

Chair's Introduction to Governance



Board focus areas in 2020/21

- Developed Board objectives to align with Purpose and Values
- Oversaw the Company's continued response to the COVID-19 pandemic
- Approved the Company's Green Recovery submission
- Agreed an AGM resolution on the Company's long-term approach to climate change
- 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
- Ensured an effective induction for Sharmila Nebhrajani following her appointment as an Independent Non-Executive Director in May 2020

Read more about the key activities of the Board on p92-94.

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

"The Board's overarching objective is to ensure that Severn Trent is a successful, socially purposeful company, making long-term decisions for the enduring benefit of all our stakeholders."

What an extraordinary backdrop for my first year as Chair of Severn Trent. As the COVID-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact on our customers, communities, colleagues and shareholders and to ensure effective Board oversight of the Company's response to the pandemic.

In line with the approach implemented for non-key workers across the business, Board meetings were held virtually whilst restrictions were in place. The Board also met physically as soon as movement restrictions allowed and undertook a number of site visits – in order to thank key-worker front-line employees for their continued dedication. Significant effort was applied to ensuring that all matters on the Board's forward plan were considered during the year and external stakeholders continued to attend virtual Board events throughout the pandemic. The Board values the insight gained from stakeholder engagement and places significant importance on maintaining close relationships with stakeholders, taking account of and responding to their views. A range of engaging and accessible virtual events were also held this year – including the 'Ask our Board' employee engagement event, informal Board discussion meetings (outside of the formal meeting programme) and company-wide virtual events such as the 'Awesome Awards' and our 'Share a Smile' campaign. I would like to recognise the excellent work of our Communications, Company Secretariat and Technology teams, who seamlessly migrated company events and Board and Committee meetings to engaging and accessible virtual formats, which enabled the Board to remain tuned into the views and experiences of our employees throughout the pandemic.

The Board spent time considering a number of important strategic topics during the year, including approval of the Company's Green Recovery submission, progress against our Net-Zero by 2030 Plan – and the AGM resolution on the Company's long-term approach to climate change – and development of our Board objectives, with a particular focus on the role the Company should play in the post-pandemic economic recovery. You can read more about the activities of the Board on pages 92 to 94.



Board events were held virtually whilst COVID-19 movement restrictions were in place

Corporate governance

The Group's long-term success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything outlined within this Annual Report. We do not see governance as something we do because we have to. We 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. This year, two themes in particular have been central to our governance approach – living our Purpose and culture and balancing the interests of our stakeholders. Further detail is provided below.

Living our Purpose and culture

Having the right culture throughout the entire organisation, from the boardroom to the front line, is a key enabling factor to achieving good governance. Our Purpose of 'taking care of one of life's essentials' comes to life through our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride. Our Values are integral to the way we behave and the way we do business. They ensure that every employee at Severn Trent understands what is important, how we work together as a team and why the customers and communities we serve, and the environment that we depend on, are at the centre of everything we do. The Board and Executive Committee play a key role in ensuring that our Values place customer, and wider society's needs at the heart of our plans to reinforce our overarching objective of being a successful, socially purposeful company, making decisions for the benefit of all our stakeholders to promote the long-term success of the Company. The Board gathers feedback from our stakeholders to assess our ongoing progress.

The Board was very pleased by the results of the annual QUEST survey held in November 2020, with this year's employee engagement score of 8.3 out of 10, up from 8.1 last year, placing the Company in the top 5% of utilities globally. For the first time, an interim survey was held in June 2020 to capture employee feedback at the height of the pandemic and inform our COVID-19 response. The positive employee feedback from the June 2020 survey was confirmed in our annual survey and you can read more about how we engaged with employees on pages 72 to 75.

The Board recognises the need to foster an inclusive culture and encourage all colleagues to bring their whole self to work, fulfil their potential and perform at their best. We are recognised as a global leader on gender equality, with 56% of the Board, 33% of the Executive Committee and more than 42% of our senior leaders being female. The Board has applied focus to broader diversity during the year and you can read more about the Group's new inclusion programme on page 73. This important work is in its early stages, and is focused on careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups. We have also embraced the Government Kickstart Scheme with ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development. The Board enjoyed an engaging and informative visit to the new Severn Trent Academy in April 2021 to observe the range of learning programmes available to develop engineers and leaders of the future, with a particular focus on careers and career progression and creating a working environment where everyone can thrive. You can read more on page 75.

Balancing the interests of stakeholders

The Board is supportive of the 2018 UK Corporate Governance Code (the '2018 Code') and, in particular, its focus on boards demonstrating how the views of stakeholders are captured and taken into account when making decisions. This is an area where we have strong foundations on which to build, through listening to the views of our stakeholders – our customers, communities, shareholders, regulators, suppliers and, this year in particular, our employees. We continue to listen to these stakeholders and their insights help

shape our strategy and the decisions we take as a Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on competing priorities. Our stakeholder engagement processes enable Board members to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the high standards of business conduct and success of Severn Trent in the long term. Our approach to s.172 is set out on pages 76 to 78 and provides examples of decisions taken by the Board and how stakeholder views and inputs as well as other s.172 considerations have been considered in its decision making.

Sustainability

The Board is responsible for overseeing the delivery of the Group's Sustainability Framework and, as such, sustainability is a key theme of Board and Committee discussions. The role and responsibilities of the Board and each of its Committees in relation to sustainability is set out within our dedicated Sustainability Governance Framework on page 59. The Board is also focused on the leading role the Company must play in addressing the impact of climate change and the contribution we can make as a business to mitigate our own impact and that of our supply chain, and adapt to the challenges that climate change may bring in the future. Further detail on our climate change action plan can be found within our dedicated Sustainability Report.

Demonstrating the Company's commitment to shareholders earlier this year, the Board announced its intention to put its long-term approach to climate change before shareholders at the AGM on 8 July 2021. Further detail can be found in the Notice of Meeting, available on our website. Additionally, the Remuneration Committee considered the alignment of the Group's remuneration framework to support delivery of the Company's sustainability strategy through the introduction of a sustainability-focused performance measure in the Group's Long Term Incentive Plan ('LTIP'). Further detail can be found within the Directors' Remuneration Report on pages 123 and 131.

The Board

My focus continues to be on maintaining a strong, value-adding Board, with a diverse range of professional backgrounds, skills and perspectives. Succession planning has been a key priority for the Nominations Committee and, to inform this work, we commissioned an externally facilitated Board Effectiveness evaluation during the year, conducted by Ffion Hague of Independent Board Evaluation ('IBE'), in line with the requirements of the 2018 Code. The review assessed the Board's progress since the last external review in 2018 and provided an opportunity to take a step back and reflect on the Board's overall effectiveness. The review concluded that the Board operates very effectively and it was evident that the Board places a strong emphasis on ensuring that it considered the views of stakeholders in its discussions and decision making. I would like to thank Ffion for her rigorous review and her honest assessment of the Board. You can read more about the process and outcomes of the Board Effectiveness evaluation on pages 98 to 99 of this report.

In line with the recommendations of the Board Effectiveness evaluation, we refreshed the membership of the Treasury and Corporate Sustainability Committees towards the end of the year, so that membership of both Committees comprises Non-Executive Directors only. You can read more on page 102.

During 2021, the Nominations Committee and Board considered plans for succession and a search firm has been appointed to help with the evolution of the Board over the next two to three years. The Nominations Committee also considered succession planning for the remainder of the Executive Committee and other key roles within the senior leadership team, as well as initiatives underway to develop talent internally. The Group's succession readiness has improved during the year and all key roles have credible succession plans in place.

As announced on 19 March 2021, Dominique Reiniche intends to retire from the Board at the conclusion of our AGM on 8 July 2021, having served on the Board for almost five years. On behalf of the Board, I would like to thank Dominique for her service to Severn Trent and her valuable contribution to the Board's work.

We welcomed Sharmila Nebhrajani to the Board on 1 May 2020 and her extensive induction programme took place during the year. Many of the one-to-one meetings were held virtually due to the ongoing pandemic. However, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place. Further detail can be found on page 100.

Looking forward

Throughout its discussions this year, the Board has spent a significant amount of time considering the important role the Company must play in the post-pandemic economic recovery. As a Board, our overarching objective is to ensure that Severn Trent remains a successful, socially purposeful company, making decisions for the benefit of all our stakeholders to promote the long-term success of the Company – which is more important than ever before.

Finally, I would like to thank everyone involved in this most challenging of years – our customers, communities, shareholders, my fellow Board members and our inspiring colleagues, who have shown unfaltering commitment to fulfil our Purpose to 'take care of one of life's essentials'.



Christine Hodgson
Chair

18 May 2021

Our 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, reviewing the outcomes of employee surveys and engaging directly

Our Values



with individual employees throughout the Group. 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 Employee Voice session in November 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 hear about 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 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.



The Board went to the new Severn Trent Academy in April 2021

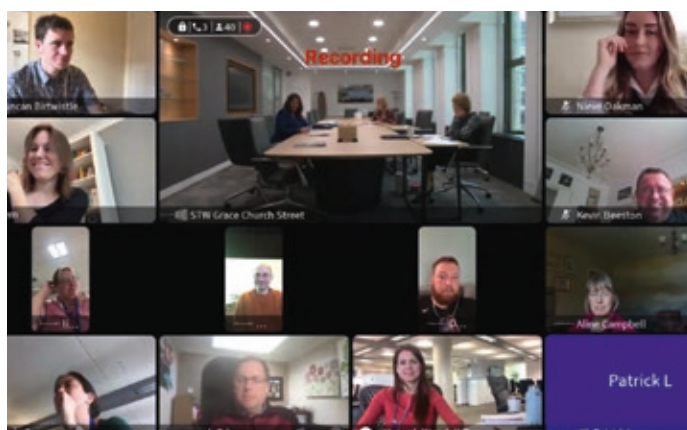
Enhancing workforce engagement in response to COVID-19

The Board also spent time reviewing its approach to engaging with the workforce, taking into account the 2018 Code provisions. The Board's selected workforce engagement mechanism, our Company Forum, was facilitated via a virtual platform for the majority of the year. The Company Forum provides an opportunity for employee and Trade Union representatives to meet with Board members on a regular basis. It ensures that views from a diverse cross-section of the workforce – in terms of seniority, gender, ethnicity, tenure of employment and job types – are considered in Board discussion and decision making, and each meeting generates wide-ranging exchanges of opinion and insights.

As part of its response to COVID-19, the Board enhanced the already significant dialogue it has with the workforce through the introduction of a virtual employee engagement event, 'Ask Our Board'. Employees were invited to pose questions to the Board in a live Q&A environment, without management present or scripted briefings, in order that the Board could listen to the views of the workforce first-hand. With movement restrictions impacting the ability for the Board to visit our sites and office locations for much of the year, this virtual session enabled the continuation of our direct dialogue with the workforce across the Group. The response from our employees has been positive.

When national lockdown restrictions permitted, a number of socially distanced COVID-secure site visits were undertaken by Board members. This presented an ideal opportunity for the Board to thank key-worker front-line employees for their continued dedication throughout the pandemic. Such visits also enable the Board to understand the culture of the Group and assist with measuring progress against the Group's People Strategy, which focuses on employee health and wellbeing, diversity and inclusion, and talent development.

Additionally, the annual QUEST survey was held in November 2020, and for the first time an interim survey was held in June 2020 to capture employee feedback at the height of the pandemic (ahead of the November survey taking place). The Board takes seriously the results and comments that arise from these surveys and it is a main focus of the Board to make sure that management implements any required interventions in a timely manner. The Board was delighted that, during a difficult year for many, our employee engagement score improved again this year. Further detail on this year's QUEST survey can be found on page 75.



Our virtual 'Ask Our Board' employee engagement event



COVID-secure measures were put in place for Board meetings

Governance at a Glance

Highlights

101.58p

Dividend per share in 2021
increase of 1.5%

AGM

**Resolution on Climate
Change Action Plan**

8.3

**Employee engagement
score for 2020/21**
(out of 10)

'Ask Our Board'

**Virtual employee
engagement event**

11

**Dedicated Board training
sessions during the year**
covering topics including
sustainability, cyber risk
and diversity and inclusion

1st

**The Tortoise
Responsibility100 Index
ranked us 1st in the
FTSE100 on Good Business**
(April 2021)

Major Board decisions

- Dedicated Board and Audit Committee sessions in respect of enhancements made to the Group's Enterprise Risk Management processes and procedures.
- Green Recovery submission.
- Non-binding advisory AGM Resolution in relation to the Company's Climate Change Action Plan.
- AMP7 and Green Recovery financing.
- Dividend policy.

 **Read more: Key Activities of the Board p92-94**

COVID-19 response

- Oversight of the Group's response to the pandemic focused on ensuring the wellbeing of colleagues and ways the Group can continue to provide support to our workforce.
- Maintained effective governance throughout the COVID-19 pandemic.
- £1 million COVID-19 Emergency Fund to support local charities and non-profit organisations affected by the pandemic, taking our total donation to charitable organisations to c.£7 million.
- Delivery of the Group's strategic priorities and development of Board objectives.

 **Read more: Our COVID-19 Response p15-17**

Governance improvements

- Review and approval of the Group's Risk Appetite Statement.
- Dedicated session on the Group's AMP7 Assurance Map.
- New 'Ask Our Board' virtual employee engagement event to facilitate direct interaction between the Board and the wider workforce throughout the COVID-19 pandemic.
- s.172 Board processes reviewed and refreshed, to ensure a greater emphasis on sustainability and environmental impacts.
- Updated and approved the Board Committee Terms of Reference.

 **Read more: Nominations Committee Report p101-106**

Board changes

- The Board spent a significant amount of time considering succession planning during the year.
- Sharmila Nebhrajani joined the Board as an Independent Non-Executive Director on 1 May 2020.

 **Read more: Nominations Committee Report p102**

Our Board

100%

Board independence
as at 31 March 2021

11%

Ethnic minority representation on our Board
as at 31 March 2021

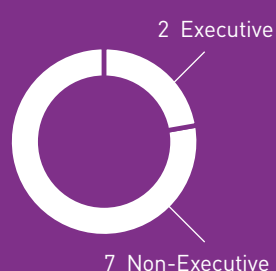
56%

Female representation on our Board
as at 31 March 2021

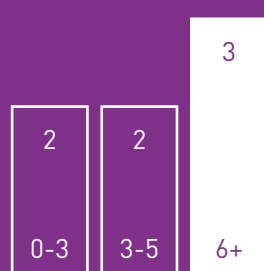
100%

Board meeting attendance
for year ended 31 March 2021

Executive and Non-Executive Directors
as at 31 March 2021



Non-Executive Director Tenure
as at 31 March 2021 (years)



What we bring to the Board

Key expertise

The Board benefits from a wide range of backgrounds and strengths. The diagram below provides an overview of the number of Board members with specific skills, experience and knowledge as a way of demonstrating the different aspects the Directors bring to the Board. More details can be found on pages 86 to 87.



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 long-term success 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.

External appointments:

- Senior Independent Director of Standard Chartered Plc
- Chair of The Careers and Enterprise Company Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Advisor to Spencer Stuart Management Consultants NV



Olivia Garfield, CBE
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. In October 2020, Liv was appointed Commander of the Order of the British Empire ('CBE') in the Queen's Birthday Honours for services to the water industry.

External appointments:

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



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.

External appointments:

- Director of Water Plus Limited – joint venture with United Utilities



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.

External appointments:

- 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 ¹	Treasury Committee
Christine Hodgson	Chair	7/7	–	4/4	3/3	9/9	–
Liv Garfield	Chief Executive	7/7	–	4/4	–	–	–
James Bowling	Chief Financial Officer	7/7	–	–	–	–	6/6
Kevin Beeston	Senior Independent Non-Executive Director	7/7	6/6	–	3/3	9/9	–
John Coghlan	Independent Non-Executive Director	7/7	6/6	–	3/3	–	6/6
Sharmila Nebhrajani	Independent Non-Executive Director (appointed 1 May 2020)	6/6	5/5	4/4	3/3	–	–
Dominique Reiniche	Independent Non-Executive Director	7/7	–	4/4	3/3	–	–
Philip Remnant	Independent Non-Executive Director	7/7	6/6	–	3/3	9/9	6/6
Angela Strank	Independent Non-Executive Director	7/7	–	4/4	3/3	8/9 ²	–

1. Additional Remuneration Committee meetings were held during the year to discuss the framework for the Remuneration Policy review.
2. Angela Strank was unable to attend a Remuneration Committee meeting due to a long-standing commitment. Angela was 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.

External appointments:

- Non-Executive Director of O.C.S. Group Limited
- Non-Executive Director, Vice Chair and Senior Independent Director of Clarion Housing Group



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 Chairman 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.

Sharmila read Physiological Sciences (Medicine) at the University of Oxford and was awarded an OBE in 2014 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.

External appointments:

- Non-Executive Director of ITV PLC
- Chairman of 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
ESSEC 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.

External appointments:

- Chair of Eurostar International Limited
- Chair of CHR Hansen Holdings A/S
- Non-Executive Director of Mondi PLC
- Non-Executive Director of PayPal (Europe)
- Non-Executive Director of Deliveroo PLC (with effect from 1 May 2021)



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. Until 2020, Philip was Chairman of City of London Investment Trust PLC. Philip has recent and relevant financial experience as a fellow of the Institute of Chartered Accountants in England and Wales.

External appointments:

- Senior Independent Director of Prudential PLC
- Deputy Chairman of the Takeover Panel
- Trustee of City of London Endowment Trust



Dame Angela Strank, DBE
FRS, FREng, 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. Until July 2020, Angela was BP's Chief Scientist and Head of Downstream Technology at BP PLC with responsibility for delivering the strategic business agenda through the development of differentiated technology advantage across the refining, fuels, lubricants and petrochemicals businesses, as well as shaping their transition to a lower carbon future. From joining BP in 1982, she held many senior and executive leadership roles around the world in business development, commercial, finance and technology, including in 2012, being Vice President and Head of the Chief Executive's Office.

In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology, recognising pioneering UK women in business and industry. In 2017 she won the prestigious Energy Institute's Cadman Award for outstanding contribution to the oil and gas 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. She is an honorary professor at the University of Manchester and she has been awarded honorary degrees from Bradford and Royal Holloway London universities.

External appointments:

- Non-Executive Director of Rolls Royce Holdings PLC
- Non-Executive Director of SSE PLC
- Member of Royal Academy of Engineering Research Committee
- Non-Executive Director of Mondi PLC (with effect from 22 April 2021)

Executive Committee

The Severn Trent Executive Committee is established by the Chief Executive to assist with the development and execution of the Group's strategy. Individual Executive Committee members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. Full biographies for each member of the Executive Committee are available on the Severn Trent website.

Documents available at:
www.severntrent.com

- Severn Trent Executive Committee Biographies

- (D) Disclosure Committee
 (E) Executive Committee
 ● Denotes Committee Chair



Olivia Garfield, CBE
BA (Hons)

Chief Executive

(D) (E)

Please see full biography on page 86.



James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

(D) (E)

Please see full biography on page 86.



Shane Anderson
BA (Hons) Econ

Director of Strategy and Regulation

(D) (E)

Appointed Director of Strategy and Regulation in 2020.



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

Managing Director of Customer Operations

(E)

Appointed Managing Director of Customer Operations in 2020 after having held the position of Director of Production since 2017.



Bronagh Kennedy
BA (Hons)

Group General Counsel and Company Secretary

(D) (E)

Joined Severn Trent in 2011 as Group General Counsel and Company Secretary.

Executives serving for part of the year



Helen Miles
CIMA

Capital and Commercial Services Director

(E)

Joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director.



Neil Morrison
BSc (Hons), FCIPD

Director of Human Resources

(E)

Joined Severn Trent in 2017 as Director of Human Resources.



Andy Smith
BTech (Hons)

Director of Customer, Retail and Technology

(E)

Appointed Director of Customer, Retail and Technology in 2020, having held the role of Managing Director – Business Services since 2014.



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

(E)

Appointed Chief Engineer in 2018.



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

Martin retired in June 2020 after 45 years of service with Severn Trent.



Sarah Bentley
BSc (Hons)
Chief Customer Officer

Sarah stepped down from the Executive Committee in June 2020 and left the Company in September 2020.

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.

Biographies p86-87

Board Activities p92-94

Roles and Responsibilities p95-96

Informing

Reporting

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

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.

Report p107-113

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.

Report p116-119

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.

Report p101-106

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.

Report p120-153

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.

Report p114-115

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

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 and that its overarching objectives remain aligned with the Company's Purpose and Values. 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 long-term success 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 2021. All of these documents are available on the Severn Trent Plc website.

As outlined on page 95, 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 Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's externally facilitated process on page 98 to 99.

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 2021. 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 2021.

Stakeholder engagement

Stakeholder engagement is central to our strategy. Our dedicated stakeholder engagement and s.172 statements on pages 68 to 71 and 76 to 78 respectively set out how the Board balances the interests of stakeholders.

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 2021, we held over 140 investor meetings and met with over 230 existing and potential investors. These meetings were attended by 56 shareholders, representing c.64% of our register.

The meetings focused on the Group's AMP7 strategy, our approach to net zero, climate change adaptation, COVID-19 impact response and long-term growth opportunities. 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

During the pandemic we have been able to adapt to the virtual world and have met with 173 investors in 15 countries through engaging virtual roadshows and shareholder meetings. We are hosting our virtual Capital Markets Day on 24 September 2021 to which we will invite our investors, analysts and key stakeholders to attend. The event will focus on our medium to longer-term ambitions, including operation strategy, investment opportunity and journey to net zero.

Remuneration Policy consultation

In early 2021, we conducted an extensive consultation exercise with our largest shareholders to understand their views on our proposed new Remuneration Policy. More details on how we engaged with shareholders, along with the outcome of this engagement, are available within the Directors' Remuneration Report, from 120.

Annual General Meeting ('AGM')

Our 2020 AGM was held as a closed meeting on 15 July 2020 at which 73.53% of our shareholders (voting capital) voted through the Chair of the AGM as their proxy or by submitting their proxy forms either electronically or by post. We were delighted to receive in excess of 90% votes in favour for all of our resolutions, including over 99% approval for our Remuneration Report. Despite the impact of COVID-19 on the Company's ability to hold a physical meeting, the Board considered carefully a range of alternative mechanisms by which shareholders could engage with the Company in advance of the AGM. Shareholders were invited to submit questions to a dedicated AGM mailbox in advance of the AGM and a process was put in place for the Board to respond to any questions directly and publish responses on the Company's website. No questions were posed to the Board in advance of the 2020 AGM. The Chair also published a video message on the morning of the AGM.

This year's AGM is to be held on Thursday, 8 July 2021 at 11.00am. In light of the COVID-19 pandemic, the AGM will be conducted as a hybrid meeting, which means that shareholders will be able to follow the business of the meeting by virtual means as well as in person. Those joining virtually will be able to log into a live webcast and pose

questions to the Board in real time in accordance with the 2018 Code and the Annual General Meeting Guidance published by the Financial Reporting Council in October 2020. Shareholders are also able to submit questions in writing through our website in advance of the AGM. The physical location of the AGM will be the Severn Trent Academy, Hawksley Park, St. Martins Road, Finham, Coventry, CV3 6PR.

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.

Corporate website

We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders. The website 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 containing information which may be of interest to our shareholders.

Code compliance

During the year ended 31 March 2021, we have fully applied the principles of good governance and have been compliant with the provisions 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			
Board Leadership and Company Purpose		Composition, Succession and Evaluation	
The Role of the Board	90	Board Biographies	86-87
Chair's Introduction to Governance	80-82	Board Composition and Tenure	85
Board Engagement with Stakeholders	68-71	Board Evaluation	98-99
Section 172 Statement	76-78	Board Succession Planning	102
Establish Purpose and Values	82	Nominations Committee Report	101-106
Oversight of Strategy	90		
Policies and Practices	79	Audit, Risk and Internal Controls	
Assessing Risks and Viability	38-49	Audit Committee Report	107-113
Measurement of Strategy (ODIs and KPIs)	18-19	Our Approach to Risk	38-39
		Principal Risks	40-45
Division of Responsibilities		Emerging Risks	46
Board Independence	96		
Board Committees	89	Remuneration	
Board Attendance	87	Directors' Remuneration Report	120-153

Key Activities of the Board in 2020/21

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 76 to 78. Board meeting discussions are structured using a carefully tailored agenda that

is agreed in advance by the Chair, in conjunction with the CEO and Company Secretary. Each meeting starts with a report, circulated in advance of the meeting, from the Chairs of our Board Committees on the proceedings of those meetings, including the key discussion points and particular matters to bring to the Board's attention. 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 strategic importance and areas of risk. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page 87.

DEVELOPMENT OF BOARD OBJECTIVES



A set of Board objectives and actions were developed by the Board and agreed in April 2021. The Board agreed that it should discuss its progress on a six-monthly basis. An update will be provided in the 2021/22 Annual Report and Accounts.

PERFORMANCE

CEO Overview



The CEO led discussions focusing on general business performance, key strategic initiatives underway, environmental matters such as biodiversity, environmental leadership and climate change, health, safety and wellbeing and other employee-related matters.

Operational Performance Reviews



Received reports detailing performance against key targets and ODIs, environmental matters and health and safety.

Capital and Commercial Services Reports



Reviewed performance of Business Services and progress on delivering against our ODI targets for major capital programmes and health and safety.

FINANCIAL

CFO Review



The CFO led discussions focusing on financial performance across the Group. Discussions included:

- Group financing updates – including issuance under the Group's Sustainable Finance Framework, overseen by the Treasury Committee.
- Tax updates – including the approval of the Group's Tax Strategy. Read more about our Fair Tax Mark on page 21.

Group Budget



Considered performance vs the 2020/21 Group Budget and agreed the 2021/22 Group Budget. The Group's financial response to the COVID-19 pandemic was also regularly reviewed, in order to minimise the impact of the pandemic on overall financial returns.

Green Financing



On the recommendation of the Treasury Committee, considered the funding strategy and financing structures to deliver the Group's Green Recovery schemes.

Results and Regulatory Reporting



On the recommendation of the Audit Committee, reviewed and approved the half and full year results announcements, presentations to analysts, Annual Report and Accounts and Annual Performance Report.

Viability Statement Updates



Agreed the Viability Statement period to be reported in the Annual Report and Accounts. Read more on pages 47 to 49.

Pension Scheme Updates



On the recommendation of the Treasury Committee, considered updates in relation to the Group's pension schemes.

RISK MANAGEMENT

Enterprise Risk Management ('ERM')



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. During the year, the Board also took the opportunity to appraise its approach to ERM, including development of a Risk Appetite Statement and refreshed approach to risk scoring. Read more on pages 38 to 39.

Review of Effectiveness of Risk Management and Internal Controls



Reviewed the risk management and internal controls in place across the Group and determined their effectiveness. Read more on page 111.

Minworth and Curdworth site visit: Members of the Board attended a site visit to Minworth and Curdworth lagoons to observe the Group's risk management processes and procedures first-hand.

Deep Dives on Risks



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 effectively manage reservoir risk, extend asset life and guarantee serviceability.
Supplier risk – Considered the Group's approach to managing supply chain risk, including active management of suppliers through COVID-19 and transitional periods to mitigate risk.

Key stakeholder groups considered

 Customers	 Suppliers and Contractors
 Communities	 Regulators and Government
 Shareholders and Investors	 Sustainability and ESG
 Workforce	

SUSTAINABILITY AND ENVIRONMENTAL

Flood Mitigation Opportunities



Considered how a broader, multi-agency approach to flooding could facilitate significant improvements in reducing flood risk at both a local and national level. Shared learning, experiences and resources would present opportunities to reduce both pluvial and fluvial flooding.

Green Gas Strategy



Discussed the Group's green gas strategy for the non-regulated business, including biomethane and green hydrogen. Considered the contribution of the green gas strategy to the Group's 2030 net-zero carbon ambitions and broader environmental commitments.

Green Recovery Proposals



Reviewed the business cases to be included in the Group's Green Recovery ahead of submission to the regulators, in consideration of stakeholder benefits. On 17 May 2021, Ofwat proposed to award the Company £565 million (2017/18 prices) across all of its Green Recovery project proposals. Read more on page 13.

Our Sustainability Agenda



See Strategic Deep Dive section below.

New Strategic Direction Statement



See Strategic Deep Dive section below.

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.

Our Sustainability Agenda and Progressing Our Social Purpose



Alongside the regular sustainability updates discussed at Board meetings, including progress made in delivering the Group's sustainability agenda, the Board also considered its Social Purpose during the year. The Board discussed Ofwat's Public Value consultation and the Financial Reporting Council's corporate reporting reforms.

New Strategic Direction Statement



Discussed and agreed the Group's long-term strategic priorities to ensure we meet the highest resilience and environmental standards, and at the same time plan investments more effectively in order to optimise value creation.

Customer Experience



Received an update on the current approach and future plans to improve the customer experience, including enhancing digital channels available to customers.

Community Activity



Received a detailed update on community activity undertaken, including charitable causes that had been supported through the Community Fund and the COVID-19 Emergency Fund, over the last 12 months.

Addressing Water Poverty



Discussed the wide range of mechanisms in place to support customers in vulnerable circumstances in the long and short term, including the Severn Trent Trust Fund.

Information Technology Strategy



Received regular updates on progress made in implementing the Group's technology strategy and plans for further improvement throughout AMP7.

Value Creation Strategy



Considered how the Group can continue to create value in a regulatory context whilst maintaining a leading approach to ESG matters.

Demand Management



Received an update on the Company's comprehensive peak demand management programme, including trials undertaken during the year. Considered tools being used to reduce demand during peak periods. Further detail can be found on page 27.

COVID-19



Received regular updates on the Company's response to the global pandemic, including scenario planning, impact assessments and actions being taken across the Group. Further detail can be found on pages 15 to 17.

GOVERNANCE, LEGAL AND REGULATORY

Governance, Regulatory and Legal Updates



Monitored regulatory and legislative developments and considered any potential impact on the Group's operations. Regulatory stakeholders attended Board meetings virtually, including Ofwat, the DWI, the EA, CCW and Defra. Members of the Board also attended Ofwat NED events. Received regular litigation reports from the Group's legal team. Approved arrangements for delegated financial authority across the Group. On the recommendation of the Corporate Sustainability Committee, approved the Modern Slavery Statement.

Board Succession Planning and Diversity



On the recommendation of the Nominations Committee, considered the arrangements for Board Succession Planning and approved the appointment of Sharmila Nebhrajani as a Non-Executive Director. Read more on page 102.

Board Effectiveness Evaluation



Reviewed progress against the Action Plan for 2020/21 and set the Action Plan for 2021/22. Appointed Independent Board Evaluation to undertake the external 2020/21 evaluation, covering the Board's effectiveness, processes and ways of working. Read more on pages 98 to 99.

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 the 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.

Employee Voice and Engagement

Discussed the Company's approach to engaging our workforce, including feedback from the annual QUEST survey, and received an update on progress made on embedding our Purpose and Values.

Review of Workforce Policies and Practices Academy

Reviewed the assessment of the Group's workforce policies and practices, ensuring these are consistent with the Company's Values and are supportive of its long-term sustainable success.

Received regular updates on delivery of the Severn Trent Academy facility, including a COVID-secure site visit in April 2021 to observe the training and development facility first-hand.

SITE VISITS

In response to Government guidance, physical site visits were put on hold for a large proportion of the year. However, during periods where restrictions were lifted and COVID-secure measures were in place, Board members resumed individual and reduced number group visits to deepen their understanding of the Group's operations and the vital role played by our key workers during the pandemic.

Draycote Water and Carsington Reservoir

Board members visited Draycote Water to see first-hand the processes and management in place at one of our largest reservoirs. Board members attended our COVID-secure Leadership events held at Carsington Reservoir. The half day sessions focused on the role that the Company could play in the UK's post-COVID recovery.

Operational Site Visits

Operational sites visited by members of the Board this year include the following:

- Trimpey Water Treatment Works
- Finham Sewage Treatment Works and Sludge Treatment Facility
- Offices at Raynesway, Longbridge and Shelton

Minworth and Curdworth Lagoons

Members of the Board visited Minworth and Curdworth lagoons to observe the Group's risk management processes and procedures first-hand.

CONTINUOUS PROFESSIONAL DEVELOPMENT AND TRAINING

During the year, the Board received dedicated sessions on a wide range of topics and engaged in Group-wide training, including:

Responding to Modern Slavery within Business



External facilitators provided an update on modern slavery developments, including lessons learned from recent modern slavery investigations in the UK.

Board CPD Sessions – Climate Change, Cyber and Diversity



Board members receive a suite of CPD materials via the Board's Resources Room to complement their attendance at a range of externally facilitated virtual events. This year, Board members attended sessions on the following topics:

- Climate Change and Sustainability
- Cyber
- Diversity

Read more on page 97.

Group-Wide e-Learning



The Board completed mandatory e-learning modules applicable to all employees during the year, demonstrating a strong 'tone from the top' in reinforcing the importance that training plays in mitigating risks faced by the Group. The e-learning programme included the following topics:

- Doing the Right Thing
- Market Abuse Regulation
- Modern Slavery Awareness
- Anti-Bribery and Corruption
- Data Protection

Division of Responsibilities

As at the date of this report, our Board comprised the Chair, six Independent Non-Executive Directors and two Executive Directors. There is clear division between Executive and Non-Executive responsibilities which ensures 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. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet often outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce.

The Executive Directors meet weekly with the Executive Committee to attend to the ongoing management of the Group. Any significant operational and market matters are communicated to the Non-Executive Directors on a timely basis outside of Board meetings. The Board is supported by the Company Secretary, to whom all Directors have access for advice and corporate governance services.

DIRECTOR	RESPONSIBILITY
Chair Christine Hodgson	<ul style="list-style-type: none"> Leads our unified Board and is responsible for its effectiveness. Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'. 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. Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.
Senior Independent Non-Executive Director ('SID') Kevin Beeston	<p>In addition to his responsibilities as a Non-Executive Director, the SID also:</p> <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"> Promote high standards of integrity and corporate governance, and uphold the cultural tone of the Company. Constructively challenge and assist in the development of strategy. Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. Satisfy themselves that internal controls are robust and that the External Audit is undertaken properly. Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company. 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 ('CEO') Liv Garfield	<ul style="list-style-type: none"> Represents Severn Trent externally to all stakeholders, including our employees, the Government, 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 pages 10 to 13.
Chief Financial Officer ('CFO') James Bowling	<ul style="list-style-type: none"> Manages the Group's financial affairs. The CFO's Review can be found on pages 31 to 37. 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 effectiveness evaluation of the Board in conjunction with the Chair. Provides advice and services to the Board.

Division of Responsibilities continued

Board independence

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board Effectiveness evaluation. 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 Directors will retire at this year's AGM and, with the exception of Dominique Reiniche, submit themselves for re-appointment by shareholders. Each of the Non-Executive Directors seeking 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.

Board members hold external directorships and other outside business interests and we recognise the significant benefits that greater boardroom exposure provides for our Directors. However, we closely monitor the nature and number of external directorships our Directors hold in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Severn Trent, and to ensure that all of our Board members remain compliant with the shareholder advisory groups' individual guidance on 'overboarding'. These requirements impose a limit on the number of directorships both Executive and Independent Non-Executive Directors are permitted to hold. Our Independent Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 86 to 87.

Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts; that the role will not breach their overboarding limit; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a Director. During the year, we strengthened our internal processes to ensure that Directors do not undertake any new external appointments without first receiving formal approval from the Board.

The Conflicts of Interest Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Group companies.

Composition, Succession and Evaluation

Board composition

As at the date of this report, our Board comprised the Chair (who was independent on appointment), six Independent Non-Executive Directors and two Executive Directors. The details of their career backgrounds, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 86 to 87. Further detail on the role of the Chair and members of the Board can be found on page 95.

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. Directors serving over six years on the Board are subject to a particularly rigorous review. 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, tenure, experience and independence of the Board, in accordance with the Board Diversity Policy, 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).

The Board and the Nominations Committee have spent a significant amount of time considering 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 effective challenge and promote diversity.

Further information on the work of the Nominations Committee can be found on pages 101 to 106.

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 and 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 92 to 94 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.

During the year, the Board training programme focused on three key areas as set out on the next page.

Board CPD sessions 2020/21

CLIMATE CHANGE AND SUSTAINABILITY

Value Creation from Zero Waste – June 2020
Green Gas – June 2020 and January 2021
Green Recovery – October 2020 and January 2021
Our Sustainability Agenda – April 2021

CYBER

Cyber Security – October 2020
Cyber Update – April 2021

DIVERSITY AND INCLUSION

Employee Voice – November 2020
Gender Pay – November 2020
Modern Slavery – November 2020
Inclusion – April 2021

In addition to the dedicated sessions at Board meetings, additional reading materials were also provided via the Directors' Resource Room and Directors attended a variety of virtual training events hosted by external providers.

Informal Board interactions

The Board's well-established informal interaction programme was adapted in response to COVID-19 movement restrictions to ensure that informal Board events could still be held outside of the formal meeting schedule, to continue building and maintaining successful relationships and promoting a culture of openness in Board discussions. Senior management and external stakeholders were also invited to join the Board members for a number of these sessions. Further detail can be found on pages 68 to 71.

In response to Government guidance, physical site visits were put on hold for a large proportion of the year. However, during periods where restrictions were lifted and COVID-secure measures were in place, Board members resumed individual and reduced group visits, in order to thank our key workers for their dedication and commitment to serving our customers during the pandemic.

Directors' resources

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, tailored training and CPD content, 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 Board skills matrix below 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. The Board skills matrix is reviewed at least annually.

Board Skills Matrix

Topics	Kevin Beeston	James Bowling	John Coghlan	Olivia Garfield	Christine Hodgson	Sharmila Nebhrajani	Dominique Reiniche	Philip Remnant	Angela Strank
Strategy	●	●	●	●	●	●	●	●	●
M&A	●	●	●	●	●	●	●	●	●
Corporate finance/Treasury	●	●	●	●	●	●	●	●	●
Accounting	●	●	●	●	●	●	●	●	●
Regulation	●	●	●	●	●	●	●	●	●
Technology/ Innovation/Cyber	●	●	●	●	●	●	●	●	●
Customer	●	●	●	●	●	●	●	●	●
Brands	●	●	●	●	●	●	●	●	●
Engineering	●	●	●	●	●	●	●	●	●
Utility sector	●	●	●	●	●	●	●	●	●
Science	●	●	●	●	●	●	●	●	●
Sustainability, 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. In accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years, this year's review was facilitated by Ffion Hague of Independent Board Evaluation ('IBE'). The Board's five Committees were also observed as part of the review. Neither Ffion Hague nor IBE has any other connection with the Company or individual Directors.

Process

October/November 2020

Appointment and briefing

Providers were invited to submit detailed proposals to a sub-committee of the Board comprising the Chair and SID, supported by the Company Secretary.

Following subsequent presentations, the Board appointed IBE to facilitate the external Board Effectiveness review for 2020/21. A comprehensive brief was provided to IBE by the Chair.

January – March 2021

Board and Committee meeting observation

The assessment team observed the Board and its Committees in January and March 2021. Access to Board and Committee papers was provided through a secure portal under strict controls.

One-to-one interviews

Detailed interviews were conducted with each Board member throughout January and February, as well as with a number of the Executive Committee members, the Head of Internal Audit, external advisers and the External Auditor. All participants were interviewed for 1.5 hours in accordance with a tailored agenda.

March 2021

Evaluation and report

A comprehensive report was compiled by the evaluation team based on the information and views supplied by those interviewed and observations from the Board and Committee meetings.

Discussion with the Board and Committee Chairs

The draft conclusions were discussed with the Chair and subsequently with the Board in March 2021. Following the Board discussion, feedback was provided to each of the Committee Chairs on the performance of each Committee and the report on the Chair's performance was discussed with the Senior Independent Director. In addition, the Chair received a report with feedback on each Director.

Agreed action plans for 2021/22

The key observations were discussed by the Board and its Committees ahead of finalising 2021/22 action plans.

Findings

IBE's independent review concluded that the Board and Committees perform very well, with positive feedback received from both within and outside the Board. The review highlighted that it was evident that the Board feels accountable to all stakeholders and that the Board places a strong emphasis on ensuring that it considered views from and issues affecting shareholders, employees, customers, regulators and other key stakeholders in its discussions and decision making.

The Board was considered to be appropriately diverse, with a culture of trust between Board members, which encourages open and honest discussions and leads to constructive challenge of the Executive Committee and senior management.

The review concluded that, whilst the Board was operating very effectively, there was scope for small areas of further improvement and the following recommended next steps were agreed with the Board:

BOARD COMPOSITION AND SUCCESSION PLANNING	BOARD AGENDA AND FOCUS	GOVERNANCE ENHANCEMENTS
Recommendation <p>The composition of the Board was considered to be effective. However, focus should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of NED tenure.</p>	Recommendation <p>Consideration should be given to agreeing a set of Board objectives and actions for prioritisation each year to inform the Board agenda and create time for discussion of long-term issues and strategy.</p>	Recommendation <p>Align membership of the Treasury Committee and Corporate Sustainability Committee to that of other Board Committees, comprising Non-Executive Directors only.</p>
Progress <p>One of the key activities for the Board and Nominations Committee during the year was the Committee's plans for the evolution of the Board. An independent search firm has been appointed to help with this over the next two to three years.</p>	Progress <p>A set of Board objectives and actions were developed by the Board and agreed in April 2021 and the Board agreed that it should discuss its progress on a six-monthly basis. An update will be provided in the 2021/22 Annual Report and Accounts.</p>	Progress <p>In line with the recommendations of the Board Effectiveness evaluation, the Board refreshed the membership of the Treasury and Corporate Sustainability Committees towards the end of the year, so that the membership of both Committees comprises Non-Executive Directors only. You can read more on page 102.</p>
Recommendation <p>Induction programmes were considered to be excellent and should continue to be tailored to individual Board members, with consideration given to establishing a Board 'buddy' scheme.</p>	Recommendation <p>Alongside the excellent written reports provided to the Board by each of its Committees, consideration should be given to tabling a report from the Company Forum, the Company's selected workforce engagement mechanism.</p>	Recommendation <p>Notwithstanding the excellent informal interaction between the Board and its Committees throughout the COVID-19 pandemic, consider holding additional private sessions (without management present) for the Board and its Committees during the year.</p>
Progress <p>A Board 'buddy' scheme will be used for all future Board appointments to complement the Group's extensive induction approach.</p>	Progress <p>Reports from Company Forum meetings are now tabled at all subsequent Board meetings.</p>	Progress <p>Private sessions are now held at all Board and Committee meetings at the discretion of the relevant Chair.</p>

Effectiveness of Board Committees

The Board places significant reliance on its Committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the Committees and the Board as a whole, not least as it is impracticable for all Independent Non-Executive Directors to be members of all of the Committees.

Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each Committee and overlapping membership between Board Committees where necessary. The Board also receives a written summary of each of the Committee's meetings and oral updates at the Board, where appropriate. Overall, Board members are fully satisfied that the governance and controls in place are working well and give the Board the visibility it needs to carry out its oversight duties.

Further details on each Committee, including their oversight and focus during the year, can be found in the Committee reports starting on page 101.

Chair's performance

IBE, in conjunction with the Senior Independent Director, Kevin Beeston, carried out a review of the performance of the Chair which included meeting with the Non-Executive Directors without the Chair being present. The consolidated feedback, which was wholly positive in nature, was discussed with Christine Hodgson.

External appointments

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. Approvals were sought during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Plc before consent was granted. A robust assessment of the independence of the individual Directors was also conducted and all of our Non-Executive Directors are considered to be independent. Read more on page 103.

Induction

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. One-to-one meetings are also arranged with the CEO, CFO and the Company Secretary, along with other members of the Executive Committee. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses and have a chance to experience our unique culture in person. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat as part of the appointment process. We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation.

Sharmila Nebhrajani's induction

The Board welcomed Sharmila Nebhrajani during the year and her extensive induction programme covered a range of areas across the business, including governance, stakeholder engagement and the environment. Many of the one-to-one meetings were held virtually due to the ongoing pandemic. However, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place. One main focus for Sharmila's induction was on matters pertinent to her role on the Audit Committee, including receiving an overview of the current risks faced by the Group, the regulatory finance model, and our risk management framework and internal control processes. A summary of Sharmila's key induction visits and events is set out below.



“My induction into Severn Trent was both very comprehensive and professionally organised. Really impressive was the innovative way the programme was adapted to the challenges presented by the pandemic including not only virtual meetings but also incredibly insightful video site tours showing operational aspects. Once restrictions were lifted, I was able to immerse myself into the Group's activities, going out with crews on their rounds, and a true highlight was meeting our people, who show such determined commitment to serving our customers.”

Sharmila Nebhrajani
Non-Executive Director

June 2020

- Individual meetings with Non-Executive Directors and Executive Committee members

June – July 2020

Deep dives into:

24 June

- Internal Audit and Risk Management processes

1 July

- Regulatory finance

3 July

- Social purpose

8 July

- Capital programmes

16 July

- Company background, strategy and regulation

17 July

- Bioresources

21 July

- Business Services

July – September 2020

Operational site visits to understand our key business areas first-hand:

28 July

- Network control – observing a team at Severn Trent Centre
- Water distribution – including a site visit to our Finham depot
- Water treatment – including a site visit to Campion Hills Water Treatment Works

8 September

- Waste water and sewerage network – including a site visit to Sprenal Sewage Treatment Works

11 September

- Dams and reservoirs – including a site visit to Draycote Reservoir

Nominations Committee Report



Committee members

Christine Hodgson
 Chair of the Nominations Committee

Kevin Beeston
 Senior Independent Non-Executive Director

John Coghlan
 Independent Non-Executive Director

Sharmila Nebhrajani
 Independent Non-Executive Director

Dominique Reiniche
 Independent Non-Executive Director

Philip Remnant
 Independent Non-Executive Director

Dame Angela Strank
 Independent Non-Executive Director

Quick facts

All members of the Committee in 2020/21 were independent Non-Executive Directors of the Board, with the exception of Christine Hodgson (who was independent on appointment).

Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, the Chief Financial Officer, 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 2021.

Quick links

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

Dear Shareholder

This report details the role of the Nominations Committee and the important work it has undertaken during the year, including the matters considered and steps taken by the Committee in the year ended 31 March 2021.

This has been my first full year as Chair of the Nominations Committee and our focus has been on maintaining a strong, value-adding and effective Board, with a broad range of professional backgrounds, skills and perspectives. To inform this, I commissioned an externally facilitated Board Effectiveness evaluation during the year, which concluded that the Board operates very effectively and it was evident that the Board places a strong emphasis on ensuring that it considered the views of stakeholders in its discussions and decision making. In line with the recommendations of the Board Effectiveness evaluation, we refreshed the membership of the Treasury and Corporate Sustainability Committees towards the end of the year, so that the membership of both Committees comprises Independent Non-Executive Directors only. You can read more about this process on page 102.

During 2021, the Nominations Committee considered plans for succession to Board roles and an independent search firm, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, has been appointed to help with the evolution of the independent Non-Executive membership of the Board over the next two to three years. The Nominations Committee also considered succession planning for the Executive Committee and other key roles within the senior leadership team, as well as initiatives underway to develop talent below that level throughout the organisation. As a result the Group's succession readiness has improved during the year and the Committee considers that all key roles have credible succession plans in place.

We welcomed Sharmila Nebhrajani to the Board on 1 May 2020 and the Committee oversaw her extensive induction programme during the year. Many of the one-to-one meetings were held virtually due to the ongoing pandemic. However, Sharmila was able to visit a number of our operational sites once restrictions were lifted and COVID-secure measures were in place. Further detail can be found on page 100.

As announced on 19 March 2021, Dominique Reiniche intends to retire from the Board with effect from the end of the AGM in July, having served on the Board for almost five years. On behalf of the Board, I would like to thank Dominique for her service to Severn Trent and valuable contribution to the Board's work over the last five years.

During the year the Committee also considered the Group Board Diversity Policy (the 'Policy') and reviewed progress made against the agreed objectives set out in the Policy. We discussed the importance of the Policy aligning with the diversity of our region, specifically in respect of gender, social and ethnic backgrounds, skills and experience. You can read more on pages 105 to 106.

The Committee assists 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. The Board is mindful that the 2018 UK Corporate Governance Code (the '2018 Code') indicates that Non-Executive Directors should not serve for more than nine years and Non-Executive Directors that have served six years should be subjected to a particularly rigorous review.

Given their length of service, this has been undertaken in relation to the independence and commitment of Angela Strank, John Coghlan and Philip Remnant in line with the requirements of the 2018 Code and the Board is satisfied that all three Directors continue to act with utmost independence and considers that their continued appointments are in the long-term best interest of shareholders. You can read more about this process on page 103.

Christine Hodgson
Chair of the Nominations Committee

18 May 2021

Focus areas in 2020/21

The Committee has responsibility for keeping the size, structure and composition of the Board and its Committees under review and is responsible for ensuring that there are formal plans in place for an orderly succession to both Board and senior leadership positions. The Committee also oversees the development of a diverse pipeline for succession. The composition of the Board is reviewed and refreshed on a regular basis and there is a rigorous and transparent procedure for the appointment of Directors. The Committee leads the process for Board and Board Committee appointments and makes recommendations to the Board. The Committee reports to the Board on its key areas of focus following each Committee meeting. Some key areas of discussion for the Committee during 2020/21 included:

Key areas of discussion

Considered the composition of the Board and the succession of Non-Executive Directors and the skills, knowledge, experience, diversity and attributes required of future Non-Executive Directors. In considering Board succession, the Committee takes into account the length of tenure of the Non-Executive Directors and the importance of regularly refreshing Board membership.

Conducted a review of the search firm providers for the next stage of the Board's succession planning and engaged the executive search firm Hedley May¹ to review the market.

Oversaw the conduct of the Board Effectiveness evaluation, including the provider selection process, which resulted in Ffion Hague of Independent Board Evaluation ('IBE') being commissioned to facilitate the review.

Discussed the feedback, observations and recommendations from IBE's Effectiveness review of the Board and Committees, including the 2021 action plan for approval by the Board. Agreed that Committee composition would be considered on an annual basis.

Oversight of the Group Board Diversity Policy and initiatives and reviewed progress made against the agreed objectives set out in the Group Board Diversity Policy.

Discussed the role of the Group Board Diversity Policy in advancing the composition and effectiveness of the Board and Executive Committee.

Provided oversight of the detailed Executive Committee and senior leadership team succession plans, including diversity.

Approval of revised Terms of Reference, to be applied from 19 March 2021, 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.

¹ Hedley May is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no other connection with the Company or individual Directors.

Succession planning

The Committee's consideration of succession plans remained wider than that relating to the Board and its Committees only, with a considerable amount of time also spent this year on succession readiness and plans for the Executive Directors, the Executive Committee and other key roles within the senior leadership teams, as well as initiatives underway to develop talent internally. The Group's succession readiness has improved during the year and the Committee considers that all key roles have credible succession plans in place.

In line with the recommendations of the Board Effectiveness evaluation, we refreshed the membership of the Treasury and Corporate Sustainability Committees towards the end of the year, so that the membership of both Committees comprises Independent Non-Executive Directors only. You can read more about this process on page 99. The following changes to Committee composition were recommended to the Board in March 2021:

Treasury Committee

James Bowling (CFO) and Adam Stephens (Head of Treasury) stepped down as Committee members, with effect from 19 March 2021.

As key contributors to the implementation of the Group's Treasury Strategy, the Committee recommended that James and Adam continue to attend all Treasury Committee meetings on an invitation basis.

Kevin Beeston was appointed as a member of the Treasury Committee, with effect from 19 March 2021.

Corporate Sustainability Committee

Liv Garfield (CEO) stepped down as a Committee member, with effect from 19 March 2021.

As a key contributor to the delivery of the Group's Sustainability Strategy, including the Group's 2030 net-zero carbon ambitions, the Committee recommended that Liv continues to attend all Corporate Sustainability Committee meetings on an invitation basis.

Director conflicts and independence

In May 2021, 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 the beginning of every meeting, and the Board reviews the authorisation of any potential conflicts of interest every six months.

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

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 will retire at this year's AGM and, with the exception of Dominique Reiniche, submit themselves for re-appointment by shareholders. Each of the Non-Executive Directors seeking re-appointment are considered to be independent in judgment and character.

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee and as part of the Board evaluation exercise. Our process for assessing independence is set out below.

Board independence assessment in action

One of the key activities during the year was the Committee's role in reviewing the composition of the Board and its Committees and assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable them to operate effectively. This process included a robust assessment of the independence of the individual Directors, with a particular focus on those Directors serving on the Board for more than six years. A summary of our assessment process is set out below.

1

Review of the composition and diversity of the Board and how effectively members work together to achieve objectives in consideration of the outputs of the Board Effectiveness evaluation.

2

Review of the knowledge, skills, diversity and experience of individual Directors, Board Committees and the Board as a whole. The Committee assessed and updated the Board skills matrix as part of this activity.

3

Review of individual Director independence every six months through the established Conflicts of Interest and Persons Closely Associated declaration process, developed in line with the independence criteria outlined in the 2018 Code and Charter of Expectations.

4

The Board participated in a time apportionment exercise to establish the time commitment of individual Directors on the Board and its Committees, with a particular focus on Committee Chairs, to ensure this reflected the time commitment expectations outlined within the Charter of Expectations.

5

At its May meeting, the Committee considered the outputs of the review and concluded that there were no concerns as regards the composition of the Board, the contribution or commitment of any Directors and it was considered that all Directors were considered to be independent in judgment and character.

Talent development

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

This year we have opened the Severn Trent Academy which is an exciting part of our long-term succession planning and skills development capability. It will enable employees to develop with us, fulfil their potential and perform at their best. You can read more on page 75.

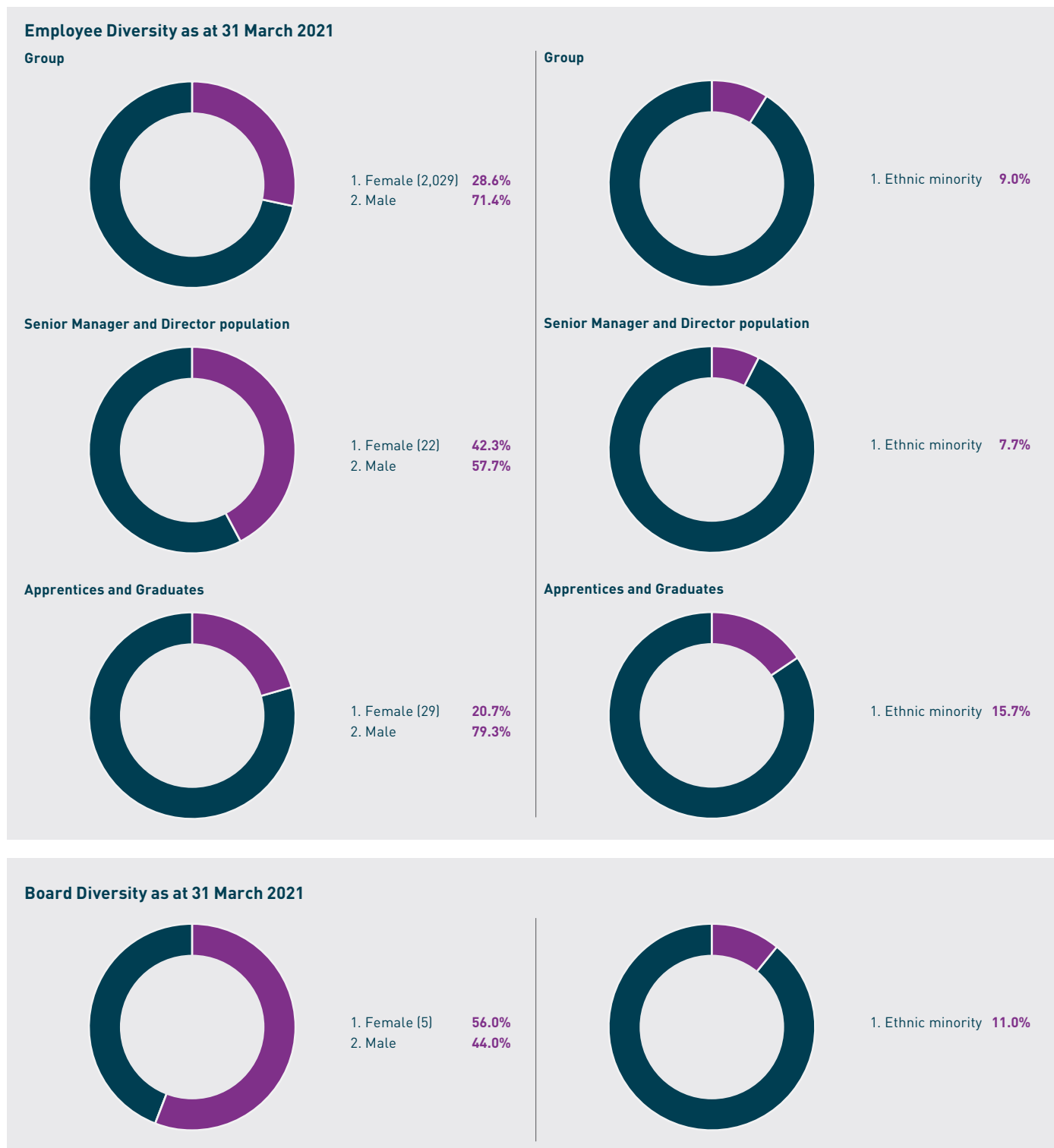
Our senior leadership population is a source of future Executive Committee talent, with our most recent Executive Committee appointments, James Jesic, Bob Stear and Shane Anderson, progressing through this route. We have strong internal succession plans and balance these with bringing in new talent through our graduate, apprenticeship and intern programmes. We currently have a total of 152 graduates or apprentices in training, with 69 of these places offered in 2020/21. Our graduate and apprentice opportunities span a whole range of careers including within the Engineering, Leakage Technician, Technology, Finance and Visitor Experience teams.

The Committee was delighted with the way in which the Company embraced the Government Kickstart Scheme with ambitious plans to support 500 unemployed 16 to 24 year olds with paid work experience and skills development placements for six months. They will also receive a comprehensive employability skills programme via the Severn Trent Academy to support their future career aspirations. The Committee was fortunate to meet some of our 'Kickstarters' in April 2021, during a visit to the Severn Trent Academy.

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. The 2021 Hampton-Alexander Review named Severn Trent as one of the country's top performers in this area, ranking second this year. We have a range of programmes in place to increase diversity in our talent pipelines and this year we launched a new inclusion programme to better enable careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups.

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 2021 is set out below, alongside details of the ethnic minority population of these same groups.



Parker Review – ethnic 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 Committee is focused on ensuring that the diversity of our employee base reflects the diversity of our region – including the gender, social and ethnic background, skills and experience amongst our customers and the communities that we serve.

The Board Diversity Policy (the ‘Policy’) was reviewed by the Committee in May 2021, 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 new Board members, the Committee ensures that the recruitment processes are in line with our Policy to include diverse candidates from a wide variety of backgrounds and those with non-listed company experience for the Committee to consider.

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 considered the composition of the Board and the contribution, commitment and independence of individual Directors.	At its May 2021 meeting, the Committee formally reviewed the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the externally facilitated Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board and the balance of skills, experience and knowledge on the Board as a whole. The Committee met three times during the year to consider Board succession planning, and twice following year end. All Board succession discussions took place in consideration of the 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 diverse candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience. Ensure Board appointment ‘longlists’ include candidates with a 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. On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.	Board appointments were made during the year as follows: <ul style="list-style-type: none"> • 1 April 2020: Non-Executive Chair – Christine Hodgson; and • 1 May 2020: Non-Executive Director – Sharmila Nebhrajani. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, the 2018 Code and additional relevant guidance. The Committee ensured that Korn Ferry, the executive search firm engaged for these appointments, presented a diverse potential candidate list, including candidates with no listed company Board experience.
Ensure the Board and Nominations Committee only engage executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	The Company only engages with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	We continue only to engage with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.
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 April 2021 meeting, the Board 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 ethnic minority candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board and Executive Committee Succession Planning discussions that took place during the year. The diversity of our Executive pipeline is disclosed on page 104.

Policy targets 2020/21

33% female share of Board Directors by 2020.

Minimum of one Board Director from an ethnic minority background by 2021.

Progress against targets

56% female representation on our Board as at 31 March 2021.

In line with the principles of the Parker Review, the Board actively seeks diverse candidates. The calibre of the candidates identified during the most recent recruitment exercise was outstanding and it was after careful deliberation that the Committee recommended the appointment of Sharmila Nebhrajani to the Board from 1 May 2020.

Board Diversity Policy targets – 2021/22 onwards

In May 2021, the Nominations Committee conducted its annual review of the Policy and associated targets. The review recommended changes to the Group's Policy and proposed new diversity targets which the Board approved at its meeting on 14 May 2021. The targets listed below replace the ones that were met or exceeded during 2020/21 and we will disclose our performance against these targets in our 2021/22 Annual Report.

Policy targets 2021/22 onwards

Maintain at least 40% female Directors on the Board over the short to medium term.

Maintain at least 10% Directors from an ethnic minority background on the Board over the short to medium term.

Progress against targets

56% female representation on our Board as at 1 May 2021.

11% ethnic minority representation on our Board as at 1 May 2021.

Audit Committee Report



Committee members

John Coghlan

Chair of the Audit Committee

Kevin Beeston

Senior Independent Non-Executive Director

Sharmila Nebhrajani

Independent Non-Executive Director

Philip Remnant

Independent Non-Executive Director

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 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 regulatory 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 management present.

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.

The Committee's Terms of Reference were updated in May 2021.

Quick links

[Terms of Reference](#)

[Non-Audit Services Policy](#)

[Anti-Bribery Policy](#)

[Charter of Expectations](#)

Dear Shareholder

This report aims to provide shareholders with a clear understanding of the work we have done as a Committee to provide challenge and assurance on the integrity of the 2020/21 Annual Report and Accounts and the Group's regulatory reporting requirements.

The Committee assists 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. Additional information on how the Board, and Audit Committee, have considered stakeholders in their decision making can be found on pages 68 to 71.

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 159 to 165. We were pleased to advise the Board that the 2020/21 Annual Report and Accounts are fair, balanced and understandable and that the 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 109.

During the year the Committee reviewed and agreed with management's proposal for the Company's long-term Viability Statement to continue to cover a seven-year period (see pages 47 to 49). It was agreed that this was appropriate given the nature of the regulatory regime in the water sector and Ofwat's statutory duty to ensure that companies can finance the proper carrying out of their functions.

The Committee has spent a considerable amount of time reviewing the Group's Enterprise Risk Management ('ERM') processes and procedures, with good progress made in enhancing their effectiveness during the year. The Committee also reviewed the Group's Risk Appetite Statement and recommended this for consideration and approval by the Board. You can read more about this important work on pages 38 to 39.

You will see that this report contains an overview of the Company's whistleblowing arrangements (page 111). 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.

Much of the Committee's work relates to the regulated activities of Severn Trent Water and Hafren Dyfrdwy, which together represent over 92% of Group revenues. This reflects our continued commitment to our shareholders and other stakeholders, particularly our customers and regulators.

The Group undertook an externally facilitated Board effectiveness evaluation this year, which assessed our performance as a Committee. I am 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 recent and relevant financial and commercial experience across various industries and all members have competence relevant to our sector. You can read more on pages 86 to 87.

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

18 May 2021

Focus areas in 2020/21

The Committee has an extensive agenda focusing on the audit, risk and assurance 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 teams.

Some key areas of discussion for the Committee during 2020/21 included:

Key areas of discussion

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 Internal Audit plan and approach for 2021/22.
- 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 2020/21 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 2020/21 audit.
- 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 2021.
- Reviewed and approved the non-audit services, and related fees, provided by the External Auditor for 2021/22.

Reviewed and discussed 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 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 2020/21 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 Group's Enterprise Risk Management processes and procedures and internal control systems, prior to making a recommendation to the Board. The Committee also reviewed the Group's Risk Appetite Statement prior to making a recommendation to the Board. Management continues to make continual improvements to the Group's internal controls and risk management systems.

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 14 May 2021, 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.

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 Annual 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 159 to 165 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' Responsibility Statement on page 158 of this report.



External Auditor

The Committee has 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, oversaw the audit of the Severn Trent Group from 2015/16 until, under independence rules, Kari stepped down following completion of the 2019/20 statutory audit. Jacqueline Holden became the senior Statutory Auditor and oversaw the audit for 2020/21. 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 annually 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 following 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 the Group'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.

Feedback was collated and presented to the Committee in March 2021, without Deloitte present. 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.

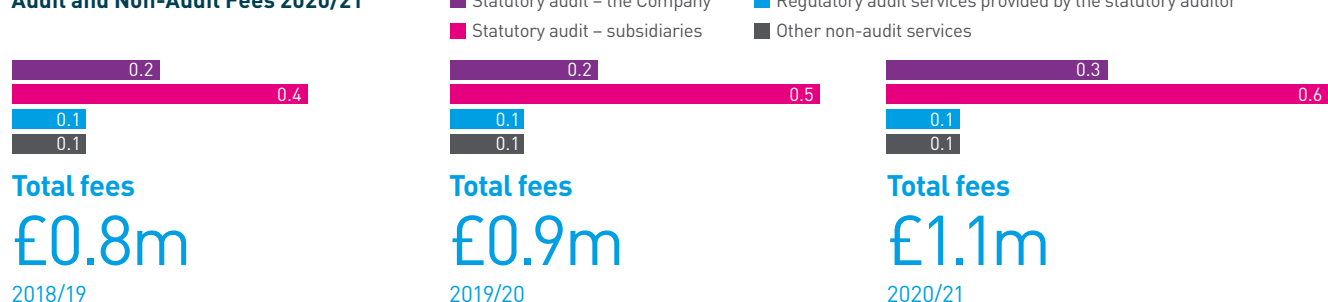
The feedback was shared with Deloitte and an action plan has been drawn up with them and built into the 2021/22 audit programme.

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 (the 'Policy'). We reviewed and updated the Policy during 2019/20 to reflect the Financial Reporting Council's ('FRC') new Ethical Standard and the more restrictive list of services that are now permitted and the Policy was subject to a further review during the year. The Policy requires Committee approval for all such 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 for which 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 £852,000 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 £239,000 this year, which amounts to 21.9% of the total audit fees paid to it (as shown in the chart below). 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 186. 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.

Audit and Non-Audit Fees 2020/21



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.	75
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.	75
Subtotal		150
Other assurance services		
Reporting under Group financing documents	These documents require reports and it is normal practice for the External Auditor to provide these.	85
Other assurance		4
Subtotal		89
Total 2020/21 non-audit fees		239

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 the Committee to monitor delivery of the audit plan. The Committee's role 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 reasonable but 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 March 2021 in consideration of guidance outlined within the Chartered Institute of Internal Auditors ('CIIA') Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The review concluded that the Internal Audit function is operating efficiently and effectively, and in line with good practice. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years. The last independent external review was undertaken in February 2019 and concluded that the Internal Audit function was fit for purpose, and had a clear remit and a desire to support the business. We consider it prudent to carry out external effectiveness reviews every three years and as such the next independent review is planned for February 2022.

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 in place and has delegated responsibility for review of the risk management methodology and effectiveness of internal controls to the Audit Committee. The Committee reviews the processes for, and outputs from, the Group's ERM process, through which our Principal Risks and related controls are identified. It also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which the control and assurance arrangements can be enhanced.

This year, the Committee spent a considerable amount of time reviewing the Group's ERM processes and procedures with good progress made in enhancing its effectiveness during the year. The Committee also reviewed the Group's Risk Appetite Statement and recommended this for consideration and approval by the Board. You can read more about this important work on pages 38 to 39.

The Committee received half-yearly reports from the Head of Risk, detailing the significant risks and uncertainties faced by the Group. Each risk submitted for review includes an assessment of the overall risk status, status of the control environment and a summary of the risk mitigation plan to take the risk to the target risk position, which needs to be in line with the risk appetite. The risk mitigation plan covers action plans to improve controls where this has been assessed as necessary and assesses whether actions are on target, with 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 2 to 79.

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.

Significant issues considered and addressed in relation to the financial statements

The Committee 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. The Committee also considered the accounting treatment for revenue and accrued income. It 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 the Committee's 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.

The Committee 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.

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.

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.

Our business model can be found on pages 6 to 7. Principal Risks and uncertainties can be found on pages 38 to 46. The Viability Statement can be found on page 47 to 49 and the Going Concern Statement on page 49.

Determination of the provision for impairment of trade receivables in Severn Trent Water Limited.

At 31 March 2021, the provision in the Group's financial statements was £137.1 million and the charge for the year was £40.0 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.

The Committee challenged management's assumptions regarding the impact of the COVID-19 outbreak on the expected credit losses for trade receivables existing at 31 March 2021, noting the independent forecasts of the likely economic impacts and the historical evidence of a link between macroeconomic conditions and the Group's bad debt experience.

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.

The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited.

Severn Trent Water Limited has a significant capital programme that includes projects made up of combinations of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.

The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year.

The Committee enquired of management whether the policies had been applied consistently from year-to-year while noting the expected reduction in amounts capitalised in the first year of a new AMP. The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor.

The Committee determined that no adjustment to the amounts recorded was required.

Determination of the amount of the Group's retirement benefit obligations.

At 31 March 2021, net retirement benefit obligations amounting to £367.7 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 for the 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.

The Committee scrutinised the assumptions underlying the valuation of the obligations and obtained explanations for the significant increase 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. The Committee paid particular attention to the 'w2020 factor' applied to the mortality assumptions, which adjusts historical experience for the expected impact of COVID-19.

The Committee also scrutinised the methodologies applied in assessing the fair values of the schemes' assets and considered the estimation techniques used for assets for which an up-to-date valuation was not available.

The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements.

Significant issue

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.

At 31 March 2021 the Group had loans receivable from the joint venture amounting to £100.0 million comprising two revolving credit facilities of £100 million and £32.5 million, of which £67.5 million and £32.5 million respectively was drawn at year end. On 23 April 2021, the £32.5 million revolving credit facility was exchanged for equity shares in Water Plus. In the previous year, the Group's share of the joint venture's accumulated losses after tax exceeded the Group's long-term investment by £4.9 million and these losses had not been recognised by the Group. In the current year, the Group's share of the joint venture's loss after tax was £8.9 million.

The Group has classified the £32.5 million revolving credit facility as part of its long-term investment in Water Plus at the balance sheet date and has accordingly recognised: the losses that were not recognised in the previous year; and its share of the joint venture's loss after tax in the current year against the carrying value of this investment.

The Group has not classified the £100 million revolving credit facility as part of its long-term investment in the joint venture.

How the issue was addressed by the Committee

The Committee challenged management's dissimilar treatment of the two revolving credit facilities and considered management's explanation that:

- The conversion of the £32.5 million revolving credit facility to a long-term investment had been approved by the Treasury Committee before the year end, subject only to determining the most appropriate form of investment. The actual conversion to equity confirmed management's intention at the balance sheet date that this facility should form part of its long-term investment in Water Plus.
- The £100 million revolving credit facility had been renegotiated shortly before the year end. The terms for the renewed facility had been market tested against external benchmarks and management had taken advice from its debt advisers on the terms and pricing that would be expected for this instrument. The term of the facility is in line with the joint venture's external funding. The joint venture's business plan indicates substantial reductions on the amount drawn under this facility in the next two years.

The Committee noted these explanations and considered that the dissimilar treatment of the revolving credit facilities was appropriate.

The Committee further challenged management on whether the conversion of the £32.5 million revolving credit facility should be treated as an adjusting post balance sheet event with regard to the presentation of the asset on the Group's balance sheet at 31 March 2021.

Management confirmed that, in its view, the conversion of the revolving credit facility to equity in April 2021 did not provide evidence of a condition that existed at 31 March 2021 with regard to the classification of the asset, particularly as approval for the form of the investment as equity was not confirmed by both joint venture partners until after the balance sheet date. Therefore the asset should be recorded as a loan receivable at 31 March 2021.

The Committee considered this explanation and concurred with the conclusion.

Classification of the Group's share of Water Plus loss as an exceptional item.

In the year ended 31 March 2021 the Group has not recorded its share of the current year loss from its joint venture, Water Plus, as an exceptional item. The loss recognised was £8.9 million. The Group has recorded the losses not recognised in the previous year, amounting to £4.9 million, as an exceptional item. 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 34.

The Committee noted the accounting policy and management's analysis of the Group's share of the loss incurred by Water Plus. The Committee noted that £4.9 million of the loss recorded in the year had been incurred by Water Plus in the previous year, when the Group's share of Water Plus's loss had been recorded as an exceptional item, but had not been recognised by the Group in that year because the joint venture's accumulated losses after tax exceeded the Group's long-term investment.

The Committee noted management's explanation that the losses incurred in 2020 and in 2021 were separate transactions. The losses incurred by Water Plus in 2020 were considered to be exceptional for the reasons set out at the time. Since management was unable to specifically identify the impacts of COVID-19 on Water Plus in 2021, this loss was not classified as exceptional.

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 from its joint ventures was appropriate.

FRC thematic review of the application of IFRS 15.

The Company was selected as part of the FRC's thematic review related to the application of IFRS 15 'Revenue from Contracts with Customers'. The FRC reviewed the financial statements for the year ended 31 March 2020; only the disclosures relating to revenue recognition were reviewed.

As a result of its review, the FRC requested additional information about deferred income balances disclosed within the accounts, and for clarification as to whether they were considered to be contract liabilities under IFRS 15.

The review conducted by the FRC was based solely on the Group's published Annual Report and Accounts and provides no assurance that the report and accounts are correct in all material respects. The review and the FRC role is not to verify the information provided but to consider compliance with reporting requirements. The FRC accepts no liability for any reliance on their review by the company or any third party, including but not limited to investors and shareholders.

The Committee considered the Company's response to the FRC's enquiries, which was as follows.

The Company confirmed that the deferred income balances should be classified as contract liabilities under IFRS 15, as they represented consideration received in return for performance obligations that were yet to be satisfied. As they had not been accounted for as such, the Company agreed to amend its accounting policy.

The Company explained that the change in policy will result in the liabilities being released to revenue, rather than operating costs, over the life of the associated assets. The change has been made prospectively given that, historically, the amounts involved have been immaterial. The Company also agreed to provide additional disclosures about contract liabilities going forward, and to disclose the recognition of amounts received as deferred income rather than as in-period revenue as a significant judgement under IAS 1 'Presentation of Financial Statements'.

No changes were required to prior year financial statements.

The FRC was satisfied with this response and closed its enquiries.

Treasury Committee Report



Committee members

John Coghlan

Chair of the Treasury Committee

Kevin Beeston

Senior Independent Non-Executive Director [appointed 19 March 2021]

Philip Remnant

Independent Non-Executive Director

Quick facts

All members of the Committee are Non-Executive Directors of the Board. During 2020/21, the Chief Financial Officer and the two individuals who held the position of Group Treasurer were also members of the Committee but their membership had ceased by the end of March 2021. You can read more about these changes on page 102.

Regular attendees at meetings at the invitation of the Committee include the Chair of the Board, the Chief Financial Officer, the Group Treasurer, the Group Financial Controller, and representatives from the Group's financial advisers, Rothschild & Co. 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.

The Committee's Terms of Reference were updated in March 2021.

Quick links

[Terms of Reference](#)

[Sustainable Finance Framework](#)

[Charter of Expectations](#)

Dear Shareholder

I am pleased to introduce this report which details the role of the Treasury Committee and the key activities 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. The Committee's Terms of Reference, available on our website, reflect our continued commitment to this and you can read more about our approach to s.172 on pages 76 to 78.

The focus the Committee gives to the Group's financing strategy is instrumental in ensuring that the Group remains in a strong financing position throughout the AMP7 regulatory period and beyond. During the year, the Committee has carefully considered and closely monitored the potential economic impacts of COVID-19, in particular on financing and maintaining at least 18 months' liquidity. During 2020/21, the Group issued £400 million of new debt and extended £900 million of bank facilities by a further year, ensuring it remained in a strong liquidity position and in compliance with its liquidity policy. At the balance sheet date, the Group had sufficient liquidity to meet its forecast cash flow requirements to the end of 2022. In addition, the Group is focused on ensuring that it develops and maintains a diverse range of funding sources and in April 2021, the Group renewed its £1 billion revolving credit facility, extending its maturity to 2026.

Future funding is an important 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.

Sustainable Finance is a core element of the Group's funding strategy. In June 2020, Severn Trent Water Limited successfully completed its inaugural Sustainable GBP Bond raising £300 million for 20 years at a coupon of 2.0%. The proceeds from the bond issue will be used to finance green and social projects undertaken by Severn Trent Water. This is the second sustainable debt issue undertaken by the Group and follows a Sustainable US Private Placement completed by Severn Trent Plc in March 2020. The Group closely monitors developments in sustainable finance through its Sustainable Finance Committee, which reports to the Treasury Committee.

The Treasury Committee spent time considering the funding strategy and financing structures to deliver the Group's Green Recovery schemes. The Board and Treasury Committee were delighted that Ofwat proposed to award the Company £565 million (2017/18 prices) across all of the Green Recovery project proposals. Six projects will strengthen the Group's capabilities and network, and will lead to RCV growth, on which the Company will earn future economic returns. You can read more about the Green Recovery projects on page 13.

The Treasury Committee closely monitors the Group's debt mix. For AMP7, Ofwat introduced a new inflation index, with CPIH used in pricing and a proportion of RCV indexation. I am delighted to report that Severn Trent Water Limited completed the UK's first CPIH-linked bond in December 2020, raising £100 million with a maturity of 35 years.

The Treasury Committee has also reviewed the Group's plans for LIBOR transition and ensured these are well progressed. During the year, Group Treasury assessed LIBOR exposures within the business and developed robust plans to enable a smooth transition to alternative benchmark rates ahead of the cessation of LIBOR at the end of 2021. This activity included the agreement of a small uncommitted SONIA-based 'test' facility with a relationship bank and commencement of dialogue with lenders and derivative counterparties to agree transition plans.

The annual Board Effectiveness evaluation assessed our performance as a Committee and I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. In line with the recommendation from this year's externally facilitated review, the Chief Financial Officer and the Group Treasurer stood down from the Committee after the meeting in March 2021. You can read more on the Board Effectiveness evaluation on pages 98 to 99. 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 & Co, 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

18 May 2021

Focus areas in 2020/21

The Committee provides Board oversight of the Group's key financing risks and opportunities. Some key areas of discussion for the Committee during 2020/21 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.
Consideration of the Group's AMP7 funding strategy, in relation to the Group's funding position and priorities for the new regulatory period, latest discussions with credit rating agencies and management of exposure to financial risks including COVID-19, energy prices and interest rate transition.
Consideration of the Group's interest rate strategy.
Deliberation of funding options for the Group's Green Recovery submission.
Review of the Group's debt investor relations strategy.
Discussion of interest rate hedging levels within the Severn Trent Pension Scheme.
Review and approval of the Committee's Terms of Reference, to be applied from 19 March 2021, 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.

Corporate Sustainability Committee Report



Committee members

Dame Angela Strank

Chair of the Corporate Sustainability Committee

Christine Hodgson

Chair, Severn Trent Plc

Sharmila Nebhrajani

Independent Non-Executive Director

Dominique Reiniche

Independent Non-Executive Director

Quick facts

All members of the Committee in 2020/21 were Non-Executive Directors of the Board, plus the Chief Executive. To comply with good practice, the Chief Executive stepped down from the Committee after the meeting in March 2021, but retains a standing invite to meetings.

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 2021.

Quick links

[Terms of Reference](#)

[Sustainability Report](#)

[Anti-Slavery and Human Trafficking Statement](#)

[Whistleblowing Policy](#)

[Charter of Expectations](#)

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 (see page 50). The following pages describe the activities of the Committee and provide an overview of the topics discussed during the year.

As outlined on page 59, sustainability is embedded throughout the Company and the Board and its Committees are no exception. The Corporate Sustainability Committee has a key role in supporting the Board within the Governance Framework, by providing guidance and direction on the Company's sustainability and corporate responsibility ambitions. Sitting alongside myself, the Committee is composed of the Chair of the Board and two other Non-Executive Directors. Following the recommendations of the externally facilitated Board Effectiveness evaluation (read more on pages 98 to 99), the Chief Executive ceased membership of the Committee in March 2021 but will still continue to attend each meeting with an open invitation to bring the benefit of her expertise in sustainability matters. Our collective experience and capability lead to knowledgeable and passionate debate around a wide range of existing and emerging sustainability topics, and the Committee's discussion on such subjects is presented in detail to the Board at the beginning of every meeting to ensure that its overall oversight of ESG matters remains strategic, current and effective.

It has now been over five years since the Paris Agreement on Climate Change was adopted and it is abundantly clear that this will remain top of the global agenda for the foreseeable future. In recent years, Severn Trent has increasingly considered how it can both mitigate its own carbon emissions and bring more sustainable services to our customers. The Committee has spent a significant proportion of its time focusing on Severn Trent's role as an environmental leader. We have made a number of key commitments which lie at the heart of our climate change plans, and the Committee has considered our approach to carbon emissions abatement across the following areas:

- **Our Triple Carbon Pledge** – Committing to net-zero carbon emissions, 100% renewable energy and an all-electric vehicle fleet by 2030, where available. On our Net-Zero Pledge, we are proud to have been accredited by the Carbon Trust since 2009, and during that time we have consistently reduced greenhouse gas ('GHG') emissions from our operations, leading to a total reduction of 57% to the end of 2019/20.
- **Biodiversity** – To support our climate change plan and broader sustainability agenda, we announced £1.2 billion of investment by 2025 in environmental initiatives, including our Great Big Nature Boost to plant 1.3 million trees, revive 12,000 acres of land and restore over 2,000 km of rivers.
- **Climate targets** – We submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative, committing us to deliver significant reductions in our GHG emissions by 2030, and we look forward to finalising these targets in the coming months.
- **Climate-related reporting** – This year we have made disclosures in line with the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD'), which you can read more about on pages 54 to 67.

We believe it is important that shareholders have the opportunity to engage with the plans we have developed and that is why, during the year, we announced our intention to put our climate change action plan before shareholders and seek an advisory vote on our approach at the AGM on 8 July 2021.

Sadly, the year continued to be disrupted by the COVID-19 pandemic and, as a result, the Committee has considered a wide range of topics to support our stakeholders. The health and wellbeing of our customers and colleagues have been at the forefront of our response, from supporting customers who have been struggling to pay their bills as a result of the pandemic, to providing our key workers with the personal protective equipment they need to deliver our essential services. A £1 million COVID-19 Emergency Fund was established to support community projects and charities in our region that were directly affected by the pandemic, supporting 339 local charities. We have donated c.£7 million to charitable organisations this year. Further information about our response to the COVID-19 pandemic can be found on pages 15 to 17. Alongside this, the Committee was pleased that the first grants from the Severn Trent Community Fund were made available to excellent causes in our region during the year. Read more about our Community Fund on page 23.

We are 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 on our agenda. The feedback from our all-employee events shows that colleagues want to be ambassadors for sustainability at home as well as at work, so the Group has introduced a personal salary sacrifice scheme to lease an electric car, which has been very well received. We also continue to hold regular Supplier Summits, which provide a forum to engage with over 50 of our suppliers on how we can work collaboratively to achieve shared sustainability outcomes, resulting in greater impact for society.

The Committee is delighted that our sustainability ambitions are deeply rooted and owned across the whole of the Company and placed right at the heart of our governance. We are pleased and proud that both our ESG-themed Capital Markets Day and our overall approach to ESG reporting, including our first standalone Sustainability Report, won awards from prestigious Investor Relations organisations. In April 2021, we achieved 6th place in the Tortoise Responsibility100 Index, and, in February 2021, Morgan Stanley Capital International ('MSCI') rated us A, improving on our previous rating of BBB (scale AAA to CCC); these achievements spur us on to continue to deliver excellence on our sustainability agenda. The Committee has a clear view of the focus areas for continuing our sustainability journey, and both the Committee and the Board are confident that we have the right agenda in place.

Finally, the Committee is thrilled about our partnership with the Birmingham 2022 Commonwealth Games, to support its ambition to create the most sustainable games yet. We are proud to lead on making it the first carbon neutral games, through a range of nature-enhancing offset initiatives, including planting 2,022 acres of forest in the Midlands and creating 72 mini forests, representing each competing nation. Like us, the Commonwealth Games has an ambition to leave a lasting legacy for future generations and we look forward to working with the organising committee in the months to come.

Details on key matters that the Committee has considered during the year in relation to each of our sustainability ambitions are set out overleaf. More information on the Sustainability Framework can be found on page 50 and within our Sustainability Report, available on the Severn Trent Plc website.

The Committee remains extremely proud of the Company's many achievements over the last year, described on pages 2 to 79, and the work we have undertaken to positively impact communities within our region.

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 purposeful agenda.

Dame Angela Strank
 Chair of the Corporate Sustainability Committee

18 May 2021



The Committee visited Newfield Farm in Long Itchington

Catchment management and biodiversity

During September 2020, under COVID-secure conditions, the Committee visited Newfields Farm in Long Itchington to meet local farmers and understand how our catchment management plans work in practice. The Committee also saw first-hand the farm infrastructure improvements made as a result of one of Severn Trent's Environment Protection Scheme ('STEPS') grants, to help conserve and protect local water resources.

Our catchment management activities involve us working with landowners to deliver catchment-specific advice campaigns. The aim is to reduce pollution from agriculture, thereby minimising risks to water quality through proactive catchment management, providing more resilience in the face of a changing climate and growth in demand.

Catchment management schemes provide cost-beneficial solutions to water quality risks, addressing issues at source rather than relying on unsustainable and expensive end-of-pipe treatment solutions. It is also regarded as a more sustainable and environmentally friendly option compared with conventional processes.

STEPS offers an annual opportunity for farmers and land managers to make significant improvements to their land management and infrastructure through a match-funded grant. The grant offers both financial and technical support, including devising tailored solutions to tackle water pollution, through changing practices or improving facilities.

Newfields is a large arable farm which produces 2,100 tonnes of wheat annually, as well as growing other crops such as oilseed rape for margarine. In 2017, the farmer installed a pesticide washdown facility on his farm, which has eradicated the risk of point source pollution from filling and washing down the pesticide sprayer. The bunded shed has a 700 litre holding capacity, as well as having a base-drain and an underground tank with a capacity of 3,000 litres. The sprayer is both filled and washed down in this facility, and the pesticide washings are pumped from the drain to a biobed, which was funded through the STEPS grant. Biobeds use soil and plants to filter the chemicals from the water. Once the water has filtered through the biobed, it can safely be released into the environment as any pesticides will have been naturally attenuated by the biomix (which, at Newfields, is made from 25% top soil, 25% peat-free compost and 50% straw).

The Committee also saw areas of wildflower mini-meadow, funded through a Severn Trent biodiversity grant. These field border meadows will increase pollinators and predatory insects which naturally pollinate and protect the crops, as well as being habitats for wildlife, and a vital food source for farmland birds during the winter months.

The Committee plans to undertake more site visits in the future to deepen its appreciation of the fantastic sustainability work undertaken by the business.

Sustainability in our culture

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 Sustainability Framework. Our Corporate Sustainability performance is deeply embedded within the organisation, with ODIs linked to the majority of our metrics, enabling the Company to focus on issues important to our customers.

Performance against the Sustainability Framework is reported on a quarterly basis 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 standalone Sustainability Report, available on the Severn Trent Plc website.

Employee rewards for performance are directly linked to our Corporate Sustainability performance, with ODIs, health and safety and other key targets contributing to a third of all-employee annual bonus. We believe the concentrating on the issues most important to our customers, gives our Sustainability Framework the right focus.

We have also introduced a second sustainability-focused performance measure in the Group's Long Term Incentive Plan. You can read more about how our Sustainability Framework and employee rewards are linked on page 122 of the Directors' Remuneration Report.

The Committee ensures that, in considering the matters before them, the Severn Trent Purpose and Values, and alignment with Doing the Right Thing, are taken into account. You can read more on page 82.

Whistleblowing





Our employees and wider workforce know they can raise concerns and issues 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 5% of utility companies worldwide.

Focus areas in 2020/21

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 Sustainability Framework, ensuring the Company can demonstrate that it lives through these Values and acts responsibly in its engagement with all stakeholders. The Committee also oversees the approach of environmental standards, particularly those where Severn Trent has the most significant impacts, for example: energy management and climate change, water quality, resource productivity (including leakage and waste) and, biodiversity and land use. Key areas of discussion for the Committee during 2020/21 are set out below, alongside our sustainability ambitions and some of our main sustainability achievements over the last year.

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

Committee activities during 2020/21

Review of progress against our Great Big Nature Boost – including a COVID-secure farm visit to see our catchment management and biodiversity commitments in action, highlighting how working with landowners can improve both biodiversity and water quality.

Oversight of environmental leadership including mitigating climate change through our Triple Carbon Pledge, Green Fleet and Science Based Targets.

Agreed the approach to the Group's Task Force on Climate-related Financial Disclosures ('TCFD') reporting.

Sustainability achievements during 2020/21

Delivered over 2,600 hectares of biodiversity improvements

Planted more than 290,000 trees

Launched our employee electric vehicle scheme

Partnership with the Birmingham 2022 Commonwealth Games as official Nature and Carbon Neutral Supporter

Submitted our Scope 1, 2 and 3 Science Based Targets to the Science Based Targets initiative

On track to deliver a 50% reduction in pollutions by 2025

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

Committee activities during 2020/21

Discussion of our diversity and inclusion ambition and priorities for the next part of our journey.

Consideration of the Severn Trent Community Fund's progress since its launch in early 2020, including the charity initiatives put in place as a response to the COVID-19 pandemic.

Input into Severn Trent's approach for supporting customers who were in need, both financially and non-financially.

Sustainability achievements during 2020/21

Awarded £1.5 million to 93 projects through the Community Fund since March 2020

35% of our customers supported financially through our Help When You Need It schemes

Best ever year-on-year health and safety performance – 20% improvement

Opened our purpose-built Severn Trent Academy in February 2021

Launched our £1 million COVID-19 Emergency Fund and have donated to 339 local charities to help them deal with the effects of the pandemic

You can read more about our response to COVID-19 and how we ensured the health and safety of our workforce on pages 15 to 17.

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 or concerns raised about modern slavery, 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 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, so we have been working closely with them to ensure the risks involved in their own supply chains are understood. 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 improving our approach to risk assessment in our supply chain and developing an in-depth assurance process.


Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website. We welcome the Government's proposal to introduce strengthened reporting requirements under section 54 of the Modern Slavery Act 2015, in response to the recent Transparency in Supply Chains consultation. We will continue to report in line with the requirements.


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 in our Governance Framework. You can read more in our Sustainability Report and on our dedicated Sustainability webpages, on the Severn Trent Plc website.

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

Committee activities during 2020/21

Engaged with Morgan Stanley Capital Investment ('MSCI') who provided an external insight into emerging ESG challenges and trends.

Reviewed sustainability performance reports – quarterly update on all strategic elements to monitor our progress.

Oversaw the Sustainability Framework and the external sustainability landscape to ensure sustainability-related risks are identified and appropriately mitigated. Read more about our Principal Risks on pages 40 to 45.

Approved the approach to sustainability reporting to ensure that the sustainability ambitions we have embedded in our wider organisation strategy are shared with stakeholders.

Reviewed progress made in engaging responsibly with our supply chain and discussed future strategy.

Reviewed the Anti-Slavery and Human Trafficking Statement.

Reviewed whistleblowing reports, with quarterly updates on issues raised and reporting trends.

Reviewed and approved the Committee's Terms of Reference, to be applied from 19 March 2021, 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.

Sustainability achievements during 2020/21

Improved our MSCI rating from BBB to A

98% of supplier payments paid within 60 days

Over 1,000 of our current contracted suppliers are signed up to our Sustainable Supply Chain Charter

Awarded the CIPS Corporate Ethics Mark for ethical sourcing and supplier management

Raised £300 million through our Sustainable Finance Framework with a GBP bond issue completed in June 2020. The proceeds of the bond issue have been used to finance green and social projects completed by Severn Trent Water Limited

Published our first standalone Sustainability Report

Recognised by the Investor Relations Society as the best communication of ESG within the FTSE100

Became a signatory to Prince Charles' Terra Carta, affirming our support for the objectives of the 10 articles which provide a roadmap for businesses to move towards a more sustainable future

Directors' Remuneration Report



Committee members

Philip Remnant

Chairman of the Remuneration Committee

Kevin Beeston

Senior Independent Non-Executive Director

Christine Hodgson

Chair, Severn Trent Plc

Dame Angela Strank

Independent Non-Executive Director

Quick facts

The Committee's Terms of Reference were updated in March 2021 and are available on the Severn Trent website, alongside the current 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 86 to 87.

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 87.

Quick links

Chairman's Letter	120
Remuneration at a Glance	126
Summary of Remuneration Policy and Implementation	129
Company Remuneration at Severn Trent	132
Annual Report on Remuneration	142
2021 Remuneration Policy	145

Dear Shareholder

On behalf of the Remuneration Committee (the 'Committee'), I am pleased to provide an overview of both Executive Director and wider workforce remuneration for the year ended 31 March 2021. As a socially purposeful company, we take pride in our balanced approach to creating long-term, sustainable value for investors while delivering a high-quality service for our customers, a great place to work for our people and having a meaningful, positive impact on the communities we serve. The first year of the five-year Asset Management Period ('AMP7') cycle coincided with a period of prolonged uncertainty as we sought to ensure the resilience of our essential service during the COVID-19 pandemic. We did this without furloughing, making any redundancies or accessing Government support. In the course of an exceptional year, we learned a good deal about how to keep our people engaged and safe, as well as how our ways of working can quickly adapt to the circumstances. We will continue to evolve the support provided to our colleagues, customers and local communities.

Our approach to COVID-19

Before I turn to the 2021 Remuneration Policy review, I would like to recognise the ongoing efforts undertaken by our employees in relation to the pandemic. The pace and credibility of our response was made possible by the way in which the fantastic Severn Trent culture, and our societal purpose, are underpinned by our Values and Doing the Right Thing [our Code of Conduct]. These were all key elements which played a role in defining our four 'COVID' principles:

- Protect colleagues' health and wellbeing, including financial wellbeing;
- Create demonstrable long-term value for our investors;
- Maintain our culture which is derived from our people, our social purpose, community and Doing the Right Thing; and
- Continue to provide all our services without the need for Government support or regulatory intervention.

These principles have been evident through the actions we have taken during the pandemic to support stakeholders, some of which are illustrated in the table on the next page. Further detail is set out on pages 15 to 17 in 'Our COVID-19 Response: Engaging at Every Stage'.

Other people initiatives

I attended the Company Forum in March 2021 and provided an overview of topics discussed by the Board and Remuneration Committee during this year, providing some insight to the proposed development of the Remuneration Policy and the discussion held on pay frameworks and total reward for the entire workforce. I am also immensely proud to share some other initiatives which we have taken, and are continuing to take, to support our people:

- We are continuing to train the entire workforce on the importance of safety and wellbeing;
- We offered a wide range of wellbeing tools with a campaign dedicated to 'Caring for Colleagues' that offered mental health support, defined personal support plans for vulnerable employees, provided access to financial wellbeing tools and created new partnerships with charities, one being The Haven that offers help in situations of domestic abuse; and
- We launched the Academy, our purpose-built training facility offering state-of-the-art experiential learning which simulates our live network using virtual reality. Opening this facility has helped us to enhance the practical workplace experience of 500 Kickstart placements across our region.

More information on our work in these areas can be found in the Our People section, on pages 72 to 75 of the Strategic Report.

Our remuneration response during COVID-19 to support stakeholders

Employees	We made a commitment early on not to make any redundancies or furlough staff. We paid our planned 2019/20 bonus to all employees and agreed a three-year salary deal for our front-line teams.	At their request, we reduced the fee of our Chair, Christine Hodgson, and our Executive Directors' salaries by 25% for the first quarter of 2020/21 and donated the equivalent amount to local charities supporting the response to COVID-19 in our region.	We decided that the maximum amount of bonus capable of being paid under the Group PBIT element of the 2020/21 bonus (49% of the maximum award) would be capped at target, even if the actual performance exceeded target. Therefore, for our Executive Directors the maximum achievable bonus potential for 2020/21 was 91%, rather than 120%, of salary.
Customers	We offered financial support to over 100,000 customers through a number of schemes, including offering bill discounts or capping bills for those struggling to pay. More detail on how we supported our customers can be found on page 23.	We supported our vulnerable customers with targeted communications and assistance through our Priority Services Register.	In October 2020 we launched 'Back-on-Track', a one-year programme designed to help customers who have suffered financial hardship due to the impact of COVID-19.
Society	We supported local communities and charities in our region with donations of approximately £7 million, to help with the impact of, and recovery from, COVID-19.	We supported our supply chain by moving to immediate processing of payments for our smaller suppliers to ensure they could focus on day-to-day operations with minimal financial uncertainty.	We paid a final dividend in line with our AMP6 dividend policy, recognising the critical role that dividends play in providing income for pensioners and savers, including a significant number of employees and former employee investors.

In a year of uncertainty as a result of the pandemic, we were delighted to see our employee engagement outcome continuing to place us in the top 5% of utilities globally and are confident that these initiatives have been a contributory factor.

Our approach to remuneration in 2020/21

The Directors' Remuneration Report sets out details of the 2021 Remuneration Policy (the 'Policy') review, which has taken full account of the 2018 UK Corporate Governance Code (the '2018 Code'). The Company Remuneration section on pages 132 to 141 illustrates our continuing commitment to best practice reporting, disclosure and consistent treatment of executive and wider workforce remuneration, and brings to life some of the steps we take to make sure that our pay and reward framework is transparent and fair for all our employees.

Remuneration for the year under review

Decisions on Directors' remuneration in the year were taken within the framework of the Policy approved by shareholders in 2018, which can be found on the Severn Trent Plc website and on pages 120 to 128 in the 2018 Directors' Remuneration Report. When considering remuneration outcomes this year, the Committee considered the experience of its wider stakeholders and in particular the actions taken by the Company in the context of COVID-19. Further comment on our overall performance during the 2020/21 financial year is set out in the CEO's Review on pages 10 to 12 and highlighted in the At a Glance and Annual Report on Remuneration sections later in this report.

The Committee believes that the outcomes of the annual bonus and Long Term Incentive Plan ('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 2018 LTIP or the 2020/21 annual bonus.

Base salaries and fees

As set out earlier, we reduced the fee of our Chair, Christine Hodgson, and our Executive Directors' salaries by 25% for the first quarter of 2020/21 and donated the equivalent amount to local charities supporting the response to COVID-19 in our region.

2020/21 bonus outcome

When implementing the 2020/21 all-employee annual bonus scheme the Committee determined that it would continue to use the elements and weightings agreed with shareholders. However, given the wider societal impact of COVID-19, the Committee decided that in relation to the Group PBIT measure the maximum amount of bonus capable of being paid would be capped at the target level, even if performance exceeded target.

In reviewing the formulaic outcome of bonus measures against the targets set for Executive Directors, the Committee took into account several broader aspects of the Company's performance during the year:

- Overall business performance – the Company demonstrated strong progress against its strategic objectives throughout this period of prolonged uncertainty;
- Shareholder experience – the Company's share price has been relatively stable from the start of the first lockdown; the Company also paid its final dividend to shareholders for 2019/20 and its interim dividend for 2020/21, and will pay a dividend for 2020/21;
- Decisions in respect of the wider workforce – in addition to the decisions around furlough and redundancies referred to above, all eligible employees will receive their bonus for 2020/21, and the other initiatives taken by the Company to support wellbeing demonstrate the importance of the employee experience to Severn Trent; and
- Government support – the Company has not utilised any Government assistance.

The annual bonus will pay out at 63.8% of maximum opportunity, equivalent to 76.5% of salary for both the CEO and CFO.

2018 LTIP vesting

The LTIP granted in 2018 was the first LTIP award which included a stretch measure relative to the Upper Quartile ('UQ') performance of the other Water and Sewerage Companies ('WaSCs'). This UQ element cannot be measured, and so the associated vesting will not be known, until the end of July 2021 when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will therefore be disclosed in the 2021/22 Directors' Remuneration Report.

As in previous years, the Remuneration Committee has assessed the standard proportion of the total potential LTIP vesting, as this measures the Company's performance against the Return on Regulated Equity ('RoRE') set by Ofwat's Final Determination ('FD'). Over the three-year period the Company achieved a RoRE of 1.37x, as against the target that we set of 1.39x, the base RoRE return. This results in a vesting equivalent to 144.2% of salary for the CEO and 96.2% of salary for the CFO. Pages 127 and 131 provide further details.

Electric vehicle salary sacrifice

As part of our commitment to enhance the link between sustainability and our remuneration framework, acknowledging our company-wide commitment to net-zero carbon by 2030, in January we launched an electric vehicle salary sacrifice scheme, thereby giving employees the opportunity to reduce their carbon footprint. We are delighted with the uptake across the organisation and our Executive Directors are also participating in the scheme.

Wider workforce pay

The Committee is regularly informed of pay and employment conditions throughout the Company and we focus on pay fairness across the organisation. This year, the organisation further demonstrated the Company's commitment to equality of opportunity by reviewing our reward policies and frameworks. Having already become an accredited real Living Wage employer, and published our gender pay gap and CEO to employee pay ratio, we are pleased with the progress made across our equal and inclusive pay indicators. We are satisfied that the outcome shows that our reward policies and frameworks are working fairly and effectively. More information can be found on page 136.

2021 Remuneration Policy review

Our current Policy was approved at our 2018 AGM and is due for renewal at our 2021 AGM. At Severn Trent we are committed to a transparent remuneration framework which embeds our Values across the Company. We are also mindful of the wider public debate around executive pay and the Committee aims to ensure that our executive remuneration arrangements can be clearly articulated and justified to internal and external stakeholders. With this in mind, the objectives of the 2021 Policy review were to:

- Continue our focus on managing strong and long-term sustainable financial and operational performance;
- Recognise and embed our commitments and ambitions around sustainability within both our short and our long-term reward framework, in order to complement the work that has already been done to link the Company's strategy with its Corporate Sustainability Framework;
- Ensure that the remuneration framework for Executive Directors aligns fully with the 2018 Code; and
- Maintain high levels of stakeholder engagement and support.

We believe that the current remuneration framework, which has had overwhelming support from stakeholders, remains appropriate having successfully supported the delivery of the Company's strategy and driven high levels of Company performance over the last three years. Therefore, the proposed new Policy will continue to operate in a similar manner, with two key changes relating to:

- The introduction of a second LTIP performance measure related to sustainability, specifically our net-zero carbon ambitions; and
- The introduction of a post-employment shareholding requirement ('PESR') for the Executive Directors.

Aspects of our Sustainability Framework		Link to ESG	Link to reward	
Taking care of the environment	Enhancing our natural environment	E	Annual Bonus Scheme includes C-MeX/ODIs	Electric vehicle salary sacrifice scheme
	Making the most of our resources	E	Financing/Totex/ODI within RoRE in the LTIP	
Helping people to thrive	Providing a fair, inclusive and safe place to work	S	Response to COVID-19	Accredited real Living Wage employer
	Investing in skills and knowledge	S	Alignment of executive pension contributions	Focus on creating a safe environment for all employees
	Making a positive difference in the community	S	All employee bonus scheme	Learning and development opportunities
Being a company you can trust			Flexible benefits programme	Employee recognition
			Sharesave scheme	Volunteering (community champion events)
			Gender pay gap reporting	
	Living our values	G	Purpose and Values co-created with employees	Holding periods on LTIPs for Executive Directors
	Balancing the interests of all our stakeholders	G	Rewarding for UQ RoRE performance in the LTIP	Shareholding requirements for Executive Directors/Executive Committee
	Running our company for the long term	G	Linking bonus and LTIP (RoRE) measures directly to Ofwat definitions	Visible and transparent pay bands
	Being open about what we do and sharing what we know	G	Deferral of annual bonus into shares	Market leading remuneration reporting
			Malus/clawback provisions within variable pay	

Introduction of a second LTIP performance measure related to sustainability

RoRE, as the sole measure within the LTIP, has served us well over the past three years as it provides a holistic measurement of performance, requiring management to focus on performance across a range of long-term measures (such as Totex, ODIs and financing). Performance is assessed independently by Ofwat each year on a comparative basis.

We know, however, that the resilience of our business is intrinsically linked to the resilience of the natural environment. Climate change is one of the greatest challenges facing the world today. It is a key risk for Severn Trent, as everything we do is impacted by the weather, from the quality and quantity of water we abstract, to the performance of our industrial assets, as well as the demand from customers for our water.

As a result, in 2019 we established our Triple Carbon Pledge, which focuses on reducing our carbon emissions, stating that by 2030 we will achieve:

- Net-zero carbon emissions across the business;
- 100% of our energy from renewable resources; and
- 100% electric vehicles, availability of vehicles permitting.

We are committed to ensuring that our employees are motivated to deliver our sustainability ambitions, from climate and biodiversity to supporting our customers, across all our incentives. Therefore, as part of the 2021 Policy review, the Committee looked at how to recognise and embed our Sustainability Framework within reward at Severn Trent. The Committee recognises that there are already extensive links to sustainability-related measures through the all-employee annual bonus scheme and other areas of reward policies and programmes.

In the context of the Company's remuneration framework, the Committee decided that there was an opportunity to incorporate the delivery of Severn Trent's longer-term sustainability commitments within the LTIP. A sustainability-based performance measure has, therefore, been introduced this year with a weighting of 20%.

This sustainability measure will focus on our public commitment to net-zero carbon emissions by 2030 as part of our Triple Carbon Pledge and gives us the opportunity to align the LTIP more closely with the Company's long-term strategy. It will focus on two equally weighted areas, 'Direct Contributors to Carbon Reduction' and 'Innovation for Carbon Reduction'. Each of these measures will have two components:

Direct Contributors to Carbon Reduction (10%)	Fleet – successful roll-out of our electric fleet. Self-generation – growth in our ability to self-generate renewable energy.
Innovation for Carbon Reduction (10%)	Innovation trials – conducting and concluding a series of innovation trials that enhance our ability to save carbon. Process emissions – establishing an effective system to measure our baseline emissions and to monitor future reductions.

The two Innovation for Carbon Reduction components have been chosen for their importance in making significant progress towards our goal of achieving net-zero carbon emissions by 2030. The Committee intends to focus them on the achievement of specific and targeted emissions reductions as soon as it is feasible to do so.

The sustainability measure, in combination with RoRE, will ensure that management continues to focus both on sustainable financial performance and operating the business in an environmentally and socially conscious way. The performance targets/milestones for the 2021 award will be as follows:

Fleet	Delivering 58% of the total car fleet and 16% of the total light commercial fleet as electric vehicles by 31 March 2024
Self-generation	Achieving an outturn of 50 GWh additional generation from the 2019/20 baseline of 486 GWh, enabling a minimum total renewable generation of 536 GWh by 31 March 2024
Innovation trials	The delivery of innovation trials where the combined, verified, scaled opportunity is greater than 7.5 ktCO ₂ e Carbon, with a signed-off plan for delivery
Process emissions	To have established effective monitoring on operational waste treatment sites responsible for 40% of our total N ₂ O and CH ₄ gas emissions

RoRE, which captures a range of long-term measures such as Totex, financing and Customer Operational Delivery Incentives, will continue to be our major LTIP measure, with its weighting reduced from 100% to 80% of maximum for 2021.

It is the Committee's view that the specific targets/milestones which have been set are suitably challenging and the approach that we have adopted by setting a target is aligned with the business plan.

The Committee will assess the value of the 2021 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying business performance and progress towards achievement of our Triple Carbon Pledge.

Continued alignment with the 2018 Code

Most of the features of the 2018 Code are already embedded in our Policy. However, the proposed Policy will also see:

- The implementation of a requirement that Executive Directors continue to hold shares beyond leaving employment;
- Formalisation of the alignment of pension contributions with the wider workforce, which commenced last year and will be complete by April 2022; and
- Alignment of malus and clawback provisions with corporate governance best practice.

The requirement to hold shares after employment will apply from the date of the approval of the Policy to all future equity awards granted under the Policy. Executive Directors will be required to maintain their in-employment minimum shareholding requirement (or actual shareholding, if lower) for two years following cessation of employment.

In line with the Board Effectiveness Guidance issued by the Financial Reporting Council in July 2018, corporate failure is being added as a trigger for malus and clawback in the Company's incentive plans and we have ensured that all incentive scheme rules are aligned.

Engagement with shareholders to understand their views on the proposed Remuneration Policy

In early 2021 we conducted an extensive consultation exercise with our 30 largest shareholders representing over 50% of our issued share capital, as well as Glass Lewis, the Investment Association and Institutional Shareholder Services, to understand their views on our proposed new Policy. In summary, they were pleased to see the overarching principles of the Policy retained, whilst welcoming the Company's commitment to the introduction of a second, sustainability-focused, performance measure in the LTIP and the introduction of a PESR. No changes were, therefore, made to the original Policy proposals.

Remuneration for the year ahead

Looking ahead to 2021/22, on page 129 we explain in detail how the Policy will be implemented for the Executive Directors. The table below sets out the Committee's decision-making processes for 2021/22.

Element of remuneration	Committee decision	Rationale
2021/22 salary rises	To increase the level of base salaries for the Executive Directors in line with the average rise made to all employees. The salary increase will be 2.3%.	<ul style="list-style-type: none"> The Company previously announced its commitment for all eligible employees to receive a salary increase in the 2021/22 financial year, as part of a three-year pay deal.
2021/22 bonus	The Committee has determined, in relation to the Group PBIT measure, that the maximum amount of bonus capable of being paid for this element will return to its normal level. Therefore, the maximum achievable bonus potential will be 120% of salary for the Executive Directors.	<ul style="list-style-type: none"> The Company performance conditions continue to be the same for employees and Executive Directors.
2018 LTIP vesting	<p>The Committee intends to allow the standard proportion of the 2018 LTIP award to vest without adjustment in July 2021.</p> <p>This is the first year where full vesting will be determined by UQ performance compared with a WaSC peer group. This will not be known, and therefore cannot be measured, until the end of July 2021. The UQ element will, therefore, be disclosed in the 2021/22 Directors' Remuneration Report.</p>	<ul style="list-style-type: none"> The 2018 LTIP measures performance over three years and one year out of the three has been impacted by COVID-19, but the impact has not been significant. The value of the shares on vesting will reflect the share price experience of our shareholders.
2021 LTIP grant	<p>The Committee has determined to make the grant on the normal timetable and to retain the performance conditions and targets agreed with shareholders, including the proposed introduction of a second sustainability-based performance measure.</p> <p>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.</p>	<ul style="list-style-type: none"> The performance conditions have been reviewed as part of the Policy review and, as set out above, are aligned with the Company's long-term strategy. The Committee will assess the value of the 2021 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

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 that the Board takes assurance from the quality of the Committee's work.

I am grateful for the time and input shareholders and their representative bodies have given us throughout the engagement process. I trust that we can rely on your vote in support of our approach to remuneration and the proposed Remuneration Policy. If you would like to discuss any aspect of this Report, I would be happy to hear from you. You can contact me through Bronagh Kennedy, Group General Counsel and Company Secretary.

Philip Remnant

Chairman of the Remuneration Committee

2020 AGM shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Report	173,538,547	1,267,563	741,886
	[99.27%]	[0.73%]	

2018 AGM shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Policy	165,243,866	1,369,398	266,854
	[99.18%]	[0.82%]	

The 2020/21 Directors' Remuneration Report has been prepared in line with the 2018 Remuneration Policy.

Key areas of Remuneration Committee focus in 2020/21

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

Our workforce	Executive and senior management Remuneration	Committee governance
<input checked="" type="checkbox"/> Considered impact of COVID-19 on all remuneration elements.	<input checked="" type="checkbox"/> Reviewed and approved the 2021 Remuneration Policy proposals, including the introduction of a second sustainability-focused performance condition for the 2021 LTIP and the introduction of a post-employment shareholding requirement.	<input checked="" type="checkbox"/> Reviewed and approved the 2019/20 Directors' Remuneration Report and agreed the framework for the 2020/21 Report.
<input checked="" type="checkbox"/> Approved the outturn of the 2019/20 all-employee annual bonus scheme.	<input checked="" type="checkbox"/> Approved the outturn of the LTIP awards granted in June 2017.	<input checked="" type="checkbox"/> Considered Severn Trent's 2019/20 reward and performance alignment compared with our WaSC peers.
<input checked="" type="checkbox"/> Considered Severn Trent Plc's 2020 gender pay gap statistics.	<input checked="" type="checkbox"/> Reviewed and approved the LTIP awards granted in June 2020.	<input checked="" type="checkbox"/> Considered an independent update, provided by PwC, on current market practice and future remuneration trends.
<input checked="" type="checkbox"/> Reviewed and approved the 2020/21 all-employee Annual Bonus Scheme structure and targets.		<input checked="" type="checkbox"/> Considered the 2021/22 all-employee Annual Bonus Scheme structure.
<input checked="" type="checkbox"/> 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.		<input checked="" type="checkbox"/> Considered the structure of the LTIP award to be granted in 2021, including the introduction of a second sustainability-focused performance measure.
<input checked="" type="checkbox"/> Considered Severn Trent Plc's approach to sustainable travel and colleague feedback on reward.		<input checked="" type="checkbox"/> Reviewed the expenses claim procedure for the Chair and CEO.
		<input checked="" type="checkbox"/> Approved revised Terms of Reference to be applied from 1 April 2021, prior to making a recommendation to the Board.

Who supports the Committee?

To ensure that the Company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). This appointment in 2017 followed a selection process. PwC attends meetings of the Committee. The CEO, CFO, 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 the advice provided by PwC to the Committee during the year were £131,000 excluding VAT (2019/20: £98,643). 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 2020/21 in the context of our business performance and, from page 129, details of how the Committee intends to implement the Policy in 2021/22. The full 2021 Remuneration Policy, which will be presented for shareholder approval at the 2021 AGM, can be found on page 145.

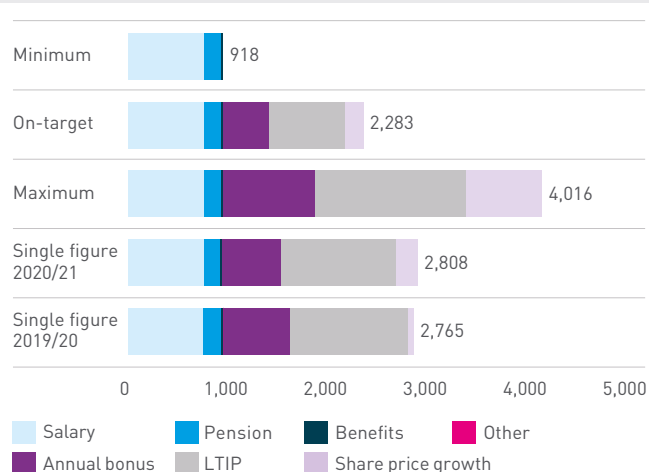
Strategic alignment of remuneration

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 2021 Policy review strengthens the alignment of Severn Trent's strategy to focus management on superior financial performance together with long-term sustainability and operating the business in an environmentally and socially conscious way.

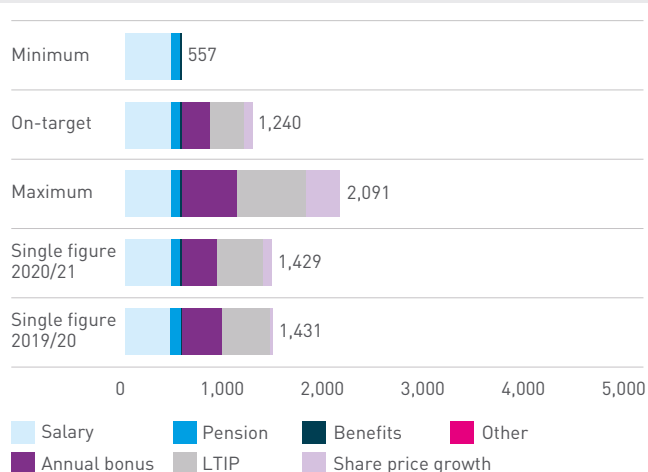
2020/21 single figure outcomes £'000

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 142 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. Both Executive Directors asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the response to COVID-19. Salary levels (which are the base on which other elements of the package are calculated) are based on the salary earned during the financial year ended 31 March 2021 before the voluntary reduction.
- The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2021.
- 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 2020/21 outturn

A summary of performance is set out from pages 20 to 30 within the Strategic Report.

Bonus element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
Group PBIT ⁽ⁱ⁾	£452m	Actual £472.8 £472m		49%	24.5%
Customer and Environment ODIs ⁽ⁱⁱⁱ⁾	£8m	£15.8m	Actual £79.0m £24.1m	35%	31.3%
Health and Safety ⁽ⁱⁱⁱ⁾	0.20	Actual 0.16 0.16	0.12	8%	4.0%
Customer Experience ^(iv)	10	Actual 9 9	8	8%	4.0%
Total				100%	63.8%

(i) The Group PBIT element of the 2020/21 annual bonus was capped at target level.

(ii) Our ODIs are grouped into categories as detailed on page 130. This outturn represents significant outperformance in two categories and above target performance in the third category.

(iii) Measured as number of Lost Time Incidents divided by number of hours worked multiplied by 100,000.

(iv) Measured as ranking in C-MeX, the industry-wide performance measure.

Bonus opportunity and outcome

Name of holder	2020/21 salary (£'000) ⁽ⁱ⁾	Bonus opportunity (% salary) ⁽ⁱⁱ⁾	Bonus outcome (% max)	Annual bonus (£'000)	Value of cash bonus (£'000)	Value of deferred shares (£'000)	2020/21 front-line bonus outturn (£'000) ⁽ⁱⁱⁱ⁾	2020/21 team manager/technical expert bonus outturn (£'000)
CEO	741.7	120%	63.8%	567.4	283.7	283.7	1.0	1.5
CFO	447.0	120%	63.8%	342.0	171.0	171.0		

(i) Bonus calculated using salary at 31 March 2021.

(ii) Group PBIT was capped at target level meaning the maximum achievable bonus potential for 2020/21 was 91% of salary.

(iii) Includes operational/administrative/advisory roles.

2018 LTIP

The chart shows the outcome of the 2018 LTIP awards, for which the performance period ended on 31 March 2021. The LTIP granted in 2018 was the first LTIP award which included a stretch measure relative to the UQ performance of the other WaSCs. The value in the table below is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIP vesting. This results in a vesting equivalent to 144.2% of salary for the CEO and 96.2% of salary for the CFO. Page 143 provides further details.

The UQ element cannot be measured until the end of July 2021 when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will therefore be disclosed in the 2021/22 Directors' Remuneration Report. Further detail is set out on page 143.

	Threshold FD	1.39x FD	UQ RoRE performance relative to WaSCs
RoRE – measured against multiple of Ofwat FD	Actual 1.37x		Vesting not known until end July 2021

LTIP award vesting for performance levels (as a % of salary)

	Threshold FD	1.39x FD	UQ RoRE performance relative to WaSCs
CEO	37.5%	150.0%	200.0%
CFO	25.0%	100.0%	150.0%

Standard proportion of award (up to 1.39x FD)

	Total number of shares granted	Standard proportion of 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	72,880	72.1%	1,206.1	210.0	125.8	1,331.9
CFO	32,941	64.1%	484.8	84.4	50.6	535.4

(i) Based on three month average share price as at 31 March 2021 of £22.95.

(ii) Based on dividends paid in the period since date of grant to 31 March 2021.

Executive Director shareholdings

The CEO and CFO have exceeded the shareholding requirements applicable in 2020/21 of 300% and 200% of salary, respectively.

Shareholding requirement

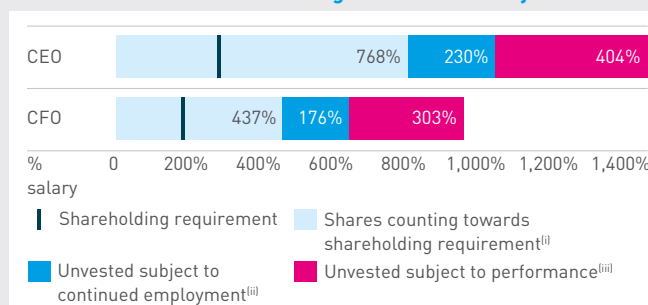
The Executive Directors have built significant shareholdings during their employment with the Company and have retained (except in the case of statutory tax and national insurance deductions) all Company shares acquired as a result of discretionary awards vesting or options being exercised under the Company's share plans.

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. The chart on the right sets out the minimum shareholding requirements and the shareholdings of the Executive Directors. The shareholding requirement must be built up over five years and then subsequently maintained.

All calculations in the chart to the right use a closing share price on 31 March 2021 of £23.06.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 144. 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 2018 LTIP shares which are subject to an ongoing vesting period and a two-year holding period post vesting, plus shares held as part of the Sharesave scheme.
- (iii) Represents the 2019 and 2020 LTIP awards which are subject to ongoing performance.

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.

	2020/21 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) ⁽ⁱ⁾	Value of shares at end of year (£'000) ⁽ⁱⁱ⁾	Difference (£'000)
CEO	2,807.8	180,738	226,316	4,120.8	5,218.8	1,098.0
CFO	1,428.5	49,826	72,176	1,136.0	1,664.4	528.4








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

(ii) Based on a closing share price on 31 March 2021 of £23.06.

Summary of Remuneration Policy and Implementation


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 tables below illustrate the balance of pay and time period of each element of the Policy for Executive Directors and sets out key changes between the current and proposed Policy. Full detail of the proposed 2021 Policy can be found on page 145.

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 	
Shareholding requirement (Not a monetary value)	Executive Directors' minimum shareholding requirement 				


Base salary

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay Salary  Y1 Y2 Y3 Y4 Y5	Salaries for individual Executive Directors are reviewed annually by the Committee and increases normally take effect from 1 July. To the extent that increases are proposed, these will not be higher than the average increase for employees.	No change.	A salary increase of 2.3% will be applied at the salary review date. From 1 July 2021, Executive Director salaries will be: <ul style="list-style-type: none"> • CEO – £758,800 • CFO – £457,300 These rises are in line with the general employee salary increase.


Benefits

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay Benefits  Y1 Y2 Y3 Y4 Y5	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.	Replacement of a car allowance with a green travel allowance to recognise the use of public transport and introduction of our electric vehicle car scheme.	Normal company benefit provision.



Pension

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay Pension  Y1 Y2 Y3 Y4 Y5	A defined contribution scheme and/or cash supplement in lieu of pension.	No change for new appointments. Current Executive Director pensions will be reduced in stages from 25% of salary in 2019 to 15% of salary by April 2022. This change aligns pension contribution quantum for the Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).	Executive Director pension arrangements for 2021/22 are as follows: <ul style="list-style-type: none"> • CEO – 18.3% of salary • CFO – 18.3% of salary



Annual bonus

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Annual bonus 50% in cash  Y1 Y2 Y3 Y4 Y5 50% in shares  Y1 Y2 Y3 Y4 Y5	Maximum award of 120% of salary. There will be no payment made for threshold performance. 50% of total bonus deferred into shares for three years (with the value of any dividends to be rolled up and paid on vesting). 50% of maximum will be paid for target performance and 100% of maximum will be paid for stretch performance. Malus and clawback provisions apply.	No change.	The following maximum opportunities will apply in 2021/22: <ul style="list-style-type: none"> CEO – 120% of salary CFO – 120% of salary Performance measures (as a % of maximum): Group PBIT – 49% Customer and Environment ODIs – 35%: <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% Customer Experience – 8% Health and Safety – 8% The Committee considers the forward-looking targets to be commercially sensitive but full disclosure of the targets and performance outcome will be set out in the year's Remuneration Report setting out the bonus outcome.


LTIP

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
LTIP Up to 200% of salary  Y1 Y2 Y3 Y4 Y5 Two-year holding period  Y1 Y2 Y3 Y4 Y5	Maximum award of 200% of salary. Up to 25% of an award may vest for threshold performance. Awards are granted annually and are subject to a three-year performance period. RoRE remains the primary performance condition, with a stretch target based on UQ performance. Awards made to Executive Directors are subject to a two-year holding period post-vesting which continues to operate post-cessation of employment. Malus and clawback provisions apply.	Introduction of a second performance measure alongside RoRE. A portion of awards, as determined annually by the Committee, will be based on a sustainability measure, equivalent to 20% of the maximum award opportunity.	The maximum LTIP Award will be based on: <ul style="list-style-type: none"> 80% RoRE 20% sustainability measure See pages 123 and 131 for details on LTIP awards to be granted.

Shareholding requirement

To encourage strong shareholder alignment both during and after employment with the Company.

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Executive Directors' share ownership  Y1 Y2 Y3 Y4 Y5	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.	Introduction of a post-employment shareholding requirement to encourage strong alignment between Executive Directors and the long-term interests of shareholders, as well as alignment with the 2018 UK Corporate Governance Code.	The post-employment shareholding requirement will apply to all awards made post the approval of the 2021 Policy.

LTIP awards to be granted in 2021

The table below describes how the LTIP will be implemented in 2021. As mentioned on page 123, 80% of the maximum LTIP opportunity will be based on RoRE and 20% will be based on a sustainability measure. The CEO's and CFO's awards will remain unchanged at 200% and 150% of salary respectively. Both the RoRE and sustainability performance conditions will be measured over three years, to 31 March 2024, and corresponding vesting (as a % of salary) will be:

Operation	Award 2021 LTIP	RoRE measure				
		Threshold FD (% salary)	1.39x FD (% salary)	UQ RoRE performance relative to WaSCs (% salary)	Sustainability performance measure (% salary)	Max outturn (% salary)
Vesting for performance	CEO	37.5%	120%	160%	40%	200%
	CFO	25%	80%	120%	30%	150%

The table below breaks the sustainability performance measure down into two equally weighted areas, 'Direct Contributors to Carbon Reduction' and 'Innovation for Carbon Reduction', setting out the four components and corresponding vesting (as a % of salary). See page 123 for details of performance targets/milestones.

	Direct Contributors to Carbon Reduction		Innovation for Carbon Reduction	
	Fleet (% salary)	Self-generation (% salary)	Innovation trials (% salary)	Process emissions (% salary)
CEO	10%	10%	10%	10%
CFO	7.5%	7.5%	7.5%	7.5%

The Committee will assess the value of the 2021 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

Chair and Non-Executive Directors' fees (audited)

From 1 July 2021, the Chair's fee will be increased by 2.3% from £300,000 to £306,900, in line with the general employee salary increase. The Chair asked the Company to reduce her fee by 25% for the first quarter of 2020/21.

No decision has yet been made on increases for the Non-Executive Directors, any changes will be disclosed in the 2021/22 Directors' Remuneration Report.

The current fee levels are set out in the table below.

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
Chair's fee	£300,000
Fee paid to all Non-Executive Directors	£57,750
Supplementary fees:	
• Senior Independent Director	£10,000
• Audit Committee Chair	£15,000
• Remuneration Committee Chairman	£15,000
• Corporate Sustainability Committee Chair	£13,000
• Treasury Committee Chair	£15,000

Company Remuneration at Severn Trent

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

Pay comparisons:

- Alignment with Group performance;
- CEO pay ratios; and
- Gender pay gap reporting

This section sets out the steps we take to make sure that our pay and reward framework is transparent and fair, beyond executives and senior management, in a way that is meaningful and useful.

Further detail on all aspects of the Company's response to the pandemic and our employee experience is set out on pages 15 and 72 respectively. This highlights that the pace and credibility of our response was made possible by the way in which the fantastic Severn Trent culture, and our societal purpose, is underpinned by our Values and Doing the Right Thing.

Eligibility	Number of employees covered	Remuneration element	Details
All employees	7,087 (as at 31 March 2021)	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. 42% of our employees choose to tailor their benefits via our flexible benefits scheme. They have also saved over £109,000 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). 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 62% 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 £1,029 to our front-line employees in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig. New starters, post 4 January 2021, were not eligible to receive a bonus.
		Sharesave	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. Our Sharesave scheme 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 and progress towards our net-zero ambitions. 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	9	Shareholding requirement as a % of salary <ul style="list-style-type: none"> • CEO – 300% • CFO – 200% • Exec Co – 100% 	Supports alignment of Executives' interests with shareholders.
Our supply chain			All colleagues across Severn Trent are paid in line with the real Living Wage, for which we hold accreditation. We expect this of all new contracts within our supply chain and detail this within our Sustainable Supply Chain Charter.

The table below sets out details of how the cascade of the reward framework applies across different levels within the organisation combined with a summary of the information which the Committee has received as part of its annual review process.

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 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. The terms and conditions from which our employees benefit evolve in line with external practice and new initiatives from within Severn Trent. We pride ourselves on keeping pace with the focus on the future of work, talent management and acquisition, to motivate, develop and retain a positive working environment and culture.

Committee focus areas	Implementation at Severn Trent
<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 2.3% across the workforce in 2020/21. • Annual pay reviews are effective in July for all employee groups. • The Company has real Living Wage employer accreditation and reviews salaries in this context. • Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
<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.
<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 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) will be achieved by April 2022.
<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 page 137). • 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.
<ul style="list-style-type: none"> • Take-up rates. 	<ul style="list-style-type: none"> • All Severn Trent Plc employees can participate in the Save As You Earn scheme – Sharesave. • There is a significant take-up of this benefit with 74% of employees actively participating.
<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 performance period is three years. The Executive Directors are subject to an additional two-year post-vesting 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 stretch performance target. • A second sustainability performance measure is being introduced and will operate alongside RoRE under the 2021 Remuneration Policy. • Malus and clawback provisions are in place.
<ul style="list-style-type: none"> • Eligibility; and • Requirements versus actual shareholdings. 	<ul style="list-style-type: none"> • Shareholding requirements are in place for the Executive Directors and Executive Committee. • A post-employment shareholding requirement is being introduced for Executive Directors as part of the 2021 Remuneration Policy.

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, including its Sustainability Framework, and the remuneration paid.

Simplicity

The Policy includes the following:

- 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 as well as our sustainability and net-zero carbon ambitions;
- 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 are given full information on the potential values which can be earned under the annual bonus and LTIP plans on their approval. In addition, all the checks and balances set out above under 'Risk' are disclosed at the time of shareholder approval.

Proportionality

The Company's incentive plans clearly reward the successful implementation of the strategy and our environmental ambitions, 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 carries out an annual review of remuneration elements, policies and processes. This process was introduced for the Committee to expand its responsibility to oversee and review the wider workforce pay and policies, and to ensure they are designed to support the Company's desired culture and Values.

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

The Committee's process

Each year the Committee is presented with interim and annual updates that set out developments in Severn Trent's wider workforce pay policies and practices. The provision of these reports meets the requirements of the 2018 Code. The Committee continues to be engaged on the mechanisms for how the reward framework is applied across different levels within the organisation, which in turn has been shared with shareholders in this report. This year we have developed further our disclosure on all employee reward to include a summary of the information reported to the Committee as part of its annual review process. This is shown in the table on pages 132 and 133.

What has the Committee looked at over the past 12 months?

Activity	Focus areas	Implementation at Severn Trent
Severn Trent response to COVID-19	Ensuring that the impact of COVID-19 is considered across all remuneration related decisions made by the Committee	<ul style="list-style-type: none"> All eligible employees will receive their 2020/21 annual bonus. The Committee decided it was appropriate to cap the PBIT element of the bonus at target level for the 2020/21 financial year. In practice, this means the maximum achievable bonus potential for Executive Directors was 91%, rather than 120%, of salary. We applied this principle for all levels below the Executive Directors. 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.
Purpose and Values	Reflection on wider workforce policies and practices	<ul style="list-style-type: none"> The launch of the Company's new Values in 2019/20 was received with overwhelmingly positive feedback. New joiners into the business are assessed against a suite of interview questions encompassing our new Purpose and Values. The recognition platform has been refreshed to give recognition for colleagues against the new Values. The new Values were embedded into the 2020 Awesome Award categories and shortlisting process. Our induction materials ensure employees are familiar with the Company's Purpose and Values from the outset of their careers.
Engagement	Sharing our guiding remuneration principles with the Company Forum	<ul style="list-style-type: none"> In September 2020, Angela Strank attended the Company Forum where a summary of the Directors' Remuneration Report was positively received by an employee representative group. The content and discussion also demonstrated how the actions taken align with requirements of the 2018 Code. Attendees were signposted to the availability of further information within the 2020 Annual Report and Accounts, which reinforced the Company's commitments to its employees. This is an annual standing item on the Company Forum's September agenda, and a Board member continues to attend each meeting. In March 2021, I attended the Company Forum and provided an overview of topics discussed by the Board and Remuneration Committee during this year, providing some insight to the proposed Remuneration Policy and the discussion held on pay frameworks and total reward for the entire workforce.
Alignment of pension contributions	Response to the 2018 Code requirement	<ul style="list-style-type: none"> In the 2019/20 Remuneration cycle, the Committee approved the principle that employer pension contributions for both Executive Directors and members of the Severn Trent Executive Committee would 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 second reduction for the Executive Directors, from 21.6% to 18.3% of salary, was implemented on 1 April 2021. The alignment of pension contributions for members of the Severn Trent Executive Committee was completed during the year.
Focus on ESG measures	Bringing to life how sustainability is embedded in our remuneration framework	<ul style="list-style-type: none"> The Committee considered the importance of aligning the Company's strategy with its Corporate Sustainability Framework, to bring to life where there is already a clear link between our environmental, social and governance ambitions and reward. The schematic on page 122 showcases all the areas where we have already embedded links to sustainability e.g. the Annual Bonus Scheme, and identified areas where we have the opportunity to integrate sustainability and reward in the future e.g. in terms of the LTIP from 2021 onwards. For the second year we have been accredited by the real Living Wage Foundation and continue to work with our supply chain to sponsor this in all our new and renewed contracts.
2021 Policy review	Review of the current Policy and ensuring compliance with the 2018 Code	<ul style="list-style-type: none"> The Committee considered four key objectives ahead of the 2021 Policy review: continue our focus on managing strong and long-term sustainable financial and operational performance; recognise and embed our commitments and ambitions around sustainability within both our short and long-term reward framework; ensure that the remuneration framework for the Executive Directors aligns fully with the 2018 Code, and maintain high levels of stakeholder engagement and support.

Case study

Developing our pay framework

In last year's report the Remuneration Committee committed to looking further at our remuneration principles and how they shape our ongoing commitment to fair pay. This year, in addition to the remuneration elements set out on pages 132 to 133, the Committee's consideration of wider workforce pay initiatives was set in the context of the Company's progress on inclusive and equal pay since 2017.

Whilst equal pay legislation has been in place in the UK for 50 years, the last five years have seen a broader focus on 'fairness' in pay and progression frameworks. Over the past four years we have developed our pay framework to create a better understanding of our total reward and to deliver more meaningful pay transparency with this broader focus. The objective was to have a clearer position on the 'fairness' agenda as informed by our business drivers and the added lenses of equality and inclusivity. Our position in terms of our real Living Wage accreditation, Gender pay gaps and CEO employee

equity has been published, and the development of our pay frameworks and processes have evolved to reinforce equal and inclusive reviews and practices. On testing the outcomes we are confident that our pay policies and frameworks are largely working fairly and effectively, giving us confidence our transparent approach continues to impact our 'fairness' agenda.

Over the four year period we have worked, in partnership with our line managers and employees, to bring to life the principles and drivers of Severn Trent's total reward framework.

Our pay structure is positioned at the heart of our reward strategy; we have ensured we invest time to provide our line managers and business leaders with the necessary tools to have informed conversations on this topic. We will continue to educate, inform and enable well-informed pay decisions to be made in the holistic context of pay visibility, equity and inclusivity.

Stages of change in our pay framework over recent years

Phase 1

Delivered 2017 to 2020

Phase 2

Focus areas 2021 to 2022



Pay Framework Architecture stages



Pay initiative examples

Area	Our approach
We have a robust job evaluation methodology	Enables the consistent and accurate sizing of job requirements by considering a range of factors such as knowledge, specialist skills and strategic thinking across the business, ensuring appropriate relativities within and across functions
We are facilitating a better understanding of pay practices	Greater transparency of our pay practices through enhanced visibility of salary ranges, showing ranges in both internal and external job adverts, enabling individuals to access bespoke total reward statements and establishing operational and technical pay frameworks in support of career progression
We take a consistent approach to setting salaries	Salaries for new employees are based on the candidate's skills and potential alongside the internal and external market within the context of our reward framework. Any exceptions to the framework are documented via an established process
We operate robust processes for pay reviews and pay progression	We agree a pay award through negotiation and collective bargaining detailed in our Trade Union partnership. We operate clear salary bands within our pay framework; ensuring that people are paid at least at the minimum of their band
We provide personalised information	Every employee has access to a personalised total reward statement where each element of their remuneration is broken down into the following: their salary, the company contribution to their pension fund, the value of the all-employee bonus and their elected benefits

The Committee's key findings and conclusions for 2020/21

Element	Implementation at Severn Trent
Embedding new Purpose and Values	The Committee is satisfied that the Group's workforce policies and practices are consistent with the Company's Values and support its long-term sustainable success. As the Company continues to evolve its policies, the Committee is confident that our Purpose and Values will continue to be embedded in ways which bring them to life for employees.
Listen to and respond to colleague feedback focus	Several papers were presented during 2020/21 which enabled the Committee to carry out a deep dive into Severn Trent's pay framework and reward principles and to understand how feedback from the annual engagement survey ('QUEST') has informed the Company's remuneration thinking over the past four years. The Committee is satisfied that the Company has robust measures in place to seek and act on employee feedback and that the work undertaken to develop the reward strategy over the past few years has resulted in employees having a better understanding and appreciation of their pay and total reward.
Enhancing pay fairness	The Committee is encouraged by the work being undertaken to close the gender pay gap and is proud to have launched the Academy. Opening this facility has helped us to enhance the practical workplace experience of 500 Kickstart placements across our region. The broadening of workforce reporting, once the Government publishes its ethnicity pay gap reporting requirements, is welcomed and will complement and stand alongside the Company's established gender pay gap analysis. Having considered wider workforce pay initiatives this year, in the context of the equal and inclusive pay review, the Committee commends the Company on its application of transparency and fairness.
Policy review	The objectives of the 2021 Policy review were to continue the Company's focus on managing strong and long-term sustainable financial and operational performance, and to recognise and embed commitments and ambitions around sustainability within both the short and long-term reward framework, ensuring that the remuneration framework for Executive Directors aligns fully with the 2018 Code and maintains high levels of stakeholder engagement and support. The Committee is satisfied that the Policy review has achieved its objectives and looks forward to presenting the 2021 Policy for shareholder approval at the AGM on 8 July 2021.
Alignment with remuneration principles	Overall, the Committee is satisfied that the approach to remuneration across the business is aligned with the Company's remuneration principles and longer-term sustainability ambitions. The approach to executive remuneration aligns with wider company pay policy and ensures that there are no anomalies specific to the Executive Directors. Further details on the cascade of the reward framework can be found on page 132.

What will the Remuneration Committee look at in 2021/22?



IMPLEMENTATION OF THE 2021 POLICY

Oversee the implementation of the new Policy, including the introduction of a post-employment shareholding requirement and the second performance measure in the LTIP relating to sustainability, specifically our net-zero carbon ambition.



OUR SUSTAINABILITY JOURNEY

Ensure that all aspects of remuneration are reviewed through a sustainability lens, not only for Executive Directors but across the entire workforce, and as our journey evolves we will look to ensure that all aspects of our reward package, including pay and benefits, embed our sustainability aspirations, namely taking care of the environment, helping people to thrive and being a company you can trust.



EMBEDDING OUR PURPOSE AND VALUES

Support the review of Group policies aligned to Doing the Right Thing to ensure that our wider workforce policies and practices are consistent with the Company's Values and support long-term success.

Pay comparisons

Our philosophy of transparent reporting is evident in the information we display in this section of the report, including our CEO pay ratios on page 139 and gender pay gap reporting on page 141. We believe that these disclosures are essential to promoting action and driving real change in the workplace.

We operate a consistent core bonus design across the organisation

Employee group

Executive Directors
Executive Committee
Strategic Leader
Business Leader
Team Manager/Technical Expert
Front-line – operational/administrative/advisory



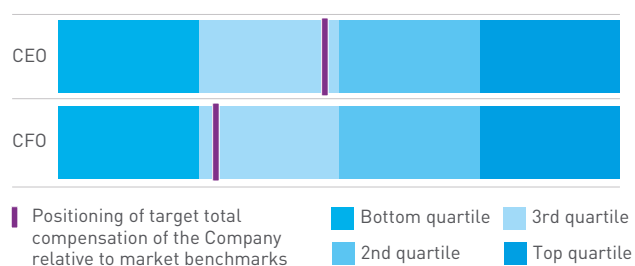
Bonus elements

PBIT (49%)
Customer and Environment ODIs (35%)
Customer Experience (8%)
Health and Safety (8%)

Our policy quantum compared with peers

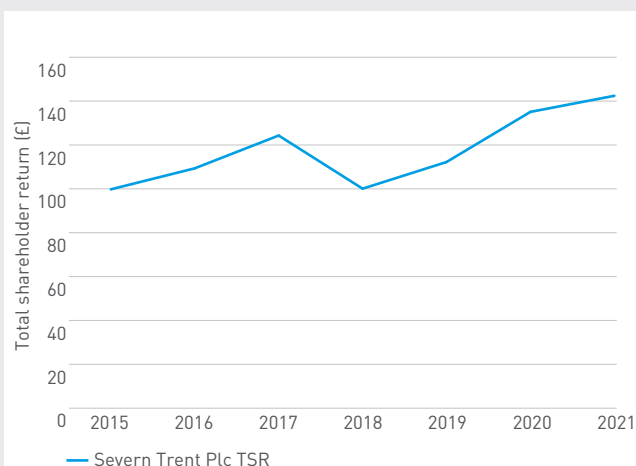
When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant markets for the Executive Directors, which we believe is the FTSE51-150, and the size of the Company compared with these peers. The table below shows the relative position of target total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

Relative position of target total compensation



Total shareholder return

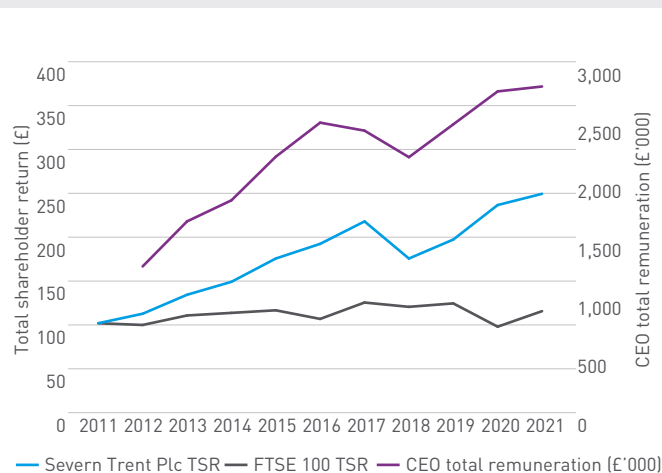
The chart below shows the value at 31 March 2021 of £100 invested in Severn Trent Plc in the beginning of AMP6.



CEO remuneration vs returns to shareholders

The graph on the right shows the value at 31 March 2021 of £100 invested in Severn Trent Plc on 1 April 2011 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 ten 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield
Total remuneration (£'000) ⁽ⁱ⁾	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	2,807.8
Annual bonus (% of maximum)	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	74.0%	63.8%
LTIP vesting (% of maximum) ⁽ⁱⁱⁱ⁾	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	72.1%
SMP vesting (% of maximum)	N/A	78.0%	64.3%	N/A	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.

(iii) The value of the 2018 LTIP award for 2020/21 is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD. The UQ element cannot be measured until the end of July 2021; such vesting, if any, will therefore be disclosed in the 2021/22 Directors' Remuneration Report.

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 132 and in our Remuneration Policy which can be found on the Severn Trent Plc website.

This is our second year of disclosing CEO pay ratios; however, we have chosen to publish three years' worth of information covering 2018/19, 2019/20 and 2020/21. 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 financial year-end in accordance with the single figure methodology and are based on full-time equivalent pay and benefits. We have not omitted any pay elements from the calculation.

CEO pay ratio

CEO	2019	2020	2021
Total single figure (£'000) ⁽ⁱ⁾	2,478.8	2,765.1	2,807.8
Annual bonus payment level achieved (% of maximum opportunity)	58.5%	74.0%	63.8%
LTIP vesting level achieved (% of maximum opportunity) ⁽ⁱⁱ⁾	100%	100%	72.1%
Ratio of CEO's single total remuneration figure shown:⁽ⁱ⁾			
• To employee at the 25th percentile	80.8	84.5	84.5
• To employee at the 50th percentile	61.1	65.7	65.8
• To employee at the 75th percentile	48.8	53.9	54.4
Ratio of CEO's single total remuneration figure shown to the median Executive Committee member:			2.9

(i) Figures for 2019/20 have been restated to reflect the updated 2017 LTIP value based on the share price at the date of vesting and include dividend equivalents in respect of vested shares.

(ii) The value of the 2018 LTIP award for 2020/21 is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD. The UQ element cannot be measured until the end of July 2021; such vesting, if any, will therefore be disclosed in the 2021/22 Directors' Remuneration Report.

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	2021
Base salary (£'000)	737.5
Total pay and benefits (£'000)	2,807.8
Employees	
Base salary (£'000)	
• Employee at the 25th percentile	30.5
• Employee at the 50th percentile	36.6
• Employee at the 75th percentile	50.1
Total pay and benefits (£'000)	
• Employee at the 25th percentile	33.2
• Employee at the 50th percentile	42.6
• Employee at the 75th percentile	51.6

The CEO pay ratio remains broadly unchanged 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. 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.
- From 2021/22 onwards, the value of long-term incentives will reflect the UQ element (if any) for the LTIP vesting in the previous financial year, plus the standard proportion of the total potential LTIP vesting for the award in the then current year e.g. the LTIP value in the 2021/22 single figure table will comprise the UQ element of the 2018 LTIP award plus the standard proportion of the 2019 LTIP award.
- Long-term incentives are provided in shares, and therefore any increase in share price over the three years, as has been observed when previous LTIP awards have vested, can magnify the impact of a long-term incentive award vesting in a year.
- None of the lower quartile, median or 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: 44.4
 - To employee at the 50th percentile: 34.6
 - To employee at the 75th percentile: 28.6

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.

The CEO pay ratio is just one of many factors that we take into consideration in ensuring a just and fair reward framework for all our colleagues.

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

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 EU Shareholder Rights Directive II, last year we early adopted the requirement to expand this disclosure to cover all Directors in addition to the CEO. Over time this information will build 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. Also, 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.

	% change on last year for 2019/20			% change on last year for 2020/21		
	Salary/Fees ⁽ⁱ⁾	Benefits ⁽ⁱⁱ⁾	Bonus ⁽ⁱⁱⁱ⁾	Salary/Fees ⁽ⁱ⁾	Benefits ⁽ⁱⁱ⁾	Bonus ⁽ⁱⁱⁱ⁾
Executive Directors						
Liv Garfield	2.4%	0.6%	29.5%	2.3%	(1.2)%	(11.8)%
James Bowling	2.4%	0.0%	29.5%	2.3%	0.0%	(11.8)%
Non-Executive Directors^(iv)						
Christine Hodgson ^(v)	N/A	N/A	N/A	431.4%	N/A	N/A
Kevin Beeston	2.2%	N/A	N/A	1.5%	N/A	N/A
John Coghlan ^(vi)	13.3%	N/A	N/A	1.0%	N/A	N/A
Sharmila Nebhrajani ^(vii)	N/A	N/A	N/A	N/A	N/A	N/A
Dominique Reiniche ^(viii)	2.4%	N/A	N/A	1.7%	N/A	N/A
Philip Remnant	1.9%	N/A	N/A	1.4%	N/A	N/A
Angela Strank	2.0%	N/A	N/A	1.4%	N/A	N/A
Average per employee^(ix)	3.7%	(5.5)%	21.8%	2.2%	(7.1)%	(13.7)%

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

(ii) The benefits figures include green 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 receive fees only and do not receive any additional benefits or bonus payments.

(v) Reflects a change in role from Non-Executive Director to Chair of the Board on 1 April 2020.

(vi) Inclusive of an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities in 2020/21 and 2019/20.

(vii) Appointed to the Board on 1 May 2020.

(viii) Resigned from the Board effective 8 July 2021.

(ix) The average pay increase for the wider workforce during the year was 2.3%.

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. As Severn Trent continuously evolves, so does our approach to celebrating and embracing diversity in all its forms, of which gender is one. Our goal is to recruit and employ the best people possible, regardless of their backgrounds.

We reported our Gender Pay Gap in November 2020 in line with statutory requirements. The data was based on figures from 5 April 2020 and showed a median gap of 9.3% (last year: 9.8%) and a mean gap of 2.3% (last year: 3.6%). The decrease in our median continues to be positively impacted by a high proportion of women within our management and senior management roles, and the decrease in our mean gender pay gap reflects a greater weighting towards higher-earning women and a shift in our overall quartile distribution.

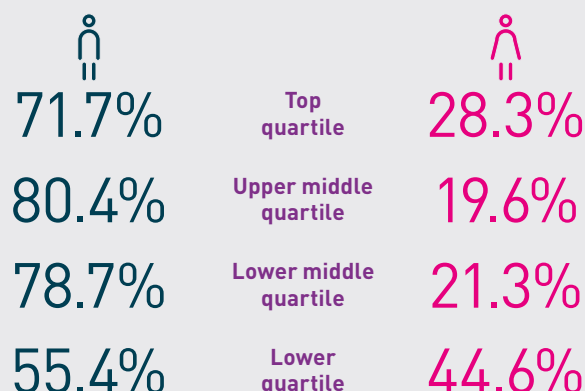
Our mean gender bonus gap of -57.1% is as a result of the high percentage of women in our executive and senior management population.

Read more on Severn Trent's diversity in the Our People section p73.

The full Gender Pay Gap report can be found on the Severn Trent Plc website, detailing the methodology and definitions, including case studies showcasing how we have raised awareness and celebrated our successes in attracting and retaining women in our senior roles by making them visible role models and championing their help and support as we challenge and change perceptions.

We recognise that diversity of talent brings different ideas and perspectives which improve how we work together collaboratively as a company and want our colleagues to feel they can be themselves, safe in the knowledge that their workplace is fair and inclusive. We look forward to sharing our ethnicity gender pay gap once Government legislation is published, to ensure that our reporting is consistent with best practice.

Male and female pay quartile distribution



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 8 July 2021. The information on pages 142 to 144 is audited.

The 2021 Remuneration Policy, which is set out on pages 145 to 153, will also be submitted to shareholders for approval at the AGM.

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 2020/21 (or for performance periods ending in 2020/21 in respect of long-term incentives) and 2019/20 for comparison, and total fees received by Non-Executive Directors for 2020/21 and 2019/20.

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

Executive Directors	Financial year ended 31 March	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)
									Total	
Liv Garfield	2020/21	737.5	17.0	149.5	4.5	908.5	567.4	1,331.9	1,899.3	2,807.8
	2019/20	720.8	17.2	180.2	0.0	918.2	643.5	1,203.4	1,846.9	2,765.1
James Bowling	2020/21	444.5	16.5	90.1	0.0	551.1	342.0	535.4	877.4	1,428.5
	2019/20	434.3	16.5	108.6	0.0	559.4	387.8	483.4	871.2	1,430.6

- (i) Both Executive Directors asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The salaries shown are based on salary earned during the financial year before the 25% reduction. Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions.
- (ii) Benefits include a green 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 was equal to 21.6% of salary in 2020/21; details of the future phased reduction to 15% by 1 April 2022 are set out earlier in the report. Neither 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 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. See page 127 for further details of the annual bonus outturn for 2020/21.
- (vi) The value of the 2018 LTIP award for 2020/21 is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIP vesting. Further explanation is set out on pages 127 and 143. 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.

Total Non-Executive Directors' fees (audited)

Non-Executive Directors	2020/21		2019/20	
	Fees	Total (£'000)	Fees	Total (£'000)
Christine Hodgson ⁽ⁱ⁾	300.0	300.0	14.1	14.1
Kevin Beeston	67.4	67.4	66.5	66.5
John Coghlan ⁽ⁱⁱ⁾	97.4	97.4	96.5	96.5
Sharmila Nebhrajani ⁽ⁱⁱⁱ⁾	52.7	52.7	0.0	0.0
Dominique Reiniche ^(iv)	57.4	57.4	56.4	56.4
Philip Remnant	72.4	72.4	71.4	71.4
Angela Strank	70.4	70.4	69.5	69.5

- (i) The Chair asked the Company to reduce her fees by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The fees shown are based on fees earned during the financial year before the 25% reduction.
- (ii) Inclusive of an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities in 2020/21 and 2019/20.
- (iii) Appointed to the Board on 1 May 2020.
- (iv) Resigned from the Board effective 8 July 2021.

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	2021 £m	2020 £m	% change
Staff costs	350.7	343.9	2.0%
Dividends	240.2	228.4	5.2%

Annual bonus outturn for 2020/21 (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 127.

Benefits for 2020/21 (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 129, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2020/21 (audited)	Typical annual value 2020/21	Typical annual value 2019/20	Percentage increase/(decrease)
Travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,412	£1,447	[2.4%]
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	£610 per health screen	£581 per health screen	5.0%
Incapacity benefits	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%

LTIP awards vesting in relation to performance in 2020/21 (audited)

Under the 2018 Remuneration Policy, which received strong shareholder support, we implemented a UQ comparison against other WaSCs under the RoRE performance measure for all future LTIP awards made to the Executive Directors. This ensures full vesting is only achieved for UQ comparative performance and it aligns with the Company's aspirations to be an upper quartile performer.

The outcome of the 2018 LTIP is based on performance over the three-year period from 1 April 2018 to 31 March 2021. This is the first LTIP award vesting that includes a stretch measure relative to the UQ performance of the other WaSCs. The value set out below is based on performance of the standard proportion of the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD. Performance under the standard proportion was 1.37x and this was measured against the target that we set of 1.39x the base RoRE return. This results in a vesting equivalent to 144.2% of salary for the CEO and 96.2% of salary for the CFO. Full details are set out in the table below.

The UQ element cannot be measured, and so the associated vesting will not be known, until the end of July 2021 when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will therefore be disclosed in the 2021/22 Directors' Remuneration Report. The LTIP value in the 2021/22 single figure table will comprise the UQ element of the 2018 LTIP award (if any) plus the standard proportion of the 2019 LTIP award.

Standard proportion of award (up to 1.39x FD)

Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	Standard proportion of award vesting (% max)	Numbers of share vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting ⁽ⁱ⁾ (£'000)	Value of dividend equivalents due ⁽ⁱⁱ⁾ (£'000)	Value of standard proportion of LTIP (single figure) (£'000)
CEO	72,880	1,381.2	31/03/2021	72.1%	52,559	24/07/2021	210.0	1,206.1	125.8	1,331.9
CFO	32,941	624.3	31/03/2021	64.1%	21,127	24/07/2021	84.4	484.8	50.6	535.4

(i) Based on the average share price over the final three months of the performance period of £22.95 as the awards will not be released until after the end of the closed period.

(ii) Based on dividends paid in the period since the date of grant to 31 March 2021.

For full transparency, we set out below the maximum number of additional shares that could vest if UQ performance relative to other WaSCs is achieved, given that a UQ position would represent exceptional performance, and notwithstanding the fact that the Company's achieved RoRE for the period was 1.37x, compared with the target of 1.39x. The value of the awards has been estimated using the above average share price.

- Maximum number of shares that could vest under UQ element:

CEO: 20,321 shares **CFO:** 11,814 shares

- Value of UQ element at grant (£'000):

CEO: 385.1 **CFO:** 223.9

- Value of UQ element attributable to share price movement (£'000):

CEO: 81.2 **CFO:** 47.2

- Value of UQ element based on average share price of £22.95 (£'000):

CEO: 514.9 **CFO:** 299.4

2020 LTIP award (awards granted during the year)

Award	Grant date	Threshold vesting FD (baseline)	1.39x FD	Full vesting (outperformance)	3 day average share price used for grant calculations
2020 LTIP	16/06/20	3.91%	Equal to 5.44%	UQ RoRE compared to WaSCs	£23.97

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
2020 annual bonus scheme	2019/20	18/06/20	£23.98

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

Page 128 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 2020/21.

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders, and this is

evidenced by the number of shares held by both Executive Directors. 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 18 May 2021.

Interests in shares as at 31 March 2021

Directors	Beneficially owned	LTIP shares ⁽ⁱ⁾ (iii)	Annual bonus shares ⁽ⁱⁱⁱ⁾	SAYE options	Shareholding requirement as a % of salary	Current shareholding as a % of salary	% shareholding requirement achieved ^(iv)
Liv Garfield	226,316	202,774	38,971	2,056	300%	768%	256%
James Bowling	72,176	91,644	23,484	1,221	200%	437%	218%
Non-Executive Directors:							
Christine Hodgson	2,020	–	–	–	–	–	–
Kevin Beeston	3,053	–	–	–	–	–	–
John Coghlan	2,670	–	–	–	–	–	–
Sharmila Nebhrajani ^(v)	101	–	–	–	–	–	–
Dominique Reiniche ^(vi)	400	–	–	–	–	–	–
Philip Remnant	1,969	–	–	–	–	–	–
Angela Strank	459	–	–	–	–	–	–

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

(iii) 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 £23.06 (as at 31 March 2021). The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).

(v) Appointed to the Board on 1 May 2020.

(vi) Resigned from the Board effective 8 July 2021.

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 2021, she was paid fees of £12,000 which she retained.

Full details of the Directors' external appointments can be found in the Board Directors' biography spread on page 86.

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.

All Directors will retire at this year's AGM and, with the exception of Dominique Reiniche, submit themselves for re-election by shareholders at the AGM on 8 July 2021. Liv Garfield and James Bowling have service contracts which provide for a notice period of one year. Non-Executive Directors do not have service contracts.

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

18 May 2021

Remuneration Policy

This section contains Severn Trent Plc's proposed Directors' Remuneration Policy (the 'Remuneration Policy') that will govern and guide the Company's future remuneration payments. The Remuneration Policy described in this section is intended to apply for three years and will be applicable from date of approval by shareholders at the Company's 2021 Annual General Meeting.

Contents

Development of Policy report	145
Linkage to all-employee pay	145
Shareholder views	145
2021 Directors' Remuneration Policy table	146
<ul style="list-style-type: none"> • Salary • Benefits • Pension • Annual bonus • LTIP • All-employee share plans • Shareholding requirements 	
External directorships	150
Approach to recruitment and promotion	150
Service contracts and Letters of Appointment for Executives	151
Policy on Payments for Loss of Office	151
Policy on Change of control	152
Chair and Non-Executive Directors	153
Application of the Remuneration Policy	153

Development of Policy report

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

In order to manage conflicts of interest, no Director or employee participates in discussions pertaining to their own remuneration. The Committee reviews the performance of its external advisers on an annual basis to ensure that the advice provided is independent of any support provided to management.

Linkage to all-employee pay

The Committee reviews changes in remuneration arrangements in the workforce generally as we recognise that all our people play an important role in the success of the Company. Severn Trent is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. While employees are not formally consulted in respect of the Remuneration Policy, when making decisions on executive pay the Committee considers wider workforce remuneration and conditions to ensure that they are aligned on an ongoing basis. In particular, the Committee considers wider workforce salary increases when determining those for Executive Directors. We believe that employees throughout the Company should be able to share in the success of the Company. Therefore, the annual bonus scheme is cascaded throughout the organisation and all employees may participate in the HMRC tax advantaged Save As You Earn ('SAYE') scheme.

As part of our commitment to fairness, we have a section in this report about 'Company remuneration at Severn Trent' (see pages 132 to 141). This section sets out the steps we take to make sure that our pay and reward framework, below executives and senior management, is transparent in a way that is meaningful and useful. This section also includes more information on our wider workforce pay conditions, our Gender Pay statistics and our CEO pay ratio disclosure.

Shareholder views

In preparing the 2021 Policy, the Company carried out an extensive shareholder consultation exercise with our largest shareholders and representative bodies to seek feedback on the main changes proposed.

The Remuneration Committee was pleased with the support of our largest shareholders for the new Remuneration Policy. Shareholders were pleased to see the overarching principles of the Policy retained, whilst welcoming the Company's commitment to a second, sustainability-focused performance measure in the LTIP as well as a post employment shareholding requirement. No changes were, therefore, made to the original Policy proposals.

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

2021 Directors' Remuneration Policy table

The following table sets out the key elements of the remuneration for the Executive Directors.

Salary

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from 1 July. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size), Company performance, affordability, the wider economic environment and internal relativities. In addition, when the Committee determines a benchmarking exercise is appropriate it will also consider salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking. The Committee intends to review the comparators periodically and may add or remove companies from the Group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year. 	<ul style="list-style-type: none"> Details of the current salary levels for the Executive Directors are set out in the Annual Report on Remuneration on page 142. Any increase to Executive Directors' salaries will generally be no higher than the average increase for the UK workforce. However, a higher increase may be proposed in the event of a role change or promotion, or in other exceptional circumstances. The Company, where appropriate, may set salary levels below the market reference salary at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved. 	No changes.

Benefits

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> A green travel allowance (formerly car allowance, changed to recognise the use of public transport and introduction of our electric vehicle car scheme), family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Therefore, additional benefits such as relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon. 	<ul style="list-style-type: none"> 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. 	No changes.

Pension

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> The Company maintains a defined contribution scheme and/or cash supplement in lieu of pension. 	<ul style="list-style-type: none"> 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 appointment, the contribution will be up to a maximum of 15% of salary. 	<ul style="list-style-type: none"> No change for new appointments. Current Executive Director pensions will be reduced in stages from 25% of salary in 2019 to 15% of salary by April 2022. This change aligns pension contribution quantum for all Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).

Annual bonus

Purpose and link to strategy: 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 (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> Bonuses are based on financial, operational, customer and personal performance over a performance period of one financial year. 50% of the bonus is paid in cash and 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting). There are no further performance targets on the deferred amount. The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead. However, no more than 20% of the bonus will relate to personal contribution (where applicable) for any Executive Director. Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Therefore, performance targets and performance achieved will be published at the end of the performance period so shareholders can fully assess the basis for any pay outs under the Plan. Malus and clawback mechanisms also apply to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, errors in calculation, misconduct, reputational damage, regulatory censure or corporate failure of the Company. Any exercise of discretion by the Committee will be communicated to shareholders in full in the following year's Directors' Remuneration Report. Cessation of employment and change of control provisions apply as set out in the notes to the Policy table. 	<ul style="list-style-type: none"> The maximum annual bonus payment will equal 120% of salary for maximum performance. For threshold performance, 0% of maximum opportunity will be paid. For target performance 50% of maximum opportunity will be paid. The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy. In exceptional circumstances the Committee retains the discretion to: <ol style="list-style-type: none"> Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and Make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance. 	<p>No changes other than the enhancement of malus and clawback provisions.</p>

LTIP

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> Awards are granted annually and will be subject to one or more performance conditions which will be assessed over three years. A two-year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors. For the first LTIP Awards under this Policy, the following will apply: <ul style="list-style-type: none"> 80% of the maximum LTIP Award will be based on RoRE and will require the Company's RoRE to outperform the target set out in Ofwat's Final Determination and, for full vesting, to deliver upper quartile relative performance compared with other water companies. This reflects the greater focus of Ofwat on the relative performance of water companies and the tougher regulatory context during AMP7. 20% of the maximum LTIP award will be based on a sustainability measure. The measure will be based on the Company's Sustainability Framework. Using RoRE to assess long-term performance reflects the focus of Ofwat in AMP7 and is consistent with our aim to deliver efficient returns to shareholders. RoRE measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt. The Committee believes that the use of RoRE provides a strong alignment between the long-term financial and operational performance of the Group and the reward delivered to management. The Committee believes that including sustainability within the long-term incentive framework is important given the Company's ambitious long-term sustainability commitments. The structure of the sustainability measure and targets will vary based on the nature of the target set (e.g. for milestone targets it may not always be practicable to set such targets using a graduated scale and so vesting may take place in full for strategic targets if the criteria are met in full). Full disclosure of targets and the verification process for measures will be disclosed in the Directors' Remuneration Report. Different performance measures, targets and/or weightings may be set for future LTIP Awards to reflect the business strategy and regulatory framework operating at that time. No material change will be made to the type of performance measure without prior shareholder consultation. Dividend enhancement may be applied to vesting awards and dividend equivalent shares transferred based on the dividends that could have been acquired on the vested shares during the vesting period. Awards may also be settled in cash in certain circumstances. 	<ul style="list-style-type: none"> Maximum limit is 200% of salary. Up to 25% of an award may vest for threshold performance, as applicable. The Committee will review the measures, weightings and targets before each grant to ensure they remain appropriate. The Committee may change the weighting of the measure, or use different measures for subsequent awards, as appropriate. The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy. In exceptional circumstances the Committee retains the discretion to: <ol style="list-style-type: none"> Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and Make downward or upward adjustments to the amount earned resulting from the application of the performance measures, if the Committee believes that the LTIP outcomes are not a fair and accurate reflection of business performance. In addition, for any awards to vest, the Committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the Group. If the Committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%). 	<ul style="list-style-type: none"> Enhancement of malus and clawback provisions. Introduction of second performance measure alongside RoRE. A portion of awards, as determined annually by the Committee, will be based on a sustainability measure. The Committee's rationale for introducing an additional sustainability measure is as follows: <ul style="list-style-type: none"> It aligns with Severn Trent's strategy to focus management on superior financial performance together with a focus on long-term sustainability and operating the business in an environmentally and socially conscious way. It will provide a clear link between remuneration and the Company's social purpose and Sustainability Framework including its commitments on matters such as climate change, specifically, reducing the Company's carbon footprint as evidenced through the Company's Triple Carbon Pledge commitment. It is consistent with the concept of 'responsible investing', whereby shareholders are increasingly seeking investments that reflect their core values and the Company is mindful of the increasing importance of this for other stakeholders too.

(continued on next page)

LTIP continued

Operation (including performance metrics) continued

- Malus and clawback mechanisms apply to allow the recoupment of incentive awards within three years of vesting in the event of financial misstatement, errors in calculation, misconduct, reputational damage, regulatory censure or corporate failure of the Company.
- Cessation of employment and change of control provisions apply as set out in the notes to the Policy table.

All-employee share plans

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> • The Executive Directors are able to participate in HMRC tax advantaged all-employee share plans on the same terms as other eligible employees. 	<ul style="list-style-type: none"> • The maximum limits under the plans are as set by HMRC. 	No changes.

Shareholding requirements

Purpose and link to strategy: To encourage strong shareholder alignment both during and after employment with the Company.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
<ul style="list-style-type: none"> • The Company operates shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company. • The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. • Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirements have been met. • The Committee retains the discretion to increase the shareholding requirements as appropriate. • In addition, a post-employment shareholding requirement will apply to Executive Directors who leave the Company. Leavers will have a requirement to maintain their in-employment shareholding requirement (or actual shareholding, if lower) for two years following cessation of employment. This requirement will apply to shares acquired under share plan awards granted following approval of this Policy. • The enforcement mechanism for the post-employment shareholding requirement will be facilitated through the Employee Benefit Trust ('EBT'). On LTIP vesting, shares will be transferred to the EBT (net of tax and national insurance liabilities) to be held on behalf of the Executive Directors for two years following cessation of employment. Shares purchased by Executive Directors utilising their own funds will not be included in the post-employment shareholding requirement. 	N/A	<ul style="list-style-type: none"> • Introduction of a post-employment shareholding requirement. • A post-employment shareholding requirement will support alignment between Executive Directors and the long-term interests of shareholders. • This will also align the Company with the latest provisions of the 2018 UK Corporate Governance Code.

Notes to the Policy tables

Legacy arrangements – for the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the approval of this Remuneration Policy, for example, those outstanding and unvested incentive awards which have been disclosed to shareholders in previous Remuneration Reports.

External directorships

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

Approach to recruitment and promotion

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

Item	Policy
Salary, benefits and pension	<ul style="list-style-type: none"> These will be set in line with the Policy for existing Executive Directors.
Annual bonus	<ul style="list-style-type: none"> Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 120% of salary.
LTIP	<ul style="list-style-type: none"> Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 200% of salary.
Maximum variable remuneration	<ul style="list-style-type: none"> The maximum variable remuneration which may be granted is 320% of salary (excluding any buy outs).
'Buyout' of incentives forfeited on cessation of employment	<ul style="list-style-type: none"> Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: the proportion of the performance period completed on the date of the Executive Director's cessation of employment; the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and any other terms and condition having a material effect on their value ('lapsed value'). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation policies	<ul style="list-style-type: none"> In instances where the new Executive Director is required to relocate or spend significant time away from his/her normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/ housing allowance, disturbance allowances and schooling.
Internal promotions	<ul style="list-style-type: none"> In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted. These would be disclosed to shareholders in the Remuneration Report for the relevant financial year. Otherwise their remuneration would be set applying the principles set out above.

The Company's Policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors, which is set out on page 153.

Service contracts and Letters of Appointment for Executives

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

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

Policy on Payments for Loss of Office

When determining any loss of office payment for a departing Executive Director, the Remuneration Committee will always seek to minimise the cost to the Group while complying with the contractual terms agreed and seeking to reflect the circumstances in place at the time. The remuneration related elements of the current contracts for Executive Directors are shown in the table below, together with details of the treatment on cessation of employment. No changes from the 2018 Policy are proposed.

Element	Treatment on cessation of employment	
General	The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.	
Salary, benefits and pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.	
Annual bonus cash awards	Good leaver reason⁽ⁱ⁾	Other reason
	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year.	No bonus will be payable for year of cessation.
	Discretion The Committee has the following elements of discretion: <ul style="list-style-type: none"> To determine that an Executive Director should be treated as a good leaver and receive a bonus for the year of cessation; it is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders. To determine whether to pro-rate the bonus for time; the Remuneration Committee's normal policy is to pro-rate for time. It is the Committee's intention only to use discretion not to pro-rate in circumstances where there is an appropriate business case, based on the circumstances of the Executive Director's departure. Use of discretion will be explained in full to shareholders. The bonus would be paid at the same time as for the other Executive Directors and, if the Executive has left employment by that date, it may be paid solely in cash. 	
Annual bonus deferred share awards	Good leaver reason⁽ⁱ⁾	Other reason
	All subsisting deferred share awards will vest on cessation.	All subsisting deferred share awards will vest on cessation with the exception of summary dismissal of the participant, when any deferred share award held by the individual shall lapse immediately on such termination.
	Discretion The Committee has the following elements of discretion: <ul style="list-style-type: none"> To determine whether deferred shares should vest at the end of the original deferral period or at the date of cessation; the Committee will make this determination depending on the reason for cessation. To determine whether to pro-rate the maximum number of shares for time from the date of grant to the date of cessation; the Committee's normal policy is not to pro-rate awards for time. The Committee will determine whether to pro-rate based on the reason for cessation. 	

(continued on next page)

Policy on Payments for Loss of Office continued

Element	Treatment on cessation of employment	
LTIP	Good leaver reason ⁽ⁱ⁾	Other reason
	Subsisting awards continue to be capable of vesting on a pro-rated time and performance basis.	All subsisting awards will lapse on cessation.
	Discretion	
	<p>The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> To determine that the Executive Director should be treated as a good leaver such that LTIP awards continue to be capable of vesting; it is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders. To allow awards to vest, and to measure, at the date of cessation. The Committee will make this determination depending on the reason for cessation. To determine whether to pro-rate for time; the Committee's normal policy is to pro-rate awards based on the proportion of the performance period which has elapsed to the date of cessation. In circumstances where there is an appropriate business case based on the circumstances of the Executive Director's departure, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders. 	
Holding periods	<p>Where cessation of employment occurs during any holding period the LTIP award will continue as normal. However, the Committee retains discretion to allow the award to vest when cessation of employment occurs in certain circumstances, such as:</p> <ul style="list-style-type: none"> Where the reason for departure is death, disability or ill-health; Where there are extenuating factors which impact at the time of departure (such as unforeseen changes to personal circumstances); or Any other reason, permitted by the Committee in its absolute discretion in any particular case, except where termination is for dishonesty, fraud, misconduct or other circumstances justifying summary dismissal (in which cases it is very likely any outstanding LTIP awards would lapse on cessation regardless). 	
Other	<p>The Company is adopting replacement share plans (the annual bonus scheme and Long Term Incentive Plan, which is subject to approval from shareholders at the AGM) in 2021. As described above, the Company retains the ability to satisfy outstanding and unvested incentive awards under the legacy incentive plans as described in the previous Remuneration Policy.</p>	

(i) Good leaver reasons include injury, ill-health or disability, redundancy or retirement (in each case, as determined by the Committee) and death. The Committee also retains an overall discretion to determine that an individual be treated as a good leaver.

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

Policy on change of control

The change of control provisions applying to incentive awards are set out in the relevant plan rules and are summarised below.

Element	Operation	Discretion
Annual bonus cash awards for the year in which a change of control occurs	Pro-rated for time and performance to the date of the change of control.	The Committee has discretion regarding whether to pro-rate the bonus for time; the Committee's normal policy is that it will pro-rate the bonus for time. In circumstances where there is an appropriate business case, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders.
Annual bonus deferred share awards	Subsisting deferred share awards will vest on a change of control.	The Committee has discretion regarding whether to pro-rate the awards for time; the Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the change of control.
LTIP	Subsisting LTIP awards will vest on a change of control, pro-rated for time and performance. The holding period will not apply on change of control.	The Committee has discretion regarding whether to pro-rate the LTIP awards for time; the Committee's normal policy is that it will pro-rate the LTIP awards for time. In circumstances where there is an appropriate business case, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders.

Chair and Non-Executive Directors

The Remuneration Policy for Non-Executive Directors, other than the Chair, is determined by the Chair and Executive Directors. The fee for the Chair is determined by the Remuneration Committee (without the Chair present). No changes to the 2018 Policy are proposed.

Element	Purpose and link to strategy	Operation	Maximum opportunity
Fee	To recruit and retain Non-Executive Directors of a suitable calibre for the role and duties required.	<p>Board fee with additional fees paid for the Senior Independent Director and for chairing the Board Committees. The Chair receives a total fee in respect of Board duties. Fees are paid monthly. Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.</p> <p>The fees for the Non-Executive Directors and Chair are set taking into account the time commitment of the role and market rates in comparable companies. The fees are normally reviewed annually (but not necessarily increased) effective from 1 July.</p> <p>The Company retains the flexibility to pay fees for the membership of committees.</p> <p>In exceptional circumstances, fees may also be paid for additional time spent on the Company's business outside normal duties.</p> <p>Non-Executive Directors do not participate in any variable remuneration or receive any other benefits.</p>	<p>Details of the current fee levels for the Non-Executive Directors are set out on page 131.</p> <p>The fee levels are set subject to the maximum limits set out in the Articles of Association.</p>

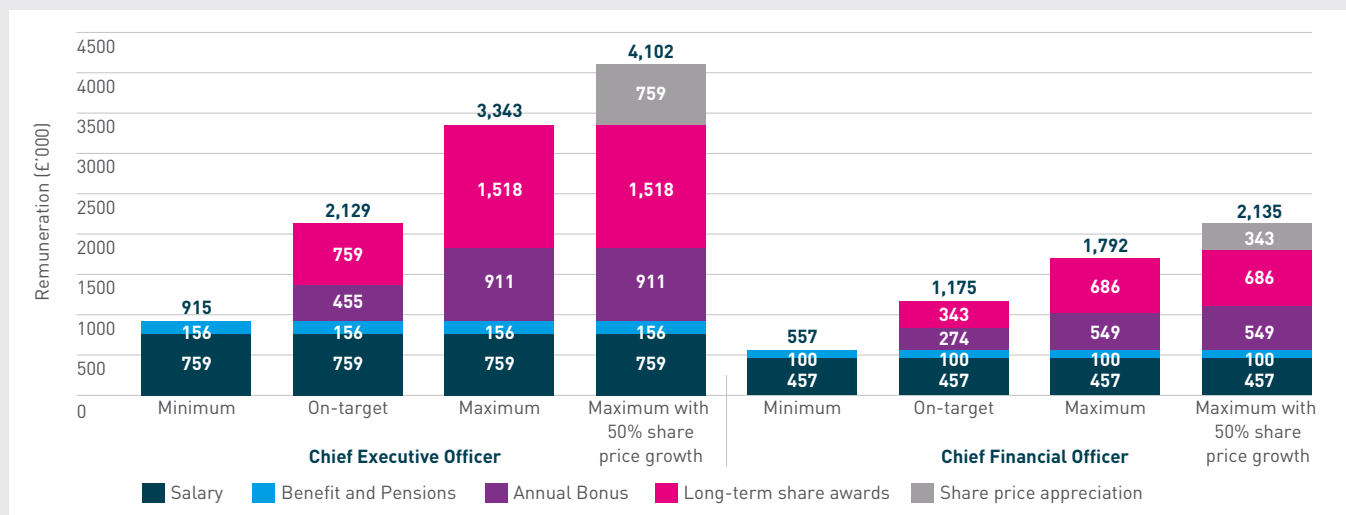
Non-Executive Directors normally serve terms of three years. They do not have service contracts. Instead, Non-Executive Directors are engaged by Letters of Appointment which are terminable by either party with no notice period and no compensation in the event of such termination, other than accrued fees and expenses. The Company follows the 2018 UK Corporate Governance Code's recommendation that all directors of FTSE350 companies be subject to annual appointment or reappointment at the AGM.

Application of the Remuneration Policy

The charts below provide an illustration of what could be received by each of the Executive Directors under the new Remuneration Policy for 2021/22. These charts are illustrative as the actual value will depend on business performance in the year 2021/22 (for the annual bonus) and in the three year period to 2023/2024 (for the LTIP), as well as share price performance to the date of the vesting of LTIP awards in 2024.

The maximum scenario also includes an additional bar which shows the impact of 50% share price growth on the LTIP outcome over the relevant performance period to show how the package value is aligned to shareholders. It is a key part of our Remuneration Policy to align interests of the Executive Directors and shareholders through the provision of a substantial element of remuneration in shares. Increases in the value of remuneration through an increase in share price are evidence of the direct link between the interests of the two.

Remuneration scenarios



Note: Minimum pay is fixed pay only (i.e. salary + benefits + pension). On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for both the CEO and the CFO) and 50% vesting of the LTIP awards (with grant levels of 200% of salary for the CEO and 150% of salary for the CFO). Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2021. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2021. The Executive Directors are also permitted to participate in HMRC tax advantaged all-employee share plans, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Philip Remnant
 Chairman of the
 Remuneration Committee

18 May 2021

Directors' Report

The Directors' Report for the year ended 31 March 2021 comprises pages 154 to 157 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 80 to 153 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 2 to 79, as the Board considers them to be of strategic importance.

Specifically, these are:

- The Performance Review on pages 20 to 30 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 2021;
- Future business developments (throughout the Strategic Report);
- Details of the Group's policy on addressing the Principal Risks and uncertainties facing the Group, which are set out in the Strategic Report on pages 40 to 45;
- Information on the Group's greenhouse gas ('GHG') emissions for the year ended 31 March 2021, contained within Our Taskforce on Climate-related Financial Disclosures ('TCFD') on pages 54 to 67;
- How we have engaged with our people and stakeholders on pages 68 to 71;
- Business relationships (throughout the Strategic Report);
- Section 172 Statement on pages 76 to 78.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK. Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2021 are shown in notes 11 and 44 to the Group financial statements.

Areas of operation

During the course of 2020/21, the Group had activities and operations in the UK.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 86 to 87.

As set out in the Notice of Meeting, all the Directors will retire at this year's Annual General Meeting ('AGM') and those seeking re-election will submit themselves for reappointment by shareholders. All Directors seeking reappointment were subject to a formal and rigorous performance evaluation, further details of which can be found on pages 98 to 99.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 144. The interests of the Directors in the shares of the Company are also shown on page 144 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 indemnities were in force throughout the tenure of each Director during the last financial year and are 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	Page 187
(4)	Details of long-term incentive schemes	Page 130
(2), (5), (6), (7), (8)-(14)	Not applicable	Not applicable

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 210 to 214 and is incorporated by reference. For information on our approach to social, environmental and ethical matters, please refer to Our TCFD Disclosures on pages 54 to 67 and our separately published Sustainability Report, available at severntrent.co.uk.

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 an inclusive culture which reflects 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, ethnicity, 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. We also provide expert counselling support across a wide range of issues through our employee assistance programme.

Additional information on our diversity aims and progress can be found on page 73.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included the section on Our People on page 72 of the Strategic Report as the Board considers these disclosures to be of strategic importance and they are therefore incorporated into the Directors' Report by cross-reference. Pages 68 to 71 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.

73.9% of Severn Trent's employees now participate in Sharesave, with 26.3% of participants saving the maximum of £500 per month. We are delighted that 77% of our employees are also shareholders in the Company.

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 68 and 71 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 Section 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 £3.3 million.

Internal controls

Further details of our internal control framework can be found in the Audit Committee Report on page 111.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's Review on pages 31 to 37.

Post balance sheet events

Details of post balance sheet events are set out in note 41 to the Group financial statements.

Dividends

An interim dividend of 40.63 pence per Ordinary Share was paid on 6 January 2021. The Directors recommend a final dividend of 60.95 pence per Ordinary Share to be paid on 16 July 2021 to shareholders on the register on 28 May 2021. This would bring the total dividend for 2020/21 to 101.58 pence per Ordinary Share (2019/20: 100.08 pence). The payment of the final dividend is subject to shareholder approval at the Annual General Meeting ('AGM').

Dividend policy

Following publication of the Final Determination by Ofwat, in 2019/20 the Board approved its Dividend Policy for the period 2020-25. Dividends during the AMP7 period will increase by at least CPIH. This replaced the previous Dividend Policy of growth of at least RPI +4% each year.

The Dividend Policy reflects our strong operational delivery and financial performance, the Final Determination and our robust balance sheet and financial resilience. 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 UK Corporate Governance Code (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 and the Articles, both of which can be found on our website.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2020 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 2020 to make market purchases of Ordinary Shares up to a maximum number of 23,834,985 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 23,937,475 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 £6,916,014 (2020: £3,518,470). Donations are principally 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 22.

Substantial shareholdings

As at 31 March 2021, 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	20,929,807	8.76
Lazard Asset Management	18,227,029	7.63
Qatar Investment Authority	11,599,565	4.86
Vanguard Group	10,037,336	4.20
Legal & General Investment Management	9,229,390	3.86
Aviva Investors	8,062,013	3.37
SSGA	7,518,099	3.15

As at 18 May 2021, the company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: BlackRock 21,983,498 shares (9.20%), Lazard Asset Management 18,311,501 shares (7.67%), Qatar Investment Authority 11,599,565 shares (4.86%), Vanguard Group 9,782,797 shares (4.1%), Legal & General Investment Management 9,309,590 shares (3.90%), SSGA 7,420,748 shares (3.11%), Aviva Investors 7,409,130 shares (3.10%).

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.

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') and, as such, prompt payment policies are reviewed on a regular basis.

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.

Throughout the year, as part of our response to the COVID-19 pandemic, we have been supporting small and medium enterprises in our region by accelerating payments to our supply chain. You can read more about how we have worked with our suppliers and contractors during this difficult time on page 70.

For the payment practices reporting period ended 31 March 2021, the average time to pay for Severn Trent Water Limited was 26 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 they ought to have taken as a Director to make themselves 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 109, 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 2021 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.

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 also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available.

The Board considers environmental matters to be of strategic importance and therefore relevant information contained in Our TCFD Disclosures on pages 54 to 67 of the Strategic Report is incorporated into the Directors' Report by cross-reference. The TCFD Disclosure includes our annual report on greenhouse gas emissions along with details of our energy consumption across the Group and how we manage energy use.

Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

Separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig will be made available on their respective websites in due course.

Additionally, 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 on their respective websites in due course.

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

18 May 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRSs') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 the year.

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 consolidations 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 18 May 2021 and is signed on its behalf by:

By order of the Board



Olivia Garfield
Chief Executive

James Bowling
Chief Financial Officer

18 May 2021

18 May 2021