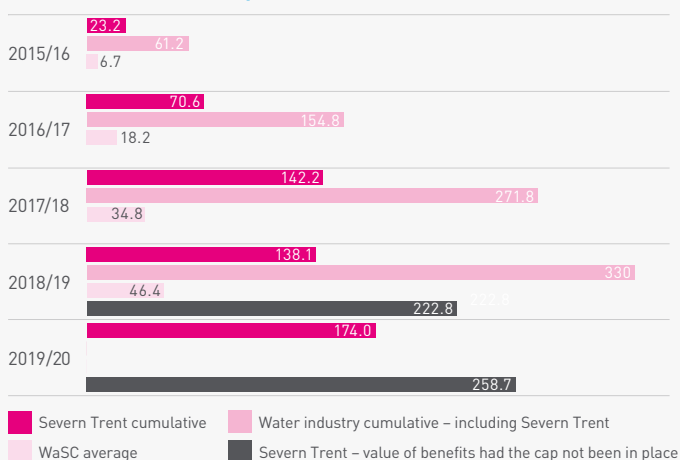


(i) Our calculation of RoRE includes the PR14 SIM measure, whereas the UQ RoRE is based on published company data which currently does not include the impact of SIM.

(ii) Severn Trent RoRE has been restated for years 2015/16 to 2018/19 to recognise the impact of the PR14 SIM penalty (-0.1% p.a.) over the years when the penalty was earned.

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

Cumulative ODI £m outperformance



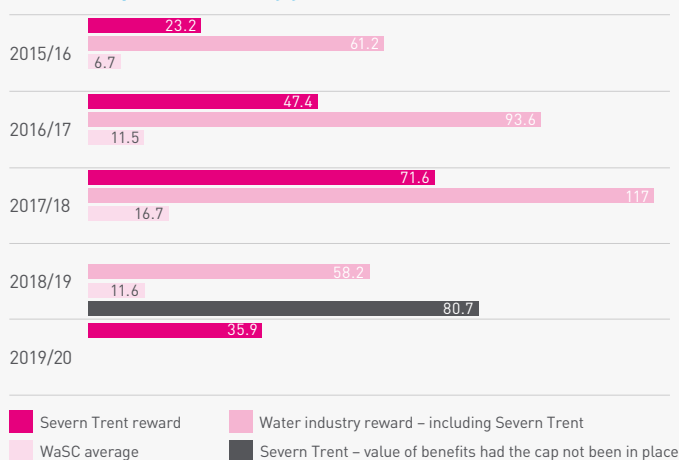
(i) Customer ODIs quoted pre-tax in 2012/13 prices.

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

(iii) 2018/19 figure is post the regulatory customer ODI cap. The grey bar demonstrates the equivalent value of benefits which would have been delivered had the cap not been in place.

(iv) WaSC average and Industry reward not yet available for the current year.

ODI £m outperformance by year



REMUNERATION COMMITTEE REPORT CONTINUED

Executive Director shareholdings

The CEO and CFO have exceeded the shareholding requirements applicable in 2019/20 of 300% and 200% of salary, respectively.

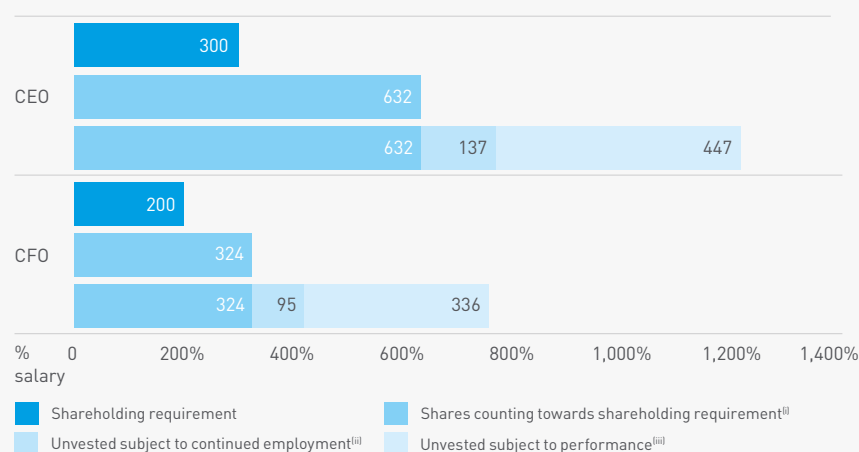
Shareholding requirement

The minimum shareholding requirement for Executive Directors, and the current share interests of the Executive Directors, take into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance, and are set out opposite. The shareholding requirement must be built up over five years and then subsequently maintained.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 123.

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

Executive Director shareholdings % of base salary



(i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share awards (of which 47% are deducted to cover statutory deductions).

(ii) Represents 2017 LTIP shares which are subject to an ongoing vesting period plus shares held as part of the Sharesave scheme.

(iii) Represents the 2018 and 2019 LTIP awards which are subject to ongoing performance.

All calculations in the above chart use a closing share price on 31 March 2020 of £22.80.

Overall link to remuneration and equity of the Executive Directors

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

	2019/20 single figure (£'000)	Shares held at the start of the year	Shares held at the end of the year	Value of shares at start of year (£'000)	Value of shares at end of year (£'000)	Difference (£'000)
CEO	2,733.4	137,349	180,738	2,714.0	4,120.8	1,406.8
CFO	1,418.0	32,075	49,826	633.8	1,136.0	502.2

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

(ii) Based on a closing share price on 31 March 2020 of £22.80.

SUMMARY OF THE POLICY AND IMPLEMENTATION IN 2019/20 AND 2020/21

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

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

Total pay over five years	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary				
Fixed pay	Benefits, pension				
Annual bonus (Malus and clawback provisions apply)	50% in cash	50% in shares Three-year deferral period No further performance conditions			
LTIP (Malus and clawback provisions apply)	Up to 200% of salary Three-year performance period			Two-year holding period No further performance conditions	

The table below sets out an overview of the key areas of the Policy and summarises how the Committee applied the Policy in 2019/20, together with details of how the Committee intends to implement the Policy in 2020/21.

Base salary

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

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
Salaries are normally reviewed annually on 1 July. Salaries take account of: – Individual performance; – Experience and contribution; – Developments in the relevant employment market; – Company performance and affordability; – Wider economic environment; and – Internal relativities.	Any increases will typically not be higher than the average increases for employees. However, a higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstances.	Executive Directors' salaries increased by 2.4% from 1 July 2019. CEO – £725,000 CFO – £436,900 These rises were in line with the general employee salary increase of 2.4%.	Executive Directors' salaries increase by 2.3% from 1 July 2020. CEO – £741,700 CFO – £447,000 These rises are in line with the general employee salary increase. The CEO and CFO asked the Company to reduce their salaries by 25% for the first quarter of 2020/21.

Benefits

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

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
Benefits typically include travel allowance (formerly car allowance, changed to recognise the use of public transport), family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. In addition, Executive Directors are eligible to participate in all-employee share plans on the same terms as other eligible employees.	The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.	Normal company benefit provision.	No change.

Pension

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

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
A defined contribution scheme and/or cash supplement in lieu of pension.	For current Executive Directors, the Company contribution to a pension scheme and/or cash allowance will be reduced in stages from a maximum of 25% of salary to 15% of salary by 1 April 2022. For any new recruit, the contribution will be up to a maximum of 15% of salary. This is in line with the level of contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).	Executive Director pension arrangements for 2019/20 were as follows: CEO – 25% of salary CFO – 25% of salary	Executive Director pension arrangements for 2020/21 are as follows: CEO – 21.6% CFO – 21.6%

REMUNERATION COMMITTEE REPORT CONTINUED

Annual bonus

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

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
<p>Bonuses are based on financial, operational and customer service.</p> <p>50% of the bonus is paid in cash and 50% is deferred into shares for three years (with the value of any dividends to be rolled up and paid on vesting). There are no further performance targets on the deferred amount.</p> <p>The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework.</p> <p>Malus and clawback provisions apply.</p>	<p>Maximum award of 120% of salary.</p> <p>There will be no payment made for threshold performance.</p> <p>50% of maximum will be paid for target performance and 100% of maximum will be paid for stretch performance.</p>	<p>Maximum opportunities:</p> <p>CEO – 120% of salary</p> <p>CFO – 120% of salary</p> <p>Performance measures (as a % of maximum):</p> <p>Group PBIT – 49%</p> <p>Customer, Asset Health and Environment ODIs – 35%:</p> <ul style="list-style-type: none"> – Customer (15%) – Asset Health (10%) – Environment (10%) <p>Customer Experience – 8%</p> <p>Health & Safety – 8%</p> <p>Executive Directors awarded bonuses of:</p> <p>CEO – 88.8% of salary</p> <p>CFO – 88.8% of salary</p> <p>At the request of the Executive Directors the full amount will be paid in shares, 50% of which will be deferred for three years.</p> <p>See page 106 for further details on outcomes.</p>	<p>No change to the maximum bonus opportunity or payment mechanisms of bonuses.</p> <p>We will articulate the ODI measures in language which brings to life how we work, as described below.</p> <p>Performance measures (as a % of maximum):</p> <p>Group PBIT – 49%</p> <p>Customer & Environment ODIs – 35%</p> <ul style="list-style-type: none"> – Minimise disruption to customers (12%) – Prevent failure in our network and our sites (11%) – Improve the environment we live in (12%) <p>Customer Experience – 8%</p> <p>Health & Safety – 8%</p>

LTIP

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

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
<p>Awards are granted annually and are subject to a three-year performance period.</p> <p>RoRE is the sole performance condition, with a stretch target based on UQ performance.</p> <p>RoRE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value, as prescribed by Ofwat.</p> <p>Awards made to Executive Directors are subject to a two-year holding period post-vesting which continues to operate post-cessation of employment.</p> <p>Malus and clawback provisions apply.</p> <p>The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting.</p>	<p>Maximum award opportunity up to 200% of salary. Up to 25% of an award may vest for threshold performance.</p>	<p>Grant levels:</p> <p>CEO – 200% of salary</p> <p>CFO – 150% of salary</p> <p>The 2017 LTIP vested in the year at 100%. See page 122 for further information and for details of the RoRE target for the 2019 LTIP awards granted in the year.</p>	<p>No change to maximum LTIP opportunities.</p> <p>See page 103 of the Committee Chairman's letter for clarification of the operation of the performance targets.</p> <p>See page 111 for detail on LTIP awards to be granted.</p> <p>The Committee will assess the value of the 2020 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains.</p>

Shareholding requirement

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

Operation	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirement has been met.	CEO – 300% of salary CFO – 200% of salary See pages 108 and 123 for further details on shareholding requirements and outstanding share awards.	No change to requirements.

LTIP awards to be granted in 2020

The table below describes how the LTIP will be implemented in 2020. The CEO's award will be 200% of salary and the CFO's award will be 150% of salary. The RoRE performance condition that will be measured over three years, to 31 March 2023, and corresponding vesting (as % of salary) will be:

Operation	Award 2020 LTIP	Threshold FD % salary	1.39x FD % salary	UQ RoRE performance relative to WaSCs % salary
Vesting for performance	CEO	37.5%	150%	200%
	CFO	25%	100%	150%

Chair and Non-Executive Directors' fees (audited)

From 1 July 2020, Non-Executive Director fees will be increased by 2.3% from £56,450 to £57,750, in line with the general employee salary increase.

The Chair, Christine Hodgson, succeeded Andrew Duff on 1 April 2020, having joined the Board as a Non-Executive Director on 1 January 2020. The Chair's fee changed from £294,600 to £300,000 on 1 April 2020.

The Chair asked the Company to reduce her fee by 25% for the first quarter of 2020/21.

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

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following the annual Board Effectiveness evaluation process.

This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. The current Letters of Appointment are available on the Severn Trent Plc website.

Operation	Fees 2020/21	Fees 2019/20	Increase %
Chair's fee	£300,000	£294,600	1.8%
Fee paid to all Non-Executive Directors	£57,750	£56,450	2.3%
Supplementary fees:			
– Senior Independent Director	£10,000	£10,000	0.0%
– Audit Committee Chair	£15,000	£15,000	0.0%
– Remuneration Committee Chairman	£15,000	£15,000	0.0%
– Corporate Sustainability Committee Chair	£13,000	£13,000	0.0%
– Treasury Committee Chair	£15,000	£15,000	0.0%

COMPANY REMUNERATION AT SEVERN TRENT

This new section sets out the steps we take to make sure that our pay and reward framework is transparent, beyond executives and senior management, in a way that is meaningful and useful. Further detail on all aspects of our employee experience, including ways in which we communicate with employees, our activities and our accomplishments in the year, are set out in the Our People section on page 20.

Pay and alignment across the business

Alongside our thriving culture and inclusive working environment, our reward framework is designed to attract, motivate and retain people who are inspired by Severn Trent's Purpose, and live our Values every day. Our new Values have been positively received across the business since they were rolled out in November 2019, as can be seen on page 20.

Our reward package recognises the great performance of our employees, as we deliver our essential service to customers across the region, and is designed to reward all colleagues fairly throughout the organisation. We do this by providing our employees with the remuneration elements set out on the next page.

This section of the report covers:

- Pay and alignment across the business;
- Our Remuneration principles;
- What the Remuneration Committee has looked at in the last 12 months; and
- Pay comparisons
 - Alignment with Group performance;
 - CEO pay ratios; and
 - Gender pay gap reporting.

