

# TAKING CARE OF ONE OF LIFE'S ESSENTIALS

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

## REGULATED WATER AND WASTE WATER

Our regulated water and waste water businesses Severn Trent Water (excluding Bioresources) and Hafren Dyfrdwy.

### The primary activities we focus on

- Wholesale operations and engineering
- Household customer services

### About us

We are two of 11 regulated water and waste water businesses in England and Wales. We provide high quality services to more than 4.6 million households and businesses in the Midlands and Wales.



### Turnover (£m)

£1,620.7m +2.4%

### Underlying profit before interest and tax<sup>1</sup> (£m)

£511.5m -2.9%

### Litres of drinking water supplied each day

2.0bn

### Employees<sup>2</sup>

5,824 +2.5%

### Where we operate

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

### Profit before interest and tax (£m)

£511.5m -1.3%

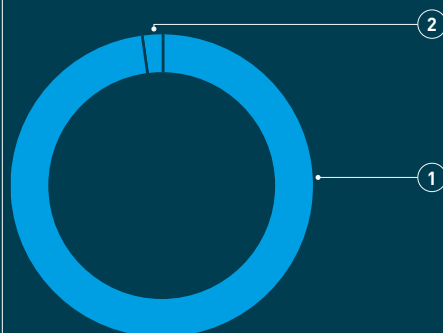
### Households and businesses served

4.6m

### Litres of waste water treated each day

3.2bn

### Revenue split



1. Severn Trent Water	98%
2. Hafren Dyfrdwy	2%

## BUSINESS SERVICES

### Where we operate

Business Services operates in the UK.

### There are five parts of Business Services:

#### – Bioresources

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

#### – Green Power

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

### – Operating Services

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

### – Property Development

Property Development manages the sale of surplus land.

### – Other

Developer services and our property searches and affinity partnership businesses.

### Turnover (£m)

£240.4m +19.7%

### Underlying profit before interest and tax<sup>1</sup> (£m)

£64.9m +1.2%

### Profit before interest and tax (£m)

£62.8m -0.5%

### Employees<sup>2</sup>

962 +8.2%

<sup>1</sup> Alternative Performance Measures are defined in note 44 to the Group financial statements.

<sup>2</sup> Average during 2019/20 see note 9 to the Group financial statements.

**Group turnover (£m)**

2019	1,767.4
2020	1,843.5

**£1,843.5m** +4.3%

**Basic earnings per share (p)**

2019	133.4
2020	66.7

**66.7p** -50.0%

**Group profit before interest and tax (£m)**

2019	563.3
2020	568.2

**£568.2m** +0.9%

**Dividend per share (p)**

2019	93.37
2020	100.08p

**100.08p** +7.2%

**Underlying basic earnings per share (p)<sup>1</sup>**

2019	145.8
2020	146.0

**146.0p** +0.1%

**Group underlying profit before interest and tax (£m)<sup>1</sup>**

2019	573.6
2020	570.3

**£570.3m** -0.6%

1 Alternative Performance Measures are defined in note 44 to the Group financial statements.

**Cautionary statement**

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

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

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

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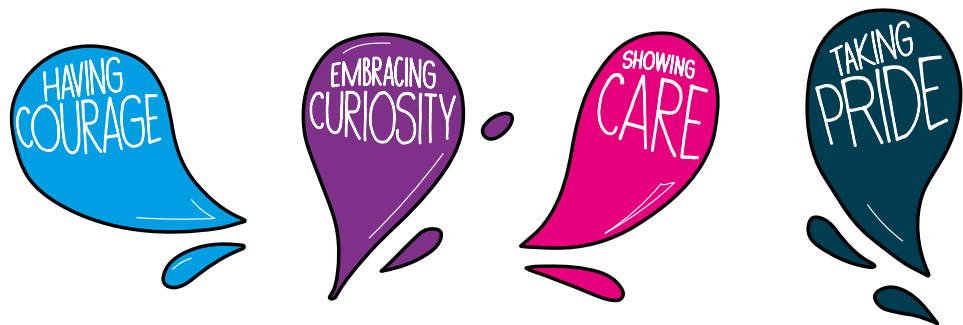
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# TAKING CARE OF ONE OF LIFE'S ESSENTIALS

## Our Purpose and Values

We believe that if we are united by a clear social purpose we will deliver better outcomes for all our stakeholders – our customers, our colleagues, our investors, the society we live in and the environment we depend on. It also makes good business sense. So at Severn Trent, we are first and foremost driven by our purpose – **‘Taking care of one of life’s essentials’** – and we’re guided by our values:



## The outcomes we deliver

Our two regulated water and waste water companies – Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig – focus on the delivery of nine outcomes designed with our customers to meet their needs and those of wider society:



### OUR COMMITMENT TO SUSTAINABILITY

Severn Trent is committed to making decisions for the long term – decisions that add value for our customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly.

This means we work to achieve our outcomes in a sustainable way – be it through taking care of the environment, helping people thrive or being a trustworthy company. This is integral to the way we operate.

[Read more: page 16](#)

**1** A COMPANY  
YOU CAN  
TRUST

**2** A  
POSITIVE  
DIFFERENCE

**3** LOWEST  
POSSIBLE  
BILLS

**4** A SERVICE  
FOR  
EVERYONE

**5** AN  
OUTSTANDING  
EXPERIENCE

**6** GOOD  
TO  
DRINK

**7** WATER  
ALWAYS  
THERE

**8** WASTE WATER  
SAFELY  
TAKEN AWAY

**9** A THRIVING  
ENVIRONMENT



## BOOSTING EMPLOYABILITY

For the past four years, Severn Trent has partnered with Hereward College to offer nine month internships to students with disabilities and additional educational needs. Without such opportunities these young people are three times more likely to be unemployed than their contemporaries without disabilities – so offering real work experience can significantly boost their chances of entering paid employment after leaving college. The programme has been hugely successful with 67% of our interns entering paid employment after their internships – and we're delighted that nearly half have stayed with us.

Taking part in the programme has also had a positive impact on our people, inspiring new ways of working and helping to reinforce our inclusive culture which is so important to us as a business. One of our colleagues working with the programme described seeing their intern graduate into permanent employment as one of the highlights of their 17-year career at Severn Trent.

## SUPPORTING FARMERS TO PROTECT WATER QUALITY

Farmer Charles Antrobus has applied to the Severn Trent Environmental Protection Scheme ('STEPS') for the last three years, each year receiving the maximum £5,000 grant. Supporting his largely arable 430 hectare holding of wheat, oilseed rape, barley, oats and beans, Charles is experimenting with mob-grazing for his herd of 20 British White beef cattle, whereby fields are given more time to rest and not grazed as hard.

Charles has used the grants to plant cover crops, purchase electric fencing for the mob-grazing and to build a sprayer wash-down area with bio-filters and a rain water capture system. In addition to water quality improvements, Charles has seen improvements to soil health and an increase in wildlife, especially small birds.

*"I've seen these relatively small changes make a big difference, which motivates me to continue making improvements. I'm proud that I'm sending clean water downstream – protecting our soils is crucial for both our farm's productivity and our shared responsibility to protect the environment," says Charles.*





## COMMUNITY FUND RESPONSE TO THE COVID-19 OUTBREAK

At Severn Trent we're committed to supporting our vulnerable customers, and that's why we're proud to have announced a COVID-19 £1 million emergency fund to support charities and non-profit organisations right on the frontline of the COVID-19 response across our regions.

We worked with local authorities and community foundations across the Severn Trent Water and Hafren Dyfrdwy regions to identify the charities most in need and those helping the most vulnerable in society. We then made donations without requiring any sort of application, ensuring we could get the money quickly to where it is needed.

One of these charities was Age UK. We're delighted to have been able to provide funding to 12 Age UK branches across our region to support them as they help older people who have no one else to rely on during the pandemic; providing shopping for essential items, prescription collection and daily support calls to maintain social contact.

"Can I just say in these difficult times this funding is amazing – we have had a 400% increase in calls and with this we can increase our support – from the bottom of my heart, you have put a smile on my face and a tear in my eye!"

Age UK Nottinghamshire



## TRIALLING A REVOLUTIONARY LOW-CARBON TREATMENT PROCESS

Last year we committed to net zero carbon emissions by 2030 and this year we committed to creating Science-Based Targets in line with the goal of the Paris Agreement to limit global warming to below 1.5 degrees. We know we have to reduce the level of emissions that come from our treatment processes which is why we are working with partners across our supply chain to trial a new way of treating waste water in our sewage treatment process. A new process we are trialling is an anaerobic membrane bioreactor ('AnMBR') that allows us to treat waste water anaerobically at lower temperatures than traditional methods, based on 10 years of research at Cranfield University.

Compared with conventional waste water treatment, this new system has significantly lower operating costs and a much smaller carbon footprint. The process also produces less nitrous oxide, a greenhouse gas around 300 times more potent than carbon dioxide. The project is part funded by the EU Horizon 2020 NextGen programme and will begin to show results in 2022.

AnMBR is one of three projects underway at our new Resource Recovery and Innovation centre at Spernal – the first of its kind in the UK – that allows us to run large-scale technology trials.





## SUPPORTING HAFREN DYFRDWY CUSTOMERS

At Hafren Dyfrdwy, our Welsh water and waste water company, we have a separate target for supporting customers who struggle to pay their bill. We are aiming to help 73% of customers who struggle to pay by 2025.

We've been working hard to identify customers in need of support. Our Welsh regions contain many small, close-knit communities, and the team recognises that building relationships with community groups is vital. In partnership with organisations such as Powys Association of Voluntary Organisations, Warm Wales and Newydd and Mid-Wales Housing, we are proactively contacting customers who are struggling to pay their bills – by telephone, post, or even door-knocking days in communities with a large proportion of customers who could benefit from our support.

Customers can also apply for assistance online through Here2Help, which launched in January 2020 and is already helping dozens of customers to access the support they need.