OUR VALUES



Eligibility	Number of employees covered	Remuneration element	Details
All employees	6,864 (as at 31 March 2020)	Salary	Salaries are set to reflect the market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary Living Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.
		Benefits	All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and which is designed to support a positive work-life balance. 44% of our employees choose to tailor their benefits via our flexible benefits scheme. They have also saved over £91,000 through our employee discount partnerships since the scheme was launched.
		Pension	We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary). As set out in the Chairman's letter on page 103, the employer pension contributions for incumbent Executive Directors will be aligned with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce) by 2022. When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. We are proud that 99% of our employees are members of the pension scheme and 61% pay contributions above the minimum of 3%.
		Annual bonus	All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. For this year the bonus paid out £1,151 to our frontline employees in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig. New starters, post 6 January 2020, were not eligible to receive a bonus.
		SAYE	Offering the opportunity to participate in our Sharesave scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also aligning participants with shareholder interests. 72% of our employees are active participants in our Sharesave scheme which gives employees an opportunity to save up to £500 per month over three to five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.
Management and senior management	356	LTIP A proportion of this population participate in the LTIP by annual invitation	The LTIP reinforces delivery of long-term creation of value and sector outperformance. The retention of shares by Executive Directors for the longer term also supports a shared ownership culture in the Group.
Executive Committee and Executive Directors	11	Shareholding requirement as a % of salary CEO – 300% CFO – 200% Exec Co – 100%	Supports alignment of Executives' interests with shareholders.
Our Supply Chain			We have achieved real Living Wage employer accreditation and firmly believe this is an important step to take. It affords us the opportunity to share our experiences and influence standards throughout our supply chain. This commitment and expectation will be built as part of our Sustainable Supply Chain Charter, alongside modern slavery and social mobility.

Remuneration principles

We strongly believe in fair and transparent reward throughout the organisation and when making decisions on executive remuneration the Committee considers the context of wider workforce remuneration. This section shows how the 2018 Code is embedded in our remuneration principles and how they are cascaded throughout the organisation. The diagram below shows how the Policy is aligned with the factors set out in Provision 40, and how our principles and Policy are aligned with the 2018 Code.

OUR PURPOSE: TAKING CARE OF ONE OF LIFE'S ESSENTIALS

HOW DO WE EMBED OUR PURPOSE AND VISION IN OUR REMUNERATION GUIDING PRINCIPLES?

Support our Purpose, Values and our wider business goals

Drive long-term sustainable performance for the benefit of all our customers, shareholders and wider stakeholders

Be simple, transparent and easily understood by internal and external stakeholders

Encourage our employees to think and act like owners in the business

Attract, motivate and retain all our employees with diverse backgrounds, skills and capabilities

HOW DOES THE COMMITTEE ADDRESS THE REQUIREMENTS UNDER PROVISION 40?

Cultural alignment and proportionality

- The Committee ensures that the overall reward framework embeds our Purpose and Values
- The Committee reviews the executive reward framework regularly to ensure it supports the Company's strategy

Proportionality and risk

- A significant proportion of remuneration is delivered in variable pay linked to corporate performance
- Performance measures/targets for incentives are objectively determined
- Outcomes under incentive plans are based on holistic assessment of performance

Simplicity, clarity and predictability

- The Committee ensures the highest standards of disclosure to our internal and external stakeholders
- The Committee makes decisions on executive pay in the context of all employees and the external environment

Cultural alignment and risk

- The Committee ensures that a significant portion of reward is equity-based and thereby linked to shareholder return
- Executives are required to build significant personal shareholdings in the Company and this is regularly monitored by the Committee

Clarity

- The Committee ensures that Executives are provided with a remuneration opportunity which is competitive against companies of a similar size and complexity, with a strong emphasis on the variable elements

Alignment of the Policy to the Provisions of the 2018 Code

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

What the Remuneration Committee has looked at in the past 12 months

The Committee carried out its first review, under the 2018 Code, of key remuneration elements, policies and processes by employee group during the 2019/20 financial year. This process was introduced for the Committee to meet its responsibility for the oversight and review of wider workforce pay and policies, and to ensure they are designed to support the Company's desired culture and Values.

The Committee's process

In November 2019 the Committee reviewed its first report which set out details of workforce pay policies and practices. The Committee has always been provided with information on how the cascade of the reward framework applies across different levels within the organisation and this information has in turn been shared with shareholders in this report (see page 113).

This year, and in line with the requirement of the 2018 Code, the Committee has sought to understand areas of variation within the Company's pay policies and practices. The table below sets out a summary of the information which the Committee received this year as part of its review process.





Element	Focus areas	Implementation at Severn Trent
Salary	<ul style="list-style-type: none"> – Date of annual increase across all employee groups; – Wider workforce increases versus the senior executive population; and – Differences across employee groups. 	<ul style="list-style-type: none"> – Salary increases were on average 2.4% across the workforce in 2019/20. – Annual pay reviews are effective in July for all employee groups. – The Company has achieved real Living Wage employer accreditation and reviews salaries in this context. – Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
Benefits	<ul style="list-style-type: none"> – Types of benefits; and – Eligibility across levels. 	<ul style="list-style-type: none"> – A consistent approach is applied across the business for benefits.
Pension	<ul style="list-style-type: none"> – Employer pension contributions across the workforce; and – Comparisons of wider workforce pension to executive pensions. 	<ul style="list-style-type: none"> – The majority of employees are eligible to participate in the Severn Trent Group Pension Plan. The maximum workforce employer contribution is 15%. – As set out in the Chairman's letter on page 103, we have started the process of aligning employer pension contributions for incumbent Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the workforce) and this will be achieved by 2022.
Annual bonus	<ul style="list-style-type: none"> – Bonus design across different populations; – Details of performance measures and targets; and – Outturn during the year. 	<ul style="list-style-type: none"> – A consistent design is operated throughout the business. – At all levels performance outcomes are measured against the same metrics (see the next page). – An individual performance multiplier is in place across management grades informed by our Inspiring Great Performance ('IGP') outcomes. Our front line colleagues and team managers benefit from an all company fixed bonus payment. – Bonus opportunities vary by grade. – We also operate some sub-schemes in Business Services, to reflect specific business needs. – Malus and clawback provisions are in place.
Sharesave	<ul style="list-style-type: none"> – Take-up rates. 	<ul style="list-style-type: none"> – All employees under Severn Trent Plc can participate in the Save As You Earn scheme – Sharesave. – There is a significant take-up of this benefit with 72% of employees actively participating.
LTIP	<ul style="list-style-type: none"> – Eligibility; – Cost; – Dilution; and – Details of performance measures and targets. 	<ul style="list-style-type: none"> – Eligibility is reviewed annually. – The LTIP is available to Executive Directors, the Executive Committee and some members of senior management. – The vesting period is three years. The Executive Directors are subject to an additional two-year holding period for awards granted from 2018 onwards. – LTIP opportunities vary by role from 200% of salary to 25% of salary. – Executive Directors have a UQ performance target. – Malus and clawback provisions are in place.
Shareholding requirement	<ul style="list-style-type: none"> – Eligibility; and – Requirements and actual shareholdings. 	<ul style="list-style-type: none"> – Shareholding requirements are in place for the Executive Directors and Executive Committee.

The Committee believes that the context and knowledge shared is a useful underpin to ensure that our future decision-making around executives' and senior managements' pay supports fair and equal remuneration throughout the entire workforce.

We operate a consistent core bonus design across the organisation

Employee group	Performance measures in core bonus
Executive Directors	PBIT (49%)
Executive Committee	
Strategic Leader	CUSTOMER AND ENVIRONMENT ODIs (35%)
Business Leader	
Team Manager/ Technical Expert	CUSTOMER EXPERIENCE (8%)
Front Line – operational/ administrative/advisory	HEALTH AND SAFETY (8%)

The Committee's key findings and conclusions

Element	Implementation at Severn Trent
 Differences in approaches to remuneration	<p>The Committee is satisfied that the approach to remuneration within the business across all levels is fair. An area that the Committee reviewed this year was around new starters and the Committee is satisfied that within the different employing entities all new starters are treated consistently.</p> <p>The Committee recognises there are differences in pay practice in some of our recently acquired businesses (Agrivert and Hafren Dyfrdwy), but that these are necessary and reasonable to align with the terms and conditions of their employing entity for operational reasons.</p> <p>As the Company continues to evolve its approach to reporting and sharing information with the Committee, papers now also include relevant wider workforce information so the Committee can understand where there may be differences in approach.</p>
 Salary increases	<p>Salary increases for employees across the Company are being applied on an equitable basis and average employee increases are considered when setting salary increases for both the Executive Directors and Non-Executive Directors.</p>
 Variable pay	<p>Variable pay for all employees is linked to the achievement of stretching performance targets and underpinned by a strong governance framework for all. The measurement of performance is consistent through the entire workforce using our IGP approach alongside investment in personal development and rewarded through our all-employee annual bonus scheme.</p>
 Remuneration mix and leverage	<p>The incentive approach applied to the Executive Directors aligns with the wider company policy on incentives, which is to have a higher percentage of at-risk performance pay and increased amount of incentive deferred, provided in equity and/or measured over the longer term the more senior the employee.</p>
 Alignment with remuneration principles	<p>Overall, the Committee is satisfied that the approach to remuneration across the business is aligned with the Company's remuneration principles, and the approach to executive remuneration aligns with wider company pay policy and that there are no anomalies specific to the Executive Directors. Further details on the cascade of the reward framework can be found on page 113.</p>

We are mindful of the 2018 Code requirement that we engage with employees to explain how our executive remuneration aligns with wider pay policies. We are looking forward to sharing this year's Directors' Remuneration report with members of the Company Forum and highlighting the availability and accessibility of the Annual Report on the Company intranet ('On Tap').

What will the Remuneration Committee look at in the next 12 months



EMBEDDING OUR NEW PURPOSE AND VALUES

- The Committee will again review any high-level changes to wider workforce policies and practices over the period.
- We have also committed to carrying out an assessment of the Group's wider workforce policies and practices in the context of the new Purpose and Values. We have launched in November 2019.



EXPLORING COLLEAGUE FEEDBACK

- We are exploring colleague feedback and our data to facilitate a deep dive into areas of interest concerning wider workforce pay reporting, the cascade of incentives, policies and practices.



ENHANCING PAY FAIRNESS

- We are also looking to further embed our remuneration principles by linking them even more explicitly with our values of equal pay, transparency and fairness through the development of our own fair pay charter. This will enable us to assess the findings of our wider workforce review against different lenses to draw conclusions and facilitate necessary action planning.



POLICY REVIEW

- We will maintain an ongoing, and transparent dialogue with our major shareholders and actively engage with each of them individually as the formal Policy review commences later in 2020. We have committed our intention to introduce a post-cessation of employment shareholding requirement.

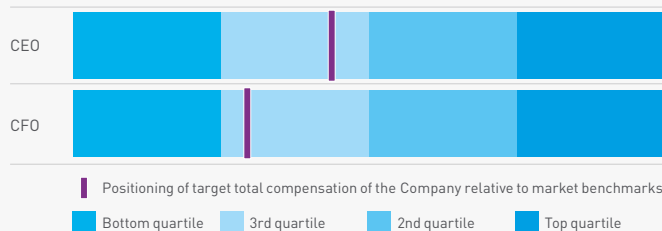
Pay comparisons

Our philosophy of transparent reporting is evident in the information we display in this section of the report, and this year sees the first publication of CEO pay ratios on page 118.

Our policy quantum compared with peers

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant markets for the Executive Directors, which we believe is the FTSE51-150, and the size of the Company compared with these peers. The table below shows the relative position of target total compensation under the Policy in comparison with the FTSE51-150.

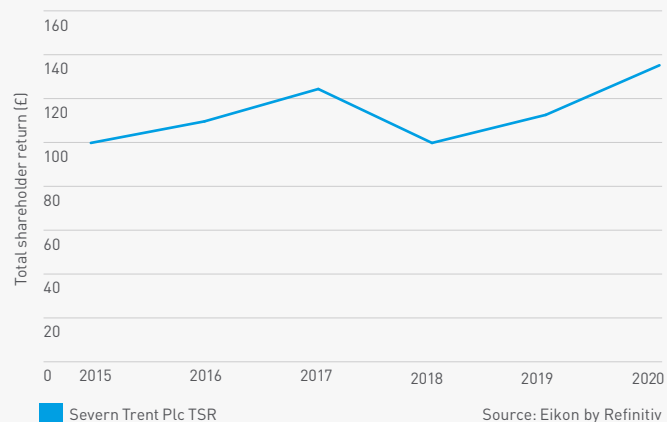
Relative position of target total compensation



Total shareholder return

The chart below shows the value at 31 March 2020 of £100 invested in Severn Trent Plc at the start of AMP6. The intermediate points show the value at the intervening financial year ends until the end of AMP6.

Total shareholder return over AMP



The relationship between the remuneration of the CEO and all employees

The Company's approach to remuneration is consistent for all employees, as outlined on page 113 and in the current Policy which can be found on the Severn Trent Plc website.

In the first year of disclosing CEO pay ratios we have chosen to publish two years' worth of information covering 2018/19 and 2019/20. The table below shows how the CEO's single total figure of remuneration compares with the equivalent figures for UK employees occupying the 25th percentile, median and 75th percentile quartiles.

We have chosen Option A under the Regulations for the calculation, which takes into consideration the full-time equivalent basis of all UK employees and provides a representative result of employee pay conditions across the Company.

Total pay and benefits for all have been calculated as at 31 March 2020 and 2019 respectively in accordance with the single figure methodology and is based on full-time equivalent pay and benefits. We have not omitted any pay elements from the calculation.

CEO pay ratio

Chief Executive Officer	2019	2020
Total single figure (£'000)	2,478.8	2,733.4
Annual bonus payment level achieved (% of maximum opportunity)	58.5%	74.0%
LTIP vesting level achieved (% of maximum opportunity)	100%	100%
Ratio of CEO's single total remuneration figure shown:		
– To employee at the 25th percentile	80.8	83.5
– To employee at the 50th percentile	61.1	65.0
– To employee at the 75th percentile	48.8	53.2
Ratio of CEO's single total remuneration figure shown to the median Executive Committee member:		3.4

The table below sets out the base salary and total pay and benefits details for the CEO and the employees at the 25th, 50th and 75th percentiles.

CEO	2020
Base salary (£'000)	720.8
Total pay and benefits (£'000)	2,733.4
Employees	
Base salary (£'000)	
– Employee at the 25th percentile	27.9
– Employee at the 50th percentile	36.4
– Employee at the 75th percentile	45.0
Total pay and benefits (£'000)	
– Employee at the 25th percentile	32.7
– Employee at the 50th percentile	42.1
– Employee at the 75th percentile	51.3

In summary, there has been a small increase in the CEO pay ratio between 2019 and 2020. Total pay and benefits for the CEO and employees have remained fairly consistent year-on-year. The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies. However, over the long term, it is reasonable to expect there to be a degree of volatility in the CEO pay ratio and this could be caused by the following:

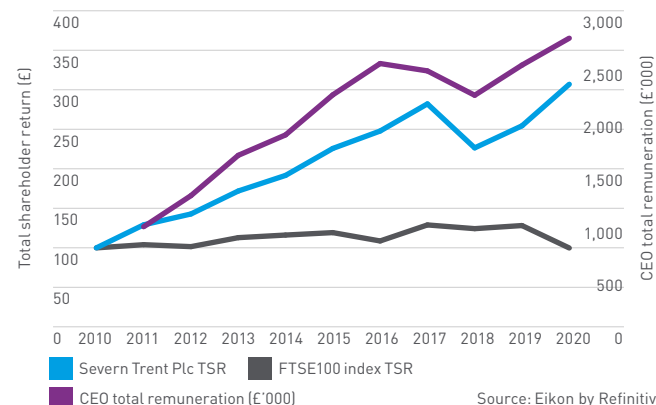
- Our CEO's single figure is made up of a higher proportion of incentive-based pay than that of our employees, in line with the expectations of our shareholders and the Company's remuneration approach. This introduces a higher degree of variability each year which affects the ratio. It should be noted that all employees in the Company who meet the service requirement are eligible to receive a bonus based on the same broad Company performance conditions. This ensures all employees share in the success of the Company;
- The value of long-term incentives, which measure performance over three years, is disclosed in pay in the year of vesting, which increases the CEO pay in that year, again impacting the ratio for that year;
- Long-term incentives are provided in shares, and therefore any increase in share price over the three years, as has been observed for the 2017 LTIP vesting this year, can magnify the impact of a long-term incentive award vesting in a year; and
- None of the lower quartile, median and upper quartile employees identified this year are participants in the LTIP. If the value of the LTIP is excluded from the CEO total remuneration pay ratio calculation, the ratios would be as follows:
 - To employee at the 25th percentile: 47.7
 - To employee at the 50th percentile: 37.1
 - To employee at the 75th percentile: 30.4

The ratio is therefore driven by the variable nature of the remuneration elements of our CEO versus that of our employees, and what is important to us is that the fluctuations in the ratio are influenced only by differences in the structure of remuneration, which for the CEO reflect the weighting towards long-term value creation and alignment with shareholder interests.

CEO remuneration vs returns to shareholders

The graph on the right shows the value at 31 March 2020 of £100 invested in Severn Trent Plc on 1 April 2010 compared with the value of £100 invested in the FTSE100. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value of the intervening financial year ends.

Total shareholder return and total remuneration



Remuneration of the CEO

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

Year ended 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield
Total remuneration (£'000) ⁽ⁱ⁾	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,478.8	2,733.4
Annual bonus (% of maximum)	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	74.0%
LTIP vesting (% of maximum)	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SMP vesting (% of maximum)	N/A	N/A	78.0%	64.3%	N/A	N/A	N/A	N/A	N/A	N/A

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

Percentage change in the remuneration of the CEO

The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group, and monitors year-on-year changes between the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee. As required under the Shareholder Rights Directive we have expanded this analysis to cover each Executive Director and Non-Executive Director and will build this information to display a five year history.

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

The Committee monitors this information carefully to ensure that there is consistency in the fixed pay of the Executive Directors and Non-Executive Directors compared with the wider workforce. In addition, this information demonstrates the Company's approach to having an all-employee bonus throughout the organisation with employees and the CEO benefiting when the Company does well.

Percentage change in remuneration of Executive Directors and Non-Executive Directors

	% change on last year for 2019/20		
	Salary ⁽ⁱ⁾	Benefits ⁽ⁱⁱ⁾	Bonus ⁽ⁱⁱⁱ⁾
Executive Directors			
Liv Garfield	2.4%	0.6%	29.5%
James Bowling	2.4%	0.0%	29.5%
Non-Executive Directors^(iv)			
Christine Hodgson ^(v)	N/A	N/A	N/A
Andy Duff ^(vi)	2.4%	N/A	N/A
Kevin Beeston	2.2%	N/A	N/A
John Coghlan ^(vii)	13.3%	N/A	N/A
Dominique Reiniche	2.4%	N/A	N/A
Philip Remnant	1.9%	N/A	N/A
Angela Strank	2.0%	N/A	N/A
Average per employee^(viii)	3.7%	(19.8%)	21.8%

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

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

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

(iv) Non-Executive Directors do not receive any additional benefits or bonus payments.

(v) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020.

(vi) Retired from the Board on 31 March 2020.

(vii) Received an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities.

(viii) The average pay increase for the wider workforce during the year was 2.4%.

Gender pay gap reporting

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. Gender equality is a big part of our commitment to all aspects of diversity and inclusion; it is absolutely central to everything we do, and we know just how much it means to our own people while also being something we believe will help us attract the best talent regardless of their backgrounds.

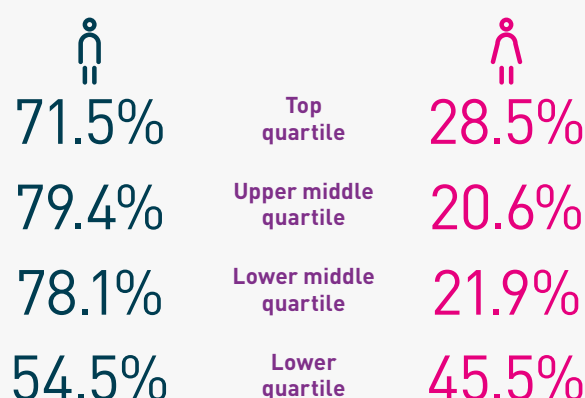
We reported our Gender Pay Gap in November 2019 in line with statutory requirements. The data was based in figures from 5 April 2019 and showed a median gap of 9.8% (last year: 13.2%) and a mean gap of 3.6% (last year: 2.8%). The decrease in our median continues to be primarily driven by more women being attracted to management and senior management roles, and the slight increase in our mean gender pay gap reflects small changes within our executive population.

We are proud to offer an effective and inclusive working environment and are confident that our continuously evolving culture can make a difference to the career of all our employees.

The full Gender Pay Gap report can be found on the Severn Trent Plc website, detailing the methodology and definitions, including case studies showcasing our flexible workplace policies, approach to running and supporting internal work experience programmes and external workshops.

We are looking at our data and internal systems to understand how we will respond to the requirements of the Government's ethnicity pay gap reporting legislation once it comes into force.

Pay quartiles



Difference in hourly pay between men and women



Difference in annual bonus pay between men and women



ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 15 July 2020. The information on pages 120 to 123 is audited.

Total single figure of remuneration (audited)

The tables below and on the next page set out the total single figure of remuneration received by the Executive Directors for 2019/20 (or for performance periods ending in 2019/20 in respect of long-term incentives) and 2018/19 for comparison, and total fees received by Non-Executive Directors for 2019/20 and 2018/19.

Where necessary, further explanations of the values provided are included below. The tables and the explanatory notes have been audited.

Executive Directors		Salary (£'000) ⁽ⁱ⁾	Benefits (£'000) ⁽ⁱⁱ⁾	Pension (£'000) ⁽ⁱⁱⁱ⁾	Other (£'000) ^(iv)	Fixed pay and benefits sub-total (£'000)	Annual bonus (£'000) ^(v)	LTIP (£'000) ^(vi)	Variable remuneration sub-total (£'000)	Total remuneration (£'000)
Liv Garfield	2019/20	720.8	17.2	180.2	0.0	918.2	643.5	1,171.7	1,815.2	2,733.4
	2018/19	703.7	17.1	175.9	0.0	896.7	497.0	1,085.1	1,582.1	2,478.8
James Bowling	2019/20	434.3	16.5	108.6	0.0	559.4	387.8	470.8	858.6	1,418.0
	2018/19	424.0	16.5	106.0	4.5	551.0	299.5	435.9	735.4	1,286.4

(i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions via salary sacrifice. Salary is based on salary earned during the financial year.

(ii) Benefits include a travel allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme.

(iii) The Executive Directors' pension provision is currently equal to 25% of salary; details of the future phased reduction to 15% by 1 April 2022 are set out earlier in the report. No Executive Director accrued benefits under any defined contribution pension plans during the year or has participated in a defined benefits scheme while an Executive Director.

(iv) This figure relates to the difference between the market price and the discounted option price relating to an SAYE option granted during the financial year.

(v) The annual bonus is typically paid 50% in cash and 50% in shares with the portion deferred into shares subject to continued employment for three years but with no further performance conditions attached. This year the Executive Directors requested that the full amount be paid in shares, 50% of which will be deferred for three years. See page 106 for further details of the annual bonus outturn for 2019/20.

(vi) The value of the 2017 LTIP is based on the estimated value of shares calculated using the average share price for the period 1 January to 31 March 2020 of £24.98 and includes dividends paid to date. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares. See page 122 for further details of the 2017 LTIP vesting in 2019/20.

Total Non-Executive Directors' fees (audited)

Non-Executive Directors	2019/20		2018/19	
	Fees	Total (£'000)	Fees	Total (£'000)
Christine Hodgson ⁽ⁱ⁾	14.1	14.1	0.0	0.0
Andy Duff ⁽ⁱⁱ⁾	294.6	294.6	287.6	287.6
Kevin Beeston	66.5	66.5	65.1	65.1
John Coghlan ⁽ⁱⁱⁱ⁾	96.5	96.5	85.1	85.1
Dominique Reiniche	56.4	56.4	55.1	55.1
Philip Remnant	71.4	71.4	70.1	70.1
Angela Strank	69.5	69.5	68.1	68.1

(i) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020.

(ii) Retired from the Board on 31 March 2020.

(iii) Received an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities.

Relative importance of spend on pay

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

Relative importance of the spend on pay	2020 £m	2019 £m	% Change
Staff costs	343.9	309.4	11.2%
Dividends	228.4	211.9	7.8%

Benefits for 2019/20 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically. In line with the Policy outlined on page 109, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2019/20 (audited)	Typical annual value 2019/20	Typical annual value 2018/19	Percentage increase/ (decrease)
Travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,447	£1,500	(3.5)%
Life assurance	Up to 6x salary	Up to 6x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide policy	0%
Biennial health screening	£581 per health screen	£581 per health screen	0%
Incapacity benefits ⁽ⁱ⁾	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

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

**COMPANY REMUNERATION AT SEVERN TRENT
CONTINUED**

Annual bonus outturn for 2019/20 (audited)

Our all-employee annual bonus scheme ensures that all of our people, from Executive Directors to our front line employees, are aligned with the same measures and rewarded appropriately for achieving key objectives. Full detail on the Company's performance during the financial year can be found in the Strategic report.

The performance outcomes in respect of financial performance conditions, and the overall bonus awarded to each Executive Director and our front line employees, is set out in the At a Glance section on page 106.

LTIP awards vesting in relation to performance in 2019/20 (audited)

The table below shows the outcome in respect of the 2017 LTIP awards, granted on 20 June 2017, which had performance periods ended 31 March 2020 and indicates the resulting number of shares vesting and their value. The LTIP based on RoRE over the three years to 31 March 2020 will vest at 100%. This is representative of continued strong performance in customer ODIs, financing and Totex. Detail on the performance outcome is given in the At a Glance section on page 107.

Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	% award vesting	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting ⁽ⁱ⁾ (£'000)	Value of dividend equivalents due on vesting shares ⁽ⁱⁱ⁾ (£'000)	Total value of LTIP (single figure) (£'000)
CEO	42,383	1,015.5	31/03/20	100%	42,383	20/06/20	43.2	1,058.7	113.0	1,171.7
CFO	17,028	408.0	31/03/20	100%	17,028	20/06/20	17.4	425.4	45.4	470.8

The 2017 LTIP is the last award where the RoRE calculation will differ slightly from that used in the Annual Performance Report, which uses the Ofwat definition. The LTIP measure seeks to align our LTIP targets to actual cash flows and against a clearly defined target. In this measure, financing outperformance is based on actual gearing rather than the notional capital structure and compares our cost of debt against the allowance in the Ofwat Financial Model. It includes profits/losses associated with land sales, miscellaneous activities and the impact of the wholesale revenue forecasting incentive mechanism.

All LTIP awards granted from 2018 onwards use the Ofwat definition of RoRE.

(i) Based on the average share price over the final three months of the performance period of £24.98 as the awards will not be released until after the end of the closed period.

(ii) Based on dividends paid in the period since date of grant to 31 March 2020.

Payments for loss of office (audited)

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

Payments to past Directors (audited)

Emma FitzGerald

Full details of Emma FitzGerald's unvested shares under the deferred Annual Bonus Scheme and LTIP awards can be found in the 2017/18 Directors' Remuneration report. The table below sets out details of the LTIP award which will be released to her on the ordinary vesting date, 20 June 2020. She will also receive dividend equivalents on the vested shares.

Award	End of performance period	Number of shares
2017 LTIP	31 March 2020	5,895

2019 LTIP award (awards granted during the year)

Award	Grant date	Threshold vesting FD (baseline)	1.39x FD	Full vesting (out performance)	3 day average share price used for grant calculations
2019 LTIP	23/07/19	5.55%	Equal to 7.71%	UQ RoRE compared to WaSCs	£20.40

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

Award	Relating to FY	Grant date	3 day average share price used for grant calculations
2019 Annual bonus scheme	2018/19	18/06/19	£20.44

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

Page 108 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements.

The shareholding requirements for the CEO and CFO remained unchanged in 2019/20.

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

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 19 May 2020.

Directors	Interests in shares as at 31 March 2020						
	Beneficially owned	LTIP shares ⁽ⁱⁱ⁾	Annual bonus shares ⁽ⁱⁱⁱ⁾	SAYE options	Shareholding requirement as a % of salary	Current shareholding as a % of salary	% shareholding requirement achieved ^(iv)
Executive Directors:							
Liv Garfield	180,738	184,674	38,403	1,089	300%	632%	210%
James Bowling	49,826	81,336	23,091	1,221	200%	324%	161%
Non-Executive Directors:							
Christine Hodgson ^(v)	2,020	–	–	–	–	–	–
Andy Duff ^(vi)	8,184	–	–	–	–	–	–
Kevin Beeston	2,244	–	–	–	–	–	–
John Coghlan	2,670	–	–	–	–	–	–
Dominique Reiniche	400	–	–	–	–	–	–
Philip Remnant	1,969	–	–	–	–	–	–
Angela Strank	459	–	–	–	–	–	–

(i) LTIP awards are conditional share awards subject to ongoing performance conditions.
(ii) Additional dividend equivalent shares may be released where provided in the rules.
(iii) Annual bonus shares are deferred shares which are not subject to further performance conditions.
(iv) The share price used to calculate the percentage of the shareholding guideline achieved was £22.80 (as at 31 March 2020). The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).
(v) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020.
(vi) Retired from the Board on 31 March 2020.

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2020, she was paid fees of £13,700 which she retained.

Service contracts for Executive Directors

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

Service contracts for Executive Directors

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

Philip Remnant

Chairman of the Remuneration Committee

19 May 2020

DIRECTORS' REPORT

The Directors' report for the year ended 31 March 2020 comprises pages 124 to 128 of this report, together with the sections of the Annual Report incorporated by reference. The Governance report set out on pages 69 to 129 is incorporated by reference into this report and, accordingly, should be read as part of this report. As permitted by legislation, some of the matters required to be included in the Directors' report have instead been included in the Strategic report on pages 1 to 68, as the Board considers them to be of strategic importance.

Specifically, these are:

- Performance Review which provides detailed information relating to the Group, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2020;
- Future business developments (throughout the Strategic report);
- Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Strategic report on pages 58 to 62;
- Employee Engagement (page 20); and
- Business relationships (throughout the Strategic report).

The Strategic report and the Directors' report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R. Information relating to financial instruments can be found on pages 176 to 185 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please refer to our Sustainability Report, available at severntrent.co.uk.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK and Ireland. Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2020 are shown in notes 20 and 45 to the Group financial statements.

Areas of operation

During the course of 2019/20, the Group had activities and operations in the UK and Ireland.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 72 to 73.

As set out in the Notice of Meeting, all the Directors, with the exception of Andrew Duff, who retired from the Board on 31 March 2020, will retire at this year's Annual General Meeting ('AGM') and submit themselves for reappointment, or in the case of Christine Hodgson and Sharmila Nebhrajani, appointment, by shareholders. All Directors seeking reappointment were subject to a formal and rigorous performance evaluation, further details of which can be found on page 83.

Details of Directors' service contracts are set out in the Directors' Remuneration report on page 123. The interests of the Directors in the shares of the Company are also shown on page 123 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

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

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

Disclosures Required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	155
(4)	Details of long-term incentive schemes	110
(2), (5), (6), (7), (8)–(14)	Not applicable	Not applicable

Employees

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

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

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

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

Additional information on our diversity aims and progress can be found on pages 20 and 88.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included our section on employee engagement on page 20 of the Strategic report as the Board considers these disclosures to be of strategic importance and is therefore incorporated into the Directors' report by cross-reference. Pages 28 to 29 demonstrate how the Directors have engaged with employees and how they have had regard to employee interests and the effect of that regard including the principal decisions by the Company during the financial year.

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

72% of Severn Trent's UK employees now participate in Sharesave, with 24.5% of participants saving the maximum of £500 per month compared with 9.9% across FTSE100 companies.

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

Business relationships

Pages 28 and 29 demonstrate how the Directors have had regard to key stakeholders and how the effect of that regard had influenced the principal decisions taken by the Company during the financial year. The Board considers its s.172 statement to be of strategic importance and is therefore incorporated into the Directors' report by cross-reference.

Research and development

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

Expenditure on research and development for the year totalled £2.1 million, included within note 7 to the Group financial statements.

Internal controls

Further details of our internal control framework can be found in the Audit Committee report on page 96.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 56.

Post balance sheet events

Details of post balance sheet events are set out in note 42 to the Group financial statements.

Dividends

An interim dividend of 40.03 pence per Ordinary Share was paid on 3 January 2020. The Directors recommend a final dividend of 60.05 pence per Ordinary Share to be paid on 17 July 2020 to shareholders on the register on 12 June 2020. This would bring the total dividend for 2019/20 to 100.08 pence per Ordinary Share (2018/19: 93.37 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

Following publication of the Final Determination by Ofwat, the Board approved our Dividend Policy for the period 2020-25. With effect from 2020/21, dividends during the AMP7 period will increase by growth of at least CPIH. This replaces the previous Dividend Policy of growth of at least RPI +4% each year.

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

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 30 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the 2018 Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document,

Substantial Shareholdings

As at 31 March 2020, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of Holder	Number of Ordinary Shares	Voting Rights Held (%)
BlackRock	19,797,394	8.20
RREEF Real Estate	12,711,225	5.26
Qatar Investment Authority	11,599,565	4.80
Lazard Asset Management	9,811,549	4.06
Legal & General Investment Management	9,659,132	4.00
Vanguard Group	9,636,352	3.99
SSGA	8,282,897	3.43
Pictet Asset Management	8,116,317	3.36
Aviva Investors	7,932,977	3.28

As at 19 May 2020, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: BlackRock 19,637,348 shares (8.25%), Qatar Investment Authority 11,599,565 (4.87%), RREEF Real Estate 10,246,275 (4.31%), Lazard Asset Management 9,772,147 (4.11%), Legal & General Investment Management 9,398,792 (3.95%), Vanguard Group 9,730,687 (4.09%), SSGA 8,137,263 (3.43%), Pictet Asset Management 8,206,436 (3.45%), Aviva Investors 7,918,036 (3.33%).

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

which can be found on our website, the Articles and the Governance report on page 76.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2019 AGM.

Change of control

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

Authority to purchase shares

The Company was given authority at its AGM in 2019 to make market purchases of Ordinary Shares up to a maximum number of 23,757,108 Ordinary Shares. During the year, no Ordinary Shares have been repurchased.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,834,985 Ordinary Shares.

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

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £18,445 (2019: £65,936). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries. You can read more about the work of our Community Fund on page 40.

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

Supplier payment policy

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

For the payment practices reporting period ended 31 March 2020, the average time to pay for Severn Trent Water Limited was 29 days.

Relevant audit information

The Directors confirm that:

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

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

External Auditor

Having carried out a review of its effectiveness during the year, details of which can be found in the Audit Committee report on page 93, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated its willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

We reduce our carbon footprint

We play a leading role in reducing our greenhouse gas emissions. We have committed to achieving net zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We have now also made commitments to generate or procure 100% renewable electricity and move our fleet to 100% electric vehicles by 2030¹.

We have also now committed to setting targets under the stringent 'Science-Based' methodology.

As the majority of our carbon emissions are driven by our use of energy, managing carbon also means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy.

We have held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes. We continue to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of their responses. In 2019/20 our CDP score was B, an improvement from C in 2018/19.

This year, we again reduced our operational emissions, primarily through the decarbonising effect of increased renewable energy generation across Severn Trent and our import portfolio. We beat our 2030 renewable energy target by generating an equivalent of 51% of Severn Trent Water Limited's electricity needs. This was up from 43% in 2018/19.

To reduce our operational emissions further we will continue to focus on improving our energy efficiency to offset the additional demands of a growing population and more stringent treatment quality requirements and increase the amount of renewable-backed energy we buy. We will also continue to decarbonise our fleet and encourage employees to take up low-carbon electric cars.

Severn Trent Carbon Footprint kt CO₂e

Our gross emissions total in the table below applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years. We also show the net benefit of our renewable energy procurement via our suppliers, applying the 'market-based' accounting methodology, which is included in our net emissions total.

Operational Greenhouse Gas Emissions (Tonnes CO ₂ e)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Scope 1 Emissions (Combustion of fuel and operation of facilities)	132,535	132,406	134,584	138,131	134,307	132,360	156,014
Scope 2 Emissions (Electricity purchased for own use) – Location-Based	330,679	357,756	337,028	294,426	279,393	217,726	199,635
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700	350,086	355,649
Emissions benefit of the renewable energy we export (including biogas for which we hold green gas certificates)	21,672	38,878	45,085	42,069	45,333	46,986	59,878
Market-based carbon accounting benefit from supply of electricity import which is REGO-backed renewable						34,818	35,784
Total Annual Net Operational Emissions – Market-Based	441,542	451,285	426,527	390,488	368,367	268,283	259,987
Annual GHG Intensity Ratio (t CO ₂ /unit)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net Operational GHG emissions of Severn Trent per £m turnover	248.6	255.2	234.7	214.0	217.4	151.8	141.0

¹ Where specialist vehicles such as tankers are available within that time window.

Severn Trent Net Carbon Footprint kt CO₂e

14/15	451
15/16	426
16/17	390
17/18	368
18/19	268
19/20	260

260 ktCO₂e (-3%)

Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

As we have successfully reduced our Scope 2 emissions, we are now focusing more on our Scope 1 emissions, which are not as clearly aligned with financial incentives and will require more innovation to solve.

Report on greenhouse gas emissions

This is the seventh year Severn Trent has been required to report greenhouse gas ('GHG') emissions in the Directors' report. For Severn Trent Water, which accounts for 90% of our total Group emissions, we have been publicly reporting on our emissions since 2002. This year, in line with new environmental reporting guidelines, we have also included additional energy data and more detail on how we manage energy use.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2019 to 31 March 2020.

Our total net emissions have fallen again this year, due to increased generation of renewable energy and a reduction in the emissions intensity of UK grid electricity, including from accredited renewable energy sources procured in our contract supply. We have reported this market-based benefit separately in the table below.

We reduce our carbon footprint (continued)

Our GHG data is reported internally during the year to the Corporate Sustainability Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs. Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. We have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions. We do report these indirect 'Scope 3' emissions in our CDP Disclosure and we will report on these in our Annual Report in future years.

For the appointed UK water businesses, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, we have calculated our emissions using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 13' (released April 2020). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. For non-appointed business emissions, we have used the latest Defra emissions factors. All emissions arise in the UK.

Energy efficiency

We continually invest in improving energy efficiency and we have a dedicated energy management team focused on driving operational change to reduce energy. This is supported by a network of energy champions across our business and a governance structure which includes an energy steering group at Executive level.

Over the course of the last year we have invested £4.2 million in energy efficiency and £20.3 million over the last five years. These capital schemes include proactive maintenance on our most energy-intensive assets such as pumps and air blowers and investment in improved controls to reduce energy use. We use our half hourly meter data, regular internal communication and performance reporting to understand energy efficiency and drive behaviour, minimise waste and identify opportunities. We have energy online learning for all staff, and specific energy training, for example on pump efficiency, for specific staff. We are transitioning our fleet from fossil fuels to electric vehicles and have our first vehicles on the fleet, along with dedicated site charging points. We are also rationalising our office sites and moving our data centre to more efficient alternatives to reduce our total footprint on digital and office activities.

Severn Trent Energy Data GWh

In line with the latest Government energy and carbon reporting requirements, below is further information on our energy consumption for the last two years across the Severn Trent Group. This is source data for the carbon data reported above and is tracked internally each month. All data is collected from metered data for electricity. Biogas combustion information is calculated using assumptions based on metered data. Fuel use is reported based on financial records of fuel purchased. We have applied assumptions on standard calorific values to convert all liquid and gas fuel types to a common energy metric (GWh) and data is reported for the period 1 April 2019 to 31 March 2020. All energy is used in the UK.

Energy type	Source	Units ¹	2019	2020
Electricity	Electricity Imported	GWh	771	780
	Electricity Generated from Renewable Sources and Used on Site	GWh	198	194
	Electricity Generated from Renewable Sources and Exported	GWh	114	184
Gas Fuels	Gas Imported from the Grid	GWh	52	44
	Biogas Generated and Used	GWh	745	922
	Biomethane Generated and Exported to the Grid	GWh	166	181
Liquid Fuels	Fuel used by Plant (gas oil and diesel)	GWh	20	20
	Fuel used by Company Fleet	GWh	47	55
	Fuel used for Business Travel (company cars)	GWh	15	15
	Fuel used for Business Travel (personal cars)	GWh	7	6
Total	Total Energy Used (i.e. Annual quantity of energy consumed from activities for which the Company is responsible, including combustion of fuel and operation of facilities)	GWh	1,855	2,037
	Total Energy Imported (i.e. Annual quantity of energy consumed resulting from the purchase of electricity and gas. No imports of heat, steam or cooling)	GWh	912	921
Normalised Metrics	Total Energy per unit of revenue	GWh/£m	1.05	1.11
	Energy Imported per unit of revenue	GWh/£m	0.52	0.50
	Clean Water Electricity Use per unit treated	kWh/ML	705	690

1 1 GWh = 1,000,000 kWh.

Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

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

Additionally, separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig will also be available on their respective websites.

Annual General Meeting

A copy of the Notice of Meeting can be found on the Severn Trent Plc website.



By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary

19 May 2020

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

This responsibility statement was approved by the Board of Directors on 19 May 2020 and is signed on its behalf by:

By order of the Board

Olivia Garfield
Chief Executive

19 May 2020

James Bowling
Chief Financial Officer

19 May 2020