This support is making a real difference to customers:

**"I met a lady at a food bank in Wrexham who was looking after a family of four. She was signed off work sick, and her statutory sick pay had ended. I helped her make an application to Here2Help. Within a week, her monthly payment was reduced from £67.50 to £12.35. I checked in with her again to see if she needed anything else, and she was so happy – she couldn't believe how much we were able to help her!"**

**Katie, Hafren Dyfrdwy**

# RUNNING AN EFFICIENT WATER BUSINESS

RESOURCES & RELATIONSHIPS  
WE RELY ON

THE WATER  
CYCLE

OUR INVESTMENTS IN  
RENEWABLE ENERGY  
PRODUCTION

GENERATING & PRESERVING  
LONG-TERM VALUE

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

## RESOURCES

### PHYSICAL ASSETS

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

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

Principal Risk: 6



### WATER IS COLLECTED

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

### NATURAL RESOURCES

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

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

Principal Risks: 6 and 7



### WATER IS CLEANED

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

### FINANCIAL CAPITAL

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

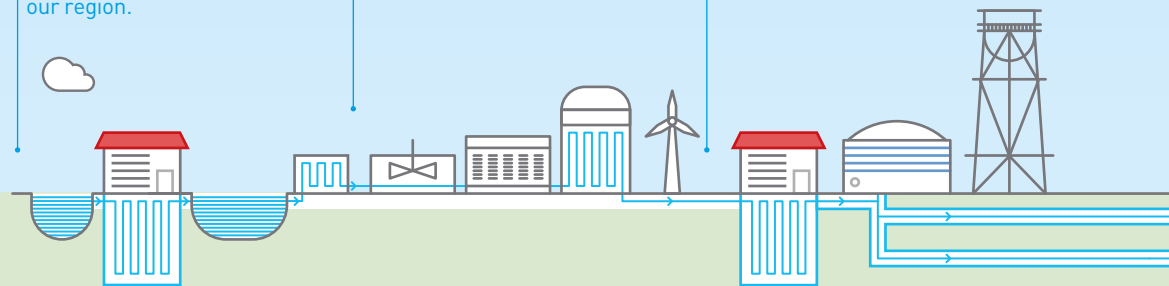
Our gearing is 65% (2019: 63%), one of the lowest in the sector. We have committed undrawn facilities of £755 million.

Principal Risks: 9 and 10



### CLEAN WATER IS DISTRIBUTED

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



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

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



Food waste anaerobic digestion plants generating green energy

### PHYSICAL ASSETS

Our biggest ever five-year period of capital investment has now concluded.

Successful delivery of our Birmingham Resilience Programme.

Replaced 260 km of our water network (2018/19: 230 km).

### NATURAL RESOURCES

We've improved the biodiversity of 244 hectares of Sites of Special Scientific Interest ('SSSIs') over AMP6.

### FINANCIAL CAPITAL

Delivering returns for our investors.

Maintaining an investment grade credit rating.



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

## RELATIONSHIPS

### OUR CUSTOMERS AND COMMUNITIES

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

We serve 4.6 million households and businesses.

Principal Risks: 1 and 7

#### CUSTOMERS ENJOY OUR SERVICES

We serve 4.6 million households and businesses with a safe, reliable supply of water and collect waste water seven days a week, every day of the year.

### OUR PEOPLE AND CULTURE

Our culture and values support Doing the Right Thing and drive delivery of our strategy. We look to attract, develop and retain talented people from all backgrounds.

We directly employ over 6,700 people. Glassdoor reports that 87% of our people would recommend us to a friend.

Principal Risk: 7

#### WASTE WATER IS COLLECTED

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

### OUR SUPPLIERS AND PARTNERS

Strong supplier relationships support our business operations in line with our modern slavery commitments.

We work with around 1,700 direct suppliers.

Principal Risk: 7

#### WASTE WATER IS CLEANED

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

### OUR REGULATORS

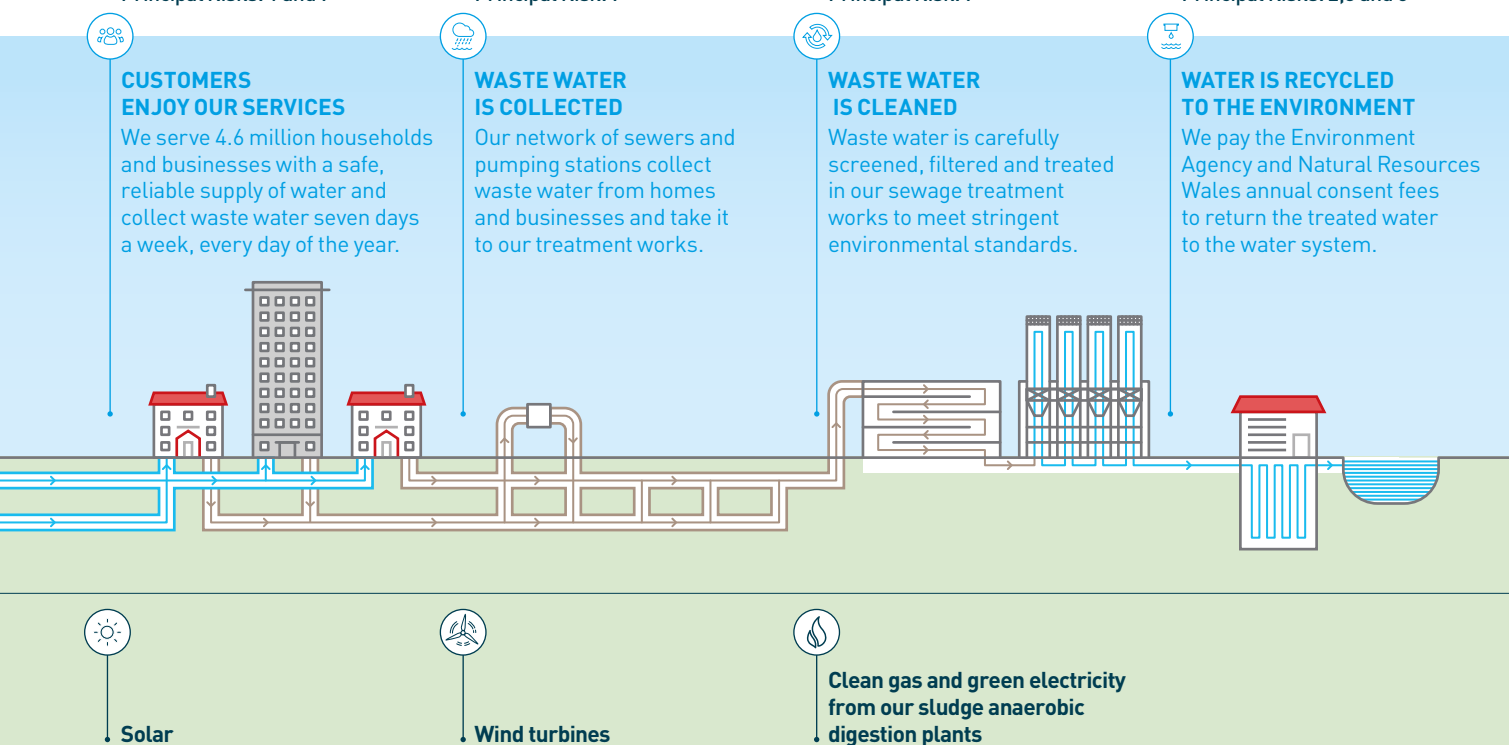
Our industry is regulated by Ofwat and several other regulators and public bodies.

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

Principal Risks: 2,3 and 5

#### WATER IS RECYCLED TO THE ENVIRONMENT

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



### OUR CUSTOMERS AND COMMUNITIES

One of the lowest bills in England over the last decade.

We helped around 70,000 customers through social tariffs and assistance schemes (2019: 52,800).

### OUR PEOPLE AND CULTURE

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

30% of our graduates are from a Black, Asian and minority ethnic ('BAME') background (2019: 31%).

### OUR SUPPLIERS AND PARTNERS

Building sustainable relationships that provide mutual benefit.

298 suppliers are signed up to our Sustainable Supply Chain Charter (2019: 258).

### OUR REGULATORS

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

Launched the World Water Innovation Fund.



# FULFILLING OUR ROLE IN SOCIETY



**Christine Hodgson**  
Chair

Serving our customers  
and taking care of one  
of life's essentials.

## Taking care of one of life's essentials

I am delighted to have been given the opportunity to chair Severn Trent and what an extraordinary time to have started this role. I was fortunate to complete over 20 days of induction before lockdown and during that time I was struck by many qualities about the organisation, most notably its very strong social and environmental purpose, the passion and commitment of the Severn Trent workforce to deliver essential services for customers and the excellent leadership team focused on performance. The rapid, effective and caring response to the current COVID-19 pandemic has shone a light more than ever on these qualities.

Although the majority of the financial year was unaffected by COVID-19, the ongoing impact is significant. As for all organisations, the pandemic has caused a significant shift in the way we operate and brings numerous and serious risks. We have an experienced management team that has a strong track record of dealing with incidents and to tackle this crisis they have set up incident teams to ensure we keep the core business operating and protect the health and wellbeing of our colleagues and customers. The teams are also identifying and considering a range of scenarios arising from the pandemic, and putting in place the appropriate plans to deal with the impact on our business, our operations and our customers. The Board receives weekly updates from the Executive on the provision of core services, how we are supporting colleagues and the community, and the mitigation of the risks to our business.

Following the year end, the Board has considered and monitored the potential economic impacts of COVID-19, in particular financing and liquidity. This activity included modelling plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Modelling to date shows that, while there will be a financial impact, neither the plausible or extreme scenarios we have modelled would result in an impact to the Group's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions, and are therefore not considered threats to the Group's financial resilience. Additional detail can be found in our viability statement on page 66. However, there remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

Our strong financial position was a factor in our decision to declare a final dividend in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. Read more in Liv's Chief Executive's review on page 12.

Meeting employees at our East Birmingham food waste plant



## Our culture

In March, I was proud to host some of our investors and other key stakeholders at a Capital Markets Day at our head office in Coventry where they could learn about the bold and wide-ranging sustainability commitments which are at the heart of our strategy and see how these are embedded in the way the business is run. Investors appreciated the opportunity to experience the unique culture of Severn Trent which differentiates us. Liv's Chief Executive's review provides more detail on this and our new Purpose and Values which were launched during the year.

We know that the long-term success of our Company is intrinsically linked to the health of the natural environment and the wellbeing of our customers, colleagues and communities. Our sustainability commitments reflect this – focused on making a positive impact on the region we serve, the people who live and work here and the environment around us. To us these are not just words on a page – they are woven into our business plan – in projects to protect the environment and enhance biodiversity, the creation of an inclusive workplace, the support we give to our communities, in the high performance standards we set ourselves and the robust corporate governance we live by. You can find further details of our sustainability framework, commitments and performance in our first standalone Sustainability Report and on page 16.

We have used the head start from Ofwat awarding our AMP7 plan fast-track status to prepare for the next five years. We will of course keep our business plans under constant review as a result of COVID-19, but we have well-developed, adaptable plans in place to ensure we continue to deliver outperformance in AMP7. Further details of our excellent AMP6 operational performance are contained in Liv's Chief Executive's review.

## Sharing the rewards

Under our industry's regulatory framework, delivering outperformance on our commitments to customers in turn creates financial rewards. We highlighted last year that being socially responsible means that when we perform well, we can share the financial benefits of our work with all stakeholders. We have reinvested outperformance over the last five years to help our vulnerable customers, improve our water quality and increase the security of supply to our customers.

This year, we have also accelerated the distribution of our newly established Community Fund, where we set aside 1% of Severn Trent Water's profits for the benefit of community projects to help the most vulnerable people. We have also committed £1 million to support groups and charities helping those impacted by COVID-19 in our region; comprising £500,000 re-directed from the Community Fund and £500,000 from historic share forfeiture proceeds.

We have delivered another strong financial performance this year, with Group turnover of £1,843.5 million, an increase of 4.3%. Underlying earnings per share was 146.0 pence, up 0.1% from the prior year, and basic earnings per share was 66.7 pence, down 50% from the prior year. We are therefore proposing a final dividend of 60.05 pence per share to be paid on 17 July 2020, taking the total dividend for the year to 100.08 pence per share.

## Your Board

I was pleased to join Severn Trent as a Non-Executive Director on 1 January 2020 and to succeed Andrew Duff as Chair from 1 April 2020. On behalf of the Board I would like to thank Andy for his strong leadership and commitment over the last nine years. He has successfully overseen a huge amount of positive change over that period. I am personally grateful to Andy for the time and invaluable support he has generously given to me during my induction.

The Board has been particularly welcoming to me and I would like to take this opportunity to welcome Sharmila Nebhrajani who was appointed as a Non-Executive Director on 1 May 2020. From her extensive and varied career, Sharmila brings complementary skills and diversity to our Board. You can read more details about the recruitment process on page 87.

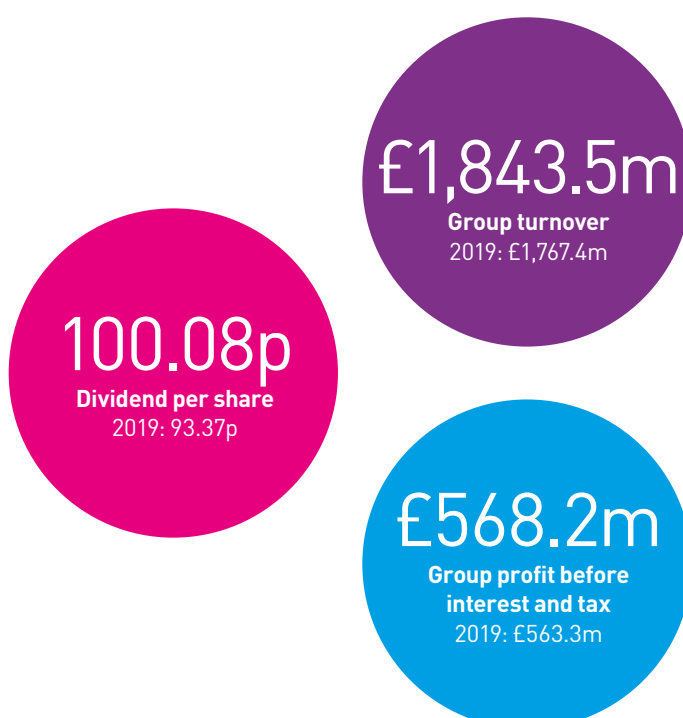
From my early interactions with the Board, it is evident that the Board and Committees function well with high levels of engagement from all members and an appropriate level of challenge and support. Details of the Board's work, including the various Board Committees, is included in the Governance report on page 69.

## Outlook

Severn Trent is a stable, exceptionally well-run organisation with a dedicated workforce. While COVID-19 has brought unprecedented uncertainty, I am confident that we will deliver the commitments we have made for AMP7 for all our stakeholders. We will continue to take care of one of life's essentials for our customers and to support the communities in which we operate. Never has our role been more important.



**Christine Hodgson**  
Chair



# OUR COVID-19 RESPONSE

The impacts of COVID-19 are being felt across the globe. As a socially purposeful company, we have carefully considered how we can make a positive impact for the good of our stakeholders but also for wider society.

This section provides a snapshot of how we have approached the COVID-19 crisis since mid-March 2020; from managing our operational response, to mitigating as much risk as possible while providing the widest range of support possible to our stakeholders. It also directs you to sections of the Annual Report where you can find more detail on each of the matters below.

We have a well-rehearsed approach to incident management and while COVID-19 presents many unique challenges, the governance structure we have implemented has provided a stable foundation from which we can respond to the changing situation. Our Strategic Incident Team, comprising Executive Committee members, led the swift implementation of plans and we continue to provide services to customers while keeping our people safe and well. Our COVID-19 response governance framework is set out below.

## Our COVID-19 Governance Framework



### Key

↑ Informs

↗ Reports

1. The Board oversees the Strategic Incident Team's response to the COVID-19 pandemic. The Board receives at least weekly updates on progress and stakeholder impacts.
2. The Strategic Incident Team leads the Company's COVID-19 response and oversees the Tactical Incident Team. The Strategic Incident Team considers how current and developing scenarios will impact in the medium term and plans an effective response to ensure the continued resilience of our operations.
3. The Tactical Incident Team is focused on ensuring that the Company maintains normal business operations, mitigates risks to core services, protects the health and wellbeing of our people and protects the health of our customers.
4. Internal controls and processes are continually reviewed and updated to enable efficient delivery throughout, and beyond, the pandemic. Read more about our system of internal control on page 94.
5. Stakeholder impacts, and wider societal benefits, are considered at all levels of our COVID-19 response, including the consequences of our decisions on them. Our stakeholder engagement process enables us to carefully consider all the relevant factors and select the best course of action. Read more about our approach to stakeholders in our s.172 statement on page 28 and stakeholder engagement section on page 24.

Business and stakeholder Impacts	Our COVID-19 response	
<b>SUPPORTING OUR CUSTOMERS</b>	<b>Maintaining normal business operations for our customers</b>	<ul style="list-style-type: none"> <li>Our teams continue to work tirelessly to provide a great experience for our customers – keeping them on supply and taking their waste safely away. We've received some wonderful feedback from customers recognising the dedication of our teams at this time.</li> <li>Our priority remains the safety and wellbeing of our customers and people. We've implemented revised working practices, with virtual remote technicians, at-home network monitoring, and kept small teams together, to ensure we keep people as safe as possible while delivering essential services.</li> <li>We have kept customers reassured and informed throughout the COVID-19 period through regular content across a number of channels, including emails, social media, TV and radio.</li> </ul>
	<b>Protecting our vulnerable customers</b>	<ul style="list-style-type: none"> <li>Making sure our vulnerable customers know we are there for them with targeted communications and support through our Priority Services Register.</li> <li>We continue to partner and support Local Resilience Forums by providing advice and guidance in respect of vulnerable customers and ensuring that they have access to the most up to date information to support vulnerable people in our region.</li> </ul>
	<b>Supporting customers who are struggling to pay</b>	<ul style="list-style-type: none"> <li>We have a range of initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers.</li> <li>Making £3.5 million available as part of our Severn Trent Trust Fund for those who may be unable to pay their household bills at this time.</li> <li>These schemes have historically helped thousands of people when they needed our support the most. At this critical time for many, we have redoubled our efforts to raise awareness of these schemes for customers.</li> </ul>
<b>TAKING CARE OF OUR COLLEAGUES</b>	<b>Caring for our colleagues</b>	<ul style="list-style-type: none"> <li>Our priority remains the safety and wellbeing of our people and customers. We are supporting our key workers with the processes, personal protective equipment and other equipment they need to continue to deliver our essential services. Our IT infrastructure has proved to be stable and resilient which has allowed over half our workforce to work safely from home so we can be there for our customers 24 hours a day, seven days a week.</li> <li>We will not be making any redundancies or furloughing any of our employees as a result of COVID-19 and we are maintaining our all-employee bonus in recognition of our colleagues' hard work over the last year. We have agreed an annual pay increase of 2.3% for our colleagues for the next three years to provide certainty and security for them and their families.</li> <li>Launched a 'Caring for our Colleagues' campaign, providing support on mental and physical wellbeing, and agreed individual care plans for our colleagues living in a vulnerable situation.</li> </ul>
	<b>Key workers</b>	<ul style="list-style-type: none"> <li>Around 50% of our workforce meet the Government's definition of key worker. As a major employer and provider of essential frontline services, the health and safety of our colleagues is paramount and additional safety protocols have been implemented.</li> <li>As described above, our priority remains protecting the health and safety of our people.</li> </ul>
<b>HELPING TO MAKE A DIFFERENCE TO OUR COMMUNITIES</b>	<b>Social responsibility</b>	<ul style="list-style-type: none"> <li>In addition to helping our customers directly, we have established a COVID-19 £1 million emergency fund to support charities and community projects at the forefront of the region's COVID-19 response, with over £500k already donated to 200 organisations.</li> <li>We launched a virtual education zone to help parents with home-schooling – through activities, games and stories to inspire the next generation of water users.</li> <li>We've prioritised our services to ensure that schools serving key workers and hospitals have access to uninterrupted services.</li> <li>Our Chair, CEO and CFO have asked the Company to donate 25% of their salaries for three months to local charities in our region which are helping the response to COVID-19.</li> </ul>
<b>WORKING WITH OUR SUPPLIERS AND CONTRACTORS</b>	<b>Supporting our supply chain</b>	<ul style="list-style-type: none"> <li>We're helping our SME suppliers by moving to immediate processing of payments for at least three months – in April we paid £38 million to our smaller suppliers early.</li> <li>We're working closely and collaboratively with our whole supply chain to provide support in respect of their underlying COVID-19 plans and continuing to invest in our capital construction projects when it is safe to do so. This is an important focus given their roles as key employers in our region.</li> </ul>
<b>ENSURING THE LONG-TERM SUCCESS OF OUR COMPANY</b>	<b>Financial resources and assumptions</b> Read more on page 66	<ul style="list-style-type: none"> <li>The Board and Strategic Incident team have continually monitored the situation to ensure early detection of any deteriorating trends. We have modelled plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Our strong financial position means that we are well placed to withstand the economic shocks that COVID-19 might bring. Read more in our viability statement on page 66.</li> </ul>
	<b>Risk management</b> Read more on page 57	<ul style="list-style-type: none"> <li>We continue to monitor the impact of the COVID-19 pandemic across all areas of our business as part of our established Enterprise Risk Management ('ERM') processes and a detailed COVID-19 statement can be found on page 64.</li> </ul>
	<b>Final dividend</b>	<ul style="list-style-type: none"> <li>Our strong financial position was a factor in our decision to declare a final dividend in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. Read more in Liv's Chief Executive's review on page 12.</li> </ul>



# ADAPTING TO OUR EVER-CHANGING WORLD



**Liv Garfield**  
Group Chief Executive

“On every day, in every way,  
I cannot commend our entire  
workforce enough for their  
dedication in keeping our  
vital services going.”

I could not start my review without first referring to the devastating impact that COVID-19 has made across the globe. During these unprecedented times our role here at Severn Trent has become ever more crucial – making sure we continue to provide our vital services to our 4.6 million households and businesses. I knew when I joined Severn Trent six years ago that it had a special and unique culture of caring for the essential public service we provide and this has never been more evident than right now, in the midst of this current crisis.

So this year, I wanted to take the time to dedicate my review to our people – who have been magnificent and selfless in continuing to provide our essential public service. From our teams who are making sure our customers are getting clean water and having their sewage taken away, to our people going into customers' houses to help deal with their issues; from our dedicated customer services teams who are aiding our customers with their bills and issues, to our people who are juggling childcare whilst working from home. Some of the individual stories of our workforce going beyond the norm are truly incredible, like our employees who've suggested deferring their retirement to continue to work; teams buying provisions for some of our most vulnerable customers; and, colleagues suggesting they stay on site 24/7 to make sure they are available to do their job – to guarantee that they can keep our water flowing and treat waste. On every day, in every way, I cannot commend our entire workforce more.

I think it is important for me to provide you with an update of what we have done in response to COVID-19 and how we will continue to deal with it. I also think we shouldn't forget all the great things we've achieved over the last year, and so I want to share our new Purpose and Values, our approach to sustainability, our strong performance over the year and our commitments looking ahead for the next five years, making sure we continue to deliver for all of our stakeholders.

**£568.2m**

Group profit before  
interest and tax  
2019: £563.3m

**£1,843.5m**

Group turnover  
2019: £1,767.4m

## COVID-19 – THE IMPACT ON SEVERN TRENT

### Protecting our people

The Government designated our employees as key workers, recognising that our employees' roles are vital to public health and safety during the coronavirus situation. We undertook an exercise, together with other water companies, to identify which of our employees were absolutely essential to providing our service. We didn't think it was the right thing to do to designate all of our employees as key workers, in the end identifying around 50% of our employees as key. This was to ensure we kept as many people as we could at home in line with Government advice and also so that we didn't take up any more school spaces than absolutely necessary.

We took action quickly and deployed our already well-developed business continuity plans. This allowed us to assess very quickly which of our colleagues were required to work on our sites versus those who could work at home in line with Government advice. Our IT team worked really hard to make sure everyone had access to the right equipment and access to our systems remotely to carry on doing their work, demonstrating the resilience of our technology infrastructure.

We also rapidly identified our most vulnerable employees and our employees who live with someone who is vulnerable, in line with the Government guidelines for vulnerable people, e.g. anyone over the age of 70 or having underlying health problems. We contacted all of these employees individually and agreed individual care plans with them.

We deployed revised working practices, with virtual remote technicians, at-home network monitoring, and kept small teams together, to ensure we keep people as safe as possible while delivering our essential services.

### Helping our customers and communities

Our priority is to make sure everyone's as safe as they can be while ensuring we keep our services running for all of our customers. We therefore established new ways of working with our customers when we visit them. These include working to reduce the possibility of our teams coming into contact with customers when we need to get into their homes or business to carry out work; agreeing a plan with our customers before we visit to carry out those tasks in a way that keeps everyone as safe as possible, and, if our customers are uncomfortable with how we want to do things, we agree to postpone the visit. We also encouraged our customers to let us know if they're vulnerable in any way, in order to encourage them to join our Priority Services Register, ensuring that if they experience an issue with their water, we can give them the support they need.

We know some of our customers will be struggling financially as a result of COVID-19. Whilst we continue to bill customers for our services, we have been helping those customers who have told us they are in financial difficulty by referring them to our WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. We've also made £3.5 million available as part of our Severn Trent Trust Fund for those who may be unable to pay their household bills at this time. As Christine highlighted in her Chair's statement, we have also used our Community Fund to help provide support to people in our region who are affected by COVID-19.

We took the difficult decision to shut our visitor sites before the Government required us to do so. We know how popular our sites are, but as the wellbeing and safety of our visitors, communities and colleagues is the most important thing, we took action quickly to close sites and limit the risk of spread of COVID-19.

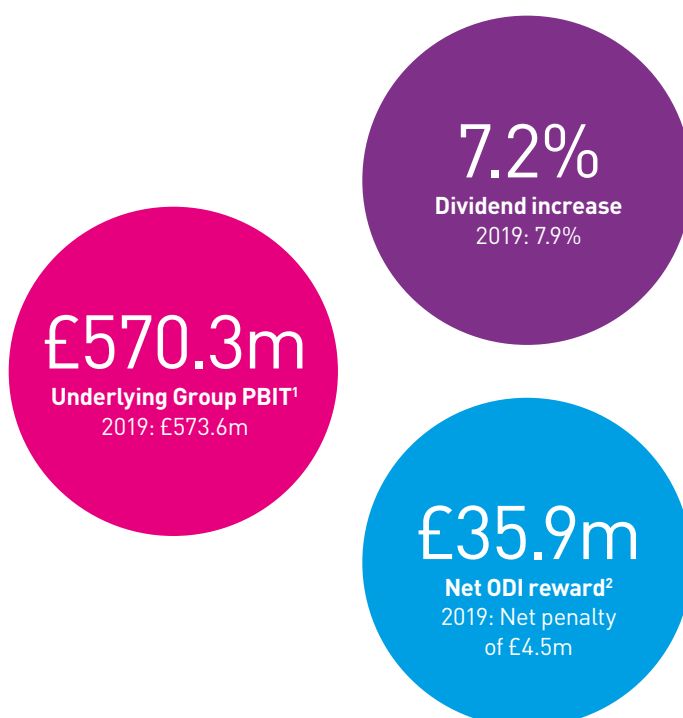
We have been working hard to prioritise our work to make sure we keep our schools, serving key workers, and hospitals, including the new temporary hospital the Government has set up in our region, open by responding to their problems as quickly as possible. We continue to look at ways in which we can support all of our communities, across our patch, and I take great personal pride in the way we are helping where we can.

### The financial impact of COVID-19

We have been closely monitoring the situation to ensure early detection of any deteriorating trends. We expect that there will be an impact on our cash collection as a result of COVID-19. Whilst we will help people as much as we can, we will also ensure that we continue to collect our charges for the services we provide. We have modelled plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Our strong financial position means that we are well placed to withstand the economic shocks that COVID-19 might bring. Read more in our viability statement on page 66.

### Final dividend

Our strong financial position was a factor in our decision to declare a final dividend in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. The Board considered carefully the unprecedented circumstances in relation to this year's dividend and took into consideration the Group's prospects and financial position; stakeholder interests including customers, shareholders, employees and our communities; and the Board's decision not to use any of the Government's business support measures. Recognising the critical role that dividends play in providing necessary income for pensioners and savers, and the significant number of employee and former employee investors, the Board determined that based on the strong performance in 2019/20 and the underlying financial position of the Company it remains appropriate to recommend to shareholders that a final dividend for year ended 2019/20 be paid.



1 Alternative Performance Measures are defined in note 44 of the Group financial statements.

2 Group Outcome Delivery Incentives ('ODI') quoted pre-tax in 2012/13 prices.

## OUR NEW PURPOSE AND VALUES



### CHIEF EXECUTIVE'S REVIEW FOR YEAR ENDED 31 MARCH 2020

We have had a busy and eventful year that we can look back on with pride, and it is to that I would like to turn to now. We agreed our PR19 fast-track plan with Ofwat, which was commended for its approach to being socially purposeful and building customer trust. We launched our new company Purpose and Values and implemented our new Sustainability Framework, formalising our forward-thinking approach to sustainability and embedding it in the Company. We delivered another strong year of operational performance and successfully completed our AMP6 capital programme, while getting ready for the efficient delivery of our AMP7 five-year plan. It's my great pleasure to share some more details about these below.

#### Our new Purpose and Values

I am truly delighted to introduce our new company Purpose and Values which have been put together collaboratively by our people, for our people. We know that what we do is crucial for our customers to live their daily lives, and our new purpose of 'Taking care of one of life's essentials' recognises this. We also wanted to reflect what it really feels like to work at Severn Trent, that's why our Values are Having Courage, Embracing Curiosity, Showing Care and Taking Pride. Not only do these genuinely show what we are about, they really resonate with our people.

We know first-hand that having a strong culture, built around a highly engaged workforce, not only ensures we continue to deliver great performance but also that we continue to make Severn Trent a truly awesome place to work. This is borne out by our excellent engagement score of 8.1 out of 10, putting us in the top 5% of utility companies globally, and by the reviews that Severn Trent employees leave on Glassdoor, placing us consistently at four out of five. We also see it through the commitment our employees make to our Community

Champions volunteering scheme, where our employees volunteered over 10,000 hours of their time over the year to improve the local environment and help communities thrive in our patch. We cleaned up rivers, looked after our visitor sites, planted trees and picked up rubbish. This is testament to the enthusiasm and loyalty our workforce has for the area that they work and live in.

#### Sustainability at our Core

Sustainability and social purpose may be the new buzz words – but for us these have always been central to the way we work and core to the success of our Company. Last year we shared how we believe that a business with a strong sense of social purpose like ours delivers better and more sustainable outcomes for stakeholders over the long term.

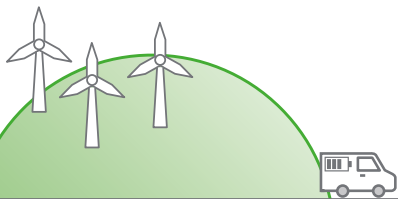
This year, we wanted to focus on our Sustainability Framework, which we designed to capture all the great things we are doing across the Company that demonstrate our commitment to being a sustainable company. I know only too clearly how much we rely on our environment to provide our services, and the acute risks we are facing from climate change. That's why I am personally delighted to share that in the next five years we will do more for the environment than ever before, through a number of long-term ambitions, enabling us to support our Purpose. We will do all of this while keeping customer bills among the lowest in the land.

These commitments are integral to the delivery of the customer outcomes agreed in our business plan for the next five years and also in securing a sustainable long-term future for the business we run. As part of our plan we have chosen to invest £1.2 billion in delivering these sustainability commitments.

“These commitments are integral to the delivery of the customer outcomes agreed in our business plan for the next five years and also in securing a sustainable long-term future for the business we run. As part of our plan we have chosen to invest £1.2 billion in delivering these sustainability commitments.”

This includes some fantastic and unique commitments, for example:

Deliver our Triple Carbon Pledge of net zero emissions, 100% energy from renewable sources and 100% electric fleet, all by 2030<sup>1</sup> – and develop Science-Based Targets

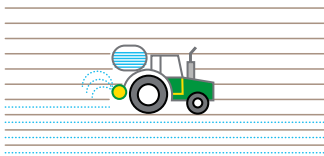


Support 195,000 customers every year who struggle to pay their bill, by 2025



Enhance the biodiversity of 5,000 hectares of habitat by 2027

Work with almost 9,000 farmers to adapt working practices and adopt nature-based solutions to reduce pollutants in 44 catchments



Donate 1% of Severn Trent Water's profits each year over the next five years (over £10 million) into the Severn Trent Community Fund, investing in projects in our local communities



These are but a few of the brilliant examples I could have chosen to highlight. In fact, there are so many examples I could have picked, but in order to make sure we shared our plans as fully as possible with our stakeholders, we have decided to publish our very first Sustainability Report which can be found on our website. In the report, we set out our commitment to taking care of the environment, helping people to thrive, and being a company our stakeholders can trust. We believe that by making decisions with all these issues in mind, we will secure a sustainable, long-term future for our business.

### Our performance

We know that building a lasting legacy for our customers today and for future generations is one of our most important responsibilities. That's why I have to start my review of our performance by referring to the completion of our capital programme, including our £300 million programme to improve resilience for Birmingham's water supply, £280 million to improve the health of rivers in our region as part of the Water Framework Directive, and £150 million on sewer flooding improvements, including a strategic upgrade of the waste water network in Newark which should protect homes and businesses from sewer flooding for decades to come. It was a massive effort

to make sure we delivered these schemes on time and to quality. We knew that these improvements were so important to our customers, that we had a number of AMP6 customer ODIs covering the capital programme – which I am now pleased to confirm we have delivered.

**We also can look back over AMP6 and be proud of the big service improvements we delivered for our customers:**

- 28% reduction in water quality complaints since 2015.
- 48% reduction in external sewer flooding since 2015.
- 62% reduction in supply interruptions year-on-year.
- Outperformed our leakage target of 6% over the AMP.
- Our lowest number of pollutions in a decade.
- We generate the equivalent of over 50% of our energy needs from our own renewable energy sources.
- Helping more customers than ever with their bills, with around 70,000 people offered support.

We have achieved a lot over the last five years: we've delivered on our promises, made investments for the long term, and have a track record of delivering strong financial performance for our investors.

### Looking to the future – Delivering our AMP7 plan

Our business plan focuses on nine outcomes that we've designed to meet the needs of our customers and wider society. While these have a long-term perspective and look 25 years ahead, the next five years will see real progress – driven by the performance commitments that are designed to hold us to account to our customers. We will invest more than £6.8 billion in new and existing assets to make our service even better. On top of this, during 2020-25 we're going to deliver our biggest bill reduction for two decades.

For less than £1 a day, more than 4.6 million households and businesses across the Midlands and Wales will get all the fresh water they need delivered straight to their taps and all of their waste water taken away. Over the next five years, we will also increase our support for tens of thousands more customers who are least able to afford their bills, with a range of measures from water saving devices to payment plans or reduced charges, for 195,000 people a year by 2025.

We believe we've created a responsible, challenging but achievable plan that will set the benchmark for how a privately owned company can deliver public good, not just in the water sector but across UK industry in general.

COVID-19 has clearly damaged companies in many sectors and the subsequent impact on the economy is significant. Whilst the impact of COVID-19 on our plans is not entirely clear, we are well protected to be able to deal with any financial shocks in the economy and continue to deliver for our customers the vital service they need to live their lives.

I have absolute confidence that whatever happens in these uncertain times, our amazing team of people who work at Severn Trent will be working hard to make sure we perform for our customers, all of our stakeholders and society as a whole.

**Liv Garfield**  
Chief Executive

<sup>1</sup> Assumes suitable specialist vehicles such as tankers become available within that time window.



# SUSTAINABILITY AT THE HEART OF OUR APPROACH

Our long-standing commitment to sustainability is demonstrated in our leadership on renewable energy generation, sustainable management of our land, and dedicated programmes to support people and our local community. We've reported on these – and other sustainability metrics – in our Annual Report for several years.

But now we're going further. Over the next five years, we will be investing £1.2 billion in our sustainability ambitions, from climate and biodiversity to supporting the customers who need us most.

As part of our commitment to transparent reporting, we're publishing our first standalone Sustainability Report, which can be found on our website at [severntrent.com](https://severntrent.com). This has been developed following the principles of the Global Reporting Initiative ('GRI').

As a company taking care of one of life's essentials – water – we know that the resilience of our business is intrinsically linked to the resilience of our region, its communities and the natural environment.



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

### TAKING CARE OF THE ENVIRONMENT



#### Ensuring a sustainable water cycle

Secure water sources in the long term – through catchment management, demand reduction and climate change adaptation – so that we can deliver our services for future generations.



#### Enhancing our natural environment

Protect and enhance nature at each stage of the water cycle by improving biodiversity and stopping pollution, benefiting nature, local communities and our business.



#### Making the most of our resources

Generate renewable energy and other useful resources from our waste, and aim for zero waste to landfill through our business activities.



#### Mitigating climate change

Play our part in reducing global carbon emissions in line with the Paris Agreement, aiming for net zero carbon and supporting the UK's energy transition.

#### Linked SDGs<sup>1</sup>



### HELPING PEOPLE TO THRIVE



#### Delivering an affordable service for everyone

Work with our industry to end water poverty by supporting customers who struggle to pay their bills and providing priority support to those who need it.



#### Providing a fair, inclusive and safe place to work

Build a workforce that is reflective of the community we serve, and foster a culture where everyone can be themselves, driving better decision-making and performance.



#### Investing in skills and knowledge

Support the skills base of our people and our region, and inspire the next generation of customers to adopt more sustainable behaviours.



#### Making a positive difference in the community

Serve our local communities through community projects and volunteering, and global communities through charity partnerships.

#### Linked SDGs<sup>1</sup>



### BEING A COMPANY YOU CAN TRUST



#### Living our values

Nurture a strong, open, one-team culture based on company values that articulate what we stand for.



#### Balancing the interests of all our stakeholders

Understand the needs of stakeholders in order to make business decisions that benefit shareholders, society and the environment.



#### Running our company for the long term

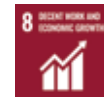
Put strong governance – leadership, ethics, and management of risks and opportunities – at the heart of our business.



#### Being open about what we do and sharing what we know

Build trust through transparency, and work with our sector on innovative solutions to our shared challenges.

#### Linked SDGs<sup>1</sup>







<sup>1</sup> United Nation's Sustainable Development Goals.





# SUSTAINABILITY PERFORMANCE HIGHLIGHTS





The table below shows selected highlights from our sustainability performance in 2019/20 and over the last several years. We also set out our long-term ambitions that go beyond our business plan. For a full list of key metrics see page 59 of our 2020 Sustainability Report.

⚙️ Customer Outcome Delivery Incentive performance and targets in the table below relate to Severn Trent Water only.

📄 **GRI index is available at:**  
[severntrent.com](https://severntrent.com)

Theme	Performance	2020-25 commitments and long-term ambitions
<b>TAKING CARE OF THE ENVIRONMENT</b>		
 <b>Ensuring a sustainable water cycle</b>	<b>Leakage</b>	⚙️ 2019/20: Reduced leakage by 4% Reduced leakage by over 8% over last five years, exceeding 6% commitment ⚙️ ODI target: 15% reduction by 2025 <i>Long-term ambition: 50% reduction by 2045</i>
	<b>Per capita consumption</b>	2019/20: Average per capita consumption in our region is around 130 litres per head per day Our water efficiency programme has delivered around 25 ML/d of water savings over five years ⚙️ ODI target: Reduce per capita water consumption by 3.5% by 2025 <i>Long-term ambition: Installing 500,000 water meters by 2025</i>
	<b>Water Quality improvement against Water Framework Directive ('WFD')</b>	⚙️ Over the past five years we have delivered 33 water and 246 waste WFD points, improving 1,600 km of river ⚙️ ODI target: Improve 211 WFD points by 2025 Improve the quality of a further 2,100 km of river by 2025, meaning over half the rivers in our region will have improved by the end of AMP7
	<b>Catchment management</b>	⚙️ Catchment management approach implemented in 26 catchments over five years, engaging with over 5,000 farmers in our region ⚙️ ODI target: Implement catchment management in 16 catchments <i>Long-term ambition: Engage with 9,000 farmers (63% of those in our region) across 44 catchments to reduce pollutants from agriculture</i>
 <b>Enhancing our natural environment</b>	<b>Biodiversity</b>	⚙️ Improved biodiversity in over 244 hectares of SSSI-designated land over the last five years ⚙️ ODI target: Improve 1,090 hectares of biodiversity by 2025 <i>Long-term ambition: Improve the biodiversity of 5,000 hectares of habitat, not just SSSIs, across our region by 2027</i>
	<b>Pollutions</b>	⚙️ 2019/20: 288 Category 3 (minor incidents) 12% reduction on 2018/19 and our best performance over the last decade ⚙️ ODI target: 29% reduction in pollution incidents by 2025 to 19.5 incidents per 10,000 km of waste network <i>Long-term ambition: Reduce total number of pollution incidents 50% by 2025</i>
 <b>Making the most of our resources</b>	<b>Biosolids</b>	In the 2019 calendar year we recycled over 115,000 tonnes of dry solids to agricultural land ⚙️ ODI target: 100% satisfactory sludge use and disposal Maximise the conversion of sludge into biogas and other useful resources
	<b>Waste diverted</b>	2019/20: Waste audit completed providing better visibility of waste streams, with some waste streams as high as 99% diverted from landfill <i>Long-term ambition: We are actively working to set clear targets across all waste streams, with an ambition of zero waste to landfill</i>
 <b>Mitigating climate change</b>	<b>Carbon Footprint</b>	2019/20: 141 tCO <sub>2</sub> net operational green house gas emissions of Severn Trent per £m turnover 7% reduction on 2018/19 and 45% reduction on 2014/15 Triple Carbon Pledge: Net zero carbon emissions by 2030 Commitment to set and report against Science-Based Targets
	<b>Electric vehicles</b>	2019/20: Implemented policy to only purchase electric cars from now on and only electric vans from 2023 Triple Carbon Pledge: 100% electric vehicles by 2030 (where specialist vehicles such as tankers become available within that time window)
	<b>Renewable energy</b>	2019/20: From 1 April 2020 we have purchased the remainder of our energy needs from renewable sources, achieving our 100% renewable energy commitment 10 years earlier than planned Triple Carbon Pledge: 100% energy from renewables by 2030
	<b>Energy Consumption</b>	⚙️ 2019/20: Total energy consumption of 2,037 GWh or 1.11 GWh per million of Group revenue We continually invest in improving energy efficiency and we have a dedicated energy management team focused on driving operational change to reduce energy
	<b>Renewable energy generation</b>	2019/20: Self-generation of renewable energy by Severn Trent Group increased to the equivalent of 51% of Severn Trent Water's energy needs We delivered 491 GWh of renewable energy across our sites Continuing to invest in energy generation opportunities

	Theme	Performance	2020-25 commitments and long-term ambitions
<b>HELPING PEOPLE TO THRIVE</b>			
 <b>Delivering an affordable service for everyone</b>	<b>Help when you need it</b>	2019/20: Around 70,000 customers received financial support and advice, a 33% increase from 2018/19	ODI target: By 2025 support 43% of customers who struggle to pay (195,000 customers annually) <i>Long-term ambition: Eradicating water poverty, meaning that none of our customers will be faced with a water bill that is more than 5% of their disposable income by 2030</i>
	<b>Trust Fund</b>	2019/20: £3.5 million annually donated to the Severn Trent Trust Fund Over £60 million donated to the Trust Fund to date	Commitment to contribute £3.5m annually to support customers in need
	<b>Priority Services Register</b>	2019/20: 1.2% of household customers are on the Priority Services Register	ODI target: 9.7% of customers with additional needs on our Priority Services Register by 2025
	<b>Value for money</b>	2019/20: 66% of customers rated our services as good value for money (based on quarterly independent survey) 9% increase in the last five years	ODI target: 65% of customers rating us good value for money
 <b>Providing a fair, inclusive and safe place to work</b>	<b>Employee engagement</b>	2019/20: Employee engagement score of 8.1/10 in employee survey, placing us in the top 5% of utilities globally	Maintain high employee engagement across our workforce
	<b>Gender diversity</b>	2019/20: All employees – 71% Male, 29% Female Graduates and Apprentices – 75% Male, 25% Female	Gender equality is a big part of our commitment to all aspects of diversity and inclusion, it is absolutely central to everything we do, and we know just how much it means to our own people while also being something we believe will help us attract the best diversity of talent
	<b>BAME diversity</b>	2019/20: All employees – 8.86% Ethnic minority Graduates and Apprentices – 19% Ethnic minority	We are looking at our data and internal systems to understand how we will respond to the requirements of the Government's ethnicity pay gap reporting legislation once it comes into force
	<b>Social mobility</b>	2019/20: 43% of new starters and 39% of promoted employees live in a social mobility cold spot	We believe we have a role to play in helping communities thrive and we are actively targeting our employment campaigns in areas classed as social mobility cold spots
	<b>Health and safety</b>	2019/20: Lost time incident ('LTI') rate of 0.20 per 100,000 hours at Severn Trent and 0.06 among contractors	We are committed to reducing LTIs with a Goal Zero mindset
 <b>Investing in skills and knowledge</b>	<b>Employee training</b>	2019/20: 14,299 training days across our Company, an average of 2.1 per employee	To have the most technically skilled workforce in the sector
	<b>Education</b>	Over 800,000 customers reached since 2015	ODI target: 155,250 behaviour change commitments by 2025 <i>Long-term ambition: Educate 500,000 school children in the next five years around responsible water use, sewer misuse and healthy hydration</i>
 <b>Making a positive difference in the community</b>	<b>Community support</b>	2019/20: Community Fund established £500,00 from this fund made available to support charities and not-for-profit organisations struggling in COVID-19 A further £500,000 has been made available from historic share forfeiture proceeds to help charities recover as part of an overall COVID-19 emergency fund	Donate 1% of profits (over £10 million over five years) via the Severn Trent Community Fund
	<b>Employee volunteering</b>	2019/20: Nearly 1,500 employees volunteered All employees entitled to two paid days for volunteering per year	<i>Long-term ambition: 40% of employees volunteering in our region every year</i>
	<b>WaterAid</b>	2019/20: Raised over £120,000 for WaterAid Raised over £1,320,000 for WaterAid between 2015 and 2019	Raise £560,000 for WaterAid projects in Bangladesh between 2019 and 2024

	Theme	Performance	2020-25 commitments and long-term ambitions
<b>BEING A COMPANY YOU CAN TRUST</b>			
 <b>Living our values</b>	<b>Purpose and Values</b>	2019/20: New Purpose and Values co-created with employees	Put our Purpose and Values at the heart of our culture
	<b>Supplier sustainability</b>	2019/20: 52 of our key suppliers have pledged to drive targeted action to support on carbon reduction, resource efficiency and community engagement 2019/20: Across Severn Trent Plc, our payment policies align with the Prompt Payment Code. Over the last six months 97% of suppliers were paid in line with the agreed payment terms. On average our suppliers were paid within 30 days of us receiving their invoice	We are committed to develop a holistic approach to supplier sustainability, including high level supplier heat mapping against key environmental and social issues
 <b>Balancing the interests of all our stakeholders</b>	<b>Stakeholder engagement</b>	2019/20: First dedicated s.172 disclosure (see page 28)	The principles underpinning s.172 are not something that are only considered at Board level, they are part of our culture. Impacts on stakeholders are considered in the business decisions we make across the Company at all levels
 <b>Running our Company for the long term</b>	<b>Board Leadership and Diversity</b>  *as at 1 May 2020	2019/20: Seven independent Board members, including the Chair* 56% Board members are female* 11% Board members are from a BAME background* In line with the Principles of the Parker Review, the Board has been actively looking to appoint a Non-Executive Director from a BAME background for the last few years. The calibre of the candidates identified in this year's search was outstanding, and it was after careful deliberation that the Committee unanimously recommended the appointment of Sharmila Nebhrajani to the Board from 1 May 2020	In line with our new Board Diversity Policy, the Board remains focused on promoting broader diversity, embedding inclusivity into our succession planning and talent development work and creating an inclusive culture
	<b>Business ethics</b>	2019/20: 84% of employees completed e-learning on our Code of Conduct, Doing the Right Thing Colleagues rated the following statement 8.2 out of 10 (where 10 is highest and 1 is lowest), 'If I suffered or witnessed wrongdoing at work, I'd be confident Severn Trent would respond appropriately'	Target: 100% of employees complete annual e-learning on the Code of Conduct and business ethics by those able to do so Maintain employee confidence in whistleblowing
	<b>Sustainable finance</b>	Sustainable Finance Framework launched and first £200 million raised through US Private Placement debt issuance by Severn Trent Plc	Continue to raise funds under our Sustainable Finance Framework
	<b>Modern slavery</b>	2019/20: 97% of employees, excluding customer contact centre teams, have completed modern slavery e-learning	Continue to raise awareness around modern slavery and how to raise concerns. Targeted awareness will be rolled out to customer contact centre teams over the next 12 months
	<b>Transparent reporting</b>	2019/20: First dedicated Sustainability Report and GRI disclosure June 2020	We are committed to communicating clearly with stakeholders on our strategy and performance
 <b>Being open about what we do and sharing what we know</b>	<b>Fair Tax mark</b>	2019/20: Fair Tax mark accreditation received	We are committed to act in line with the principles of the Fair Tax mark
	<b>Living Wage</b>	2019/20: Accredited as a real Living Wage employer	Target: 100% of supplier contracts specifying the real Living Wage



# LIVING OUR VALUES

Our people are fundamental to delivering one of life's essentials and we believe our culture is what makes us special. Our teams are passionate about the positive role they can play in helping customers and communities thrive and they care that we create an environment where everyone can feel comfortable to bring their whole self to work.

This section is dedicated to showcasing our people: who we are, our culture, and how we, at Severn Trent, work together as one community – a community which supports each other to succeed, recognises and rewards each other's contributions, and listens and talks to each other.

### Our Values

Our new Values have been shaped by our people – we spoke to hundreds of colleagues from around the business to understand what's important to them and what inspires them. Our Values are the standards, behaviour and principles that we hold dear and guide us in everything we do as we **take care of one of life's essentials**.

### Communicating together

We believe in open and honest communication throughout our teams. This is an important step in encouraging and living our shared values and creating an environment in which everyone is inspired to do their best each day. During the year we launched our new intranet, 'On Tap', which is regularly updated with all of the latest news from across the Company.

The Company Forum provides an opportunity for employee and Trade Union representatives to meet, once a quarter, and bring to life feedback and discussions from operational forums, as well as sharing discussion areas that give frontline representatives direct access to the Executive and Board members. The agenda for these sessions covers a range of topics that inform and lead to practical changes in the way we work.



Stacie, Waste Water Recycling



Angela, CDC South East Infra Team



Ed, Liquid Commercial Waste Team



Colton, Senior Technician, Bioresources



Sam, Senior Technician, Non Infra

### Our values:



## THIS IS ME

We are committed to making our workplace one in which all can thrive and bring their whole self to work, no matter what. We are also passionate about creating opportunities for all within our region and are proud of the work we are doing, encouraging applications from 'cold-spot' areas and of our employability programme working with Hereward College. Some of our employees share their experiences below.

### ENCOURAGING SOCIAL MOBILITY



**Hossam**  
Trainee Solicitor



43% of our workforce live in a social mobility cold-spot.

87% of our employees come from the communities we serve, so the work we can do to help communities through providing employment opportunities resonates strongly. We're working with schools and colleges from cold-spot areas to inspire the next generation of talent to think about a career with Severn Trent.

Hossam came to Derby from Kenya and joined as an apprentice after feeling there weren't many options available to him:

"Severn Trent provides a clear playing field for every person in the Company, and as someone who works here, I really feel like I have a clear progression route and the support I need to complete my course and become a qualified solicitor."

### SUPPORTING LGBTQ+



**Carl**  
Design Technician



Carl has been named Stonewall Gay Role Model of the year, a huge achievement in recognition of his work to promote LGBTQ+ diversity and inclusion at Severn Trent:

"Knowing we have a more inclusive workplace now not only makes me proud of this accomplishment and award but also proud to work for Severn Trent. So, at Severn Trent, if you relate as LGBTQ+ in any way, then I wouldn't call it 'coming out', I'd just call it coming to work and being yourself."



### APPRENTICESHIPS – FEMALE ENGINEER



**Evie**  
Apprentice



Evie is a third year apprentice in instrumentation, control and automation engineering. After A-levels, her interest in electrical engineering led her to apply for an apprenticeship at Severn Trent:

"I expected going into engineering it would be male dominated but I didn't realise quite how male dominated it would be..."

... I'm the only girl on the team I'm in but they don't treat me any differently. Some of the jobs are physically challenging, but I get the same chances as everyone else."

### OUR EMPLOYABILITY PROGRAMME



**Quinncy**  
Procurement support



Quinncy – Ex-intern from Hereward College, now an employee at Severn Trent:

"When I first started, I was excited and a bit nervous coming into a new environment with different people. The college and Severn Trent sorted us an amazing buddy who helped us settle in and supports us in our job roles. The internship has helped me be more confident and independent in life."





"It's been quite a challenge to ensure we continue to resolve customers' issues whilst maintaining social distancing, but the customers have been amazing and are so thankful we are out here still as key workers, keeping their sewers flowing and resolving any blockage issues so they can continue to use their toilets."

**Aiden, Network Technician, Waste Infra**

#### SUPPORTING OUR PEOPLE DURING COVID-19

We are committed to protecting our people during the unprecedented period of uncertainty brought by COVID-19. This is a stressful time for many and we are encouraging people to talk to each other and to ask for support when they need it. We're also communicating with our teams on a regular basis to update them as the situation changes.

Around 50% of our people have been identified as key workers under the Government's plans to keep services running. We've taken steps to protect the environment they work in by providing the right health and safety equipment and wellbeing guidance and by providing specific guidance on social distancing while working on the network. We've also released a company video on social media to ask our customers to observe social distancing guidance when our teams visit.

We're also mindful of the health and wellbeing of our colleagues who are working or self-isolating at home, or have been affected personally by the virus. At the end of the financial year we asked our people to let us know if they fell into the vulnerable person category and, following this, over 900 of our people have been contacted by phone to discuss their individual needs and concerns. We've now made a care package available for all our vulnerable colleagues to keep them safe and support them during this period.

We're pleased to have been able to provide stability and security of pay for our workforce through this difficult period: we announced that we would continue to pay our all-employee annual bonus, agreed an annual pay increase of 2.3% for our colleagues for the next three years and committed not to furlough or make any redundancies as a result of COVID-19.

#### Providing a fair and inclusive place to work

Providing an environment where everyone can succeed, regardless of their education, gender, ethnicity, or situation, is an important part of the culture at Severn Trent. Diversity in our teams brings diversity in ideas and ways of working which will make us better in delivering for the customers we serve. This was a key part of our Business Leaders' day in March 2020.

We've been continuing our focus on providing a more inclusive working environment for our LGBTQ+ employees and are pleased to have improved our ranking in the Stonewall Workforce Equality Index to 175 (2018/19: 414). This year has seen the launch of our Allies programme with over 200 employees from across the Company signing up and attending training to understand the role they can play in creating a safe, inclusive workplace for all our colleagues. We also continued to show support in our communities at the Birmingham and Coventry Pride events.

We're proud of our track record on gender diversity. Once again we've been recognised in the Hampton-Alexander Review for our performance on gender diversity, this year coming in the top three for women's representation amongst the Executive Committee and their direct reports. Female representation in our senior leadership population is 40% and, from 1 May, female representation on the Board is now 56%. Page 88 sets out a gender breakdown of Directors, senior managers (as defined in the 2018 Code and Companies Act 2006) and employees of the Company.

In 2019/20 we've sought to do more for our colleagues with disabilities or underlying health conditions and together with our Trade Union partners have launched a Workplace Adjustment Passport. The passport aims to help our colleagues with disabilities or underlying health conditions when talking to their line managers about support or adjustments needed to enable them to reach their full potential at work. It also helps the smooth transition of adjustments from manager to manager, or between areas of the business as they develop their career at Severn Trent.

We know that more work can be done on ethnic diversity and we plan to do more in this area to increase our representation of Black, Asian or Minority Ethnic ('BAME') groups in the forthcoming year. In the last 12 months we have set up a BAME working group which is sponsored by members of our senior management team.

#### Creating opportunities within our region

We believe our Company should reflect the communities we serve and are actively reaching out to the areas of our communities which are less well represented.

We are proud to be one of the UK's top three companies in the Social Mobility Index. This achievement reflects the way we work, from reaching out to students and schools in areas of low social mobility, to using a fairer recruitment process that gives equal opportunities to all applicants. In the past year, 43% of our new hires were from areas identified as being social mobility cold spots, and 39% of all internal promotions were achieved by staff living in these areas. Our work in this area is making a real tangible difference in the communities where we live and work.

We're also pleased to announce the launch of the Andrew Duff Bursary Fund from 2020/21. In partnership with the Social Mobility Foundation, each year we're aiming to support up to 10 students who live in our region with an annual bursary towards their living costs whilst they study in further or higher education. We'll also offer each successful applicant a paid internship in the business and a dedicated mentor.



More details of our ongoing partnership with Hereward College, a school for students with learning difficulties in Coventry, can be found on page 3.

### Keeping our people safe and well at work

We believe passionately that no one should be hurt or made unwell by what we do. We strive to create a supportive environment in which mental health is no longer a taboo subject. We have trained 2,166 employees, representing 31% of our workforce, in mental health awareness – the second highest in the FTSE100. We also provide mental health training to new apprentices and graduates when they join, to instil healthy working practices early in their careers.

We end 2019/20 with our second lowest LTI rate in 10 years. This gives us confidence that our Goal Zero strategy and continued focus on the four key hazards that cause us the most harm – driving for work, musculoskeletal injuries from manual handling, mental ill health and slips, trips and falls – are helping us to achieve our ambition that no one gets hurt or is made unwell by what we do at work.

In April 2020 we launched a new wellbeing campaign, 'Caring for our Colleagues'. This campaign focuses on four key themes – mental wellbeing, physical wellbeing, physical safety and workplace set-up, providing information and support for all colleagues, whether out in the field or working in the office or home.

### Fairly rewarding our people

The Company remuneration section, in the Directors' Remuneration report, explains how we strive to make our pay and reward framework transparent to the organisation beyond Executives and senior management, in a way that is meaningful and useful to the wider workforce. Read more on page 112.

During the year the Remuneration Committee carried out its first review of key remuneration elements, policies and processes by employee group. We know it is important that our people are fairly rewarded and this process gives the Committee oversight of wider workforce pay and policies, as well as the opportunity to review them to ensure they are designed to support the Company's desired culture and values. For example, page 103 outlines the steps we are taking to align Executive Directors' pension contributions with those of the wider workforce.

We're looking forward to launching a new annual engagement activity with members of the Company Forum where the Chair of the Remuneration Committee will share this year's Remuneration Committee report.

Many of our people are also shareholders. 72% of Severn Trent's employees participate in our Sharesave scheme, with 24.5% of participants saving the maximum of £500 per month compared with 9.9% across FTSE companies.

### Enabling our people to grow

We are committed to supporting our people to grow, regardless of the stage they are in their career, and this year we've run nearly 14,300 training days across the business. Over 10% of our workforce responded to a survey telling us how they want to learn and what works for them, we are using this feedback to ensure people go on the right courses whilst developing innovative virtual reality and e-learning solutions.



Illustrative visualisation sketch of the Severn Trent Academy

We're excited that the new Severn Trent Academy will be up and running in the 2020 calendar year, with our brand new syllabus being launched in June and working towards the opening of our dedicated learning facility later in the year. This will be a step change in the way we provide training and development to our colleagues and is important in ensuring our people continue to have the technical competence and leadership skills they need now and in the future.

### Strong engagement

We want our people to be happy at work and were delighted with this year's QUEST engagement score of 8.1 out of 10, a performance which was consistent across our Regulated Water and Waste Water, and Business Services businesses, placing us in the top 5% of Global Utilities. Our strongest performing area was our approach to equality and inclusion. We feel that this really reflects our efforts to create a culture where our people can be themselves, thrive and feel supported.

Our Glassdoor ranking has been consistently strong at four and above (out of five) over the last year.

### Extending to our supply chain

Our supply chain is also part of the Severn Trent community and we continue to work closely with them to ensure our culture and values are aligned. Through our Sustainable Supply Chain Charter we encourage all suppliers to sign up to the same commitments as ourselves; for example, in March we became an accredited real Living Wage employer. This means we are committed to ensuring that anybody who works with us receives the real Living Wage.

We are also keen to share where we have made good progress on our inclusion journey with our supply chain partners. As founder members of the Social Mobility Pledge, we ran a session as part of our Corporate Social Responsibility Forum and encouraged our suppliers to commit to actions which would enable them to sign up to the pledge.

We have a zero tolerance to modern slavery, and while we have had no instances to date, we continue to improve our processes to protect against it in our business and supply chain.



# STAKEHOLDER ENGAGEMENT IS CENTRAL TO OUR STRATEGY

We are focused on driving long-term sustainable performance for the benefit of our customers, shareholders and wider stakeholders.

This section provides some insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision making and the actions taken as a consequence. You can read more in our formal s.172 statement on page 28, which sets out our approach to s.172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in their decision making.

This section also includes high-level detail of stakeholder engagement below Board level. The principles underpinning s.172 are not something that are only considered at Board level, they are part of our culture. It is embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, and strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance report on page 69.

The priorities of our stakeholders strongly influenced the development of our new sustainability framework, (see page 16). You can read more in our separately published Sustainability Report which can be found on our website.

**Six**

half-day workshops were held with our contract managers, procurement and construction project managers

**70%**

of line managers trained in mental health

**230**

of our employees met our new Chair, Christine Hodgson, during her induction



## CUSTOMERS

In serving our customers, we want to provide both value and a great experience. Our consultation with customers helped our 2020-25 Business Plan to be fast-tracked by Ofwat.



### What matters to them

- Customer service and performance
- Leakage and supply reliability
- Affordability and value for money
- Assistance in times of need
- Responsible investment

### How we engage at Board Level

- Board members attend our Customer Challenge Groups.
- Customer-shareholders engage with the Board and ask questions at the AGM.
- Customer Delivery performance is discussed at every Board meeting.
- Customer perceptions of value for money reported at every Corporate Sustainability Committee meeting.
- Extensive customer engagement in shaping our Business Plan.

### How we engage across the Company

- Quarterly meetings with CCW at management level.
- Frequent discussion and consultation with the 15,000 strong online customer community TapChat.
- Quarterly tracking of customer perceptions against key indicators including trust and satisfaction.
- Our people supported around 70,000 customers who struggle to pay their bills, against an annual target of 50,000.
- We carried out 82,500 home water efficiency checks to help customers manage their consumption since 2015.
- We installed circa 35,000 new water meters during the year.
- We created a new customer panel to oversee how our Community Fund is distributed.

### Link to our Business Model

Our customers and communities

### Link to our Principal Risks

Risks 1 and 7



## COMMUNITIES

Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.



### What matters to them

- Operational impact and disruption
- Local employment
- Economic contribution
- Protection of the environment

### How we engage at Board Level

- We created our Community Fund for the benefit of good causes in our region. The Board receives regular updates on the work and priorities of the Fund.
- Our Board undertook a number site visits centred on community and the environment, including:
  - Wonderful Water Tour; and
  - Agrivert.
- Employees who live and work in our communities meet the Board at the Employee Forum, AGM and site visits.
- Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings.
- Environmental matters are regularly considered by the Board.

### How we engage across the Company

- Our people volunteered through our Community Champions programme, working to improve our communities and environment.
- We encourage every employee to spend at least two days a year of company time volunteering.
- We engaged with nearly 100,000 young people this year through our Wonderful Water Tour and education activities.
- Our employability scheme inspires our people and makes a real difference to people's lives. Read more on page 21.
- Regular engagement with Government officials and elected representatives on water and environment related issues.
- Our new Community Fund donates 1% of Severn Trent Water's profits over the next five years (over £10 million).

### Link to our Business Model

Natural resources  
Our customers and communities

### Link to our Principal Risks

Risk 7



## SHAREHOLDERS AND INVESTORS

Continued access to capital is vital to the long-term performance of our business. We work to ensure that our shareholders, investors and investment analysts have a strong understanding of our strategy, performance, ambition and culture.

Many of our shareholders are also customers, employees and pensioners.



### What matters to them

- Strategy and business model
- Financial performance and returns
- Reputation
- Sustainability performance
- Financial risk management
- Strong leadership

### How we engage at Board Level

- Full Board attendance at the 2019 AGM.
- Board approves the half year and full year results and attends results presentations.
- Board approves the Annual Report and Accounts.
- The Chair, SID, CEO, CFO and Non-Executive Directors attend investor meetings and feedback is reported to the Board. Read more on page 77.
- Investor roadshows in the UK and Australia, US, Canada and Europe. The Head of Investor Relations gives an update to the Board on a regular basis.
- Investor Relations Strategy discussed by the Board.
- The Chair attends the Capital Markets Day.

### How we engage across the Company

- Our employees hosted a shareholder site visit during the year at Sprenal.
- Numerous shareholder site visits during the year so they can experience our operations and culture first hand.
- Regular dialogue with shareholders to support them in their investments.
- Our people discussed matters of importance with shareholders at our AGM.

### Link to our Business Model

Financial capital

### Link to our Principal Risks

Risks 9 and 10



## EMPLOYEES

Our greatest asset is our experienced, diverse and dedicated workforce. Our relationship with them is open and honest, and they are appropriately supported, developed and rewarded to be their best in all that they do.



### What matters to them

- Health, safety and wellbeing
- Diverse and inclusive workplace
- Opportunities to reach full potential
- Open and honest environment
- Fair pay and reward

### How we engage at Board Level

- Employee shareholders have the opportunity to meet the Board and ask questions at the AGM.
- The Chair, Non-Executive and Executive Directors attend the Employee Forum and feedback at Board meetings.
- Company purpose and culture, talent development and people strategy are discussed at Board meetings.
- Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board.
- Board considers QUEST survey results and steps taken to address feedback.
- Directors meet employees at site visits, both during and outside of the Board meeting calendar, including at our Llwyn Onn Water Treatment Works where they observed water treatment processes first-hand and met the teams involved.

### How we engage across the Company

- 70% of line managers trained in mental health.
- In addition to Board attendance, our Company Forum brings together around 20 employee representatives at quarterly meetings, including union representatives.
- Employee engagement survey ranked us in the top 5% of utility companies globally this year.
- All employee CEO roadshow, 'Journey to Patagonia', launched in March 2020.
- A large number of employees were engaged in developing our new Purpose and Values.

### Link to our Business Model

Our people and culture

### Link to our Principal Risks

Risk 7



## SUPPLIERS AND CONTRACTORS

Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships ensure sustainable, high quality delivery for the benefit of all stakeholders.



### What matters to them

- Fair engagement and payment terms
- Collaboration
- Responsible supply chain

### How we engage at Board Level

- Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers.
- Members of the Board visited the site of our largest capital project, the Birmingham Resilience Programme, to observe progress first-hand, meet the teams and suppliers / contractors involved.
- Our Chair met with key suppliers as part of her induction.
- Supplier representatives attend the Capital Markets Day and the Employee Forum alongside Executive Directors and Non-Executive Directors.
- Our Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain.

### How we engage across the Company

- Regular meetings with our suppliers, including training on modern slavery, and Doing the Right Thing.
- Six half-day workshops were held with our contract managers, procurement and construction project managers.
- Sustainable Supply Chain Charter.
- We are committed to payment practices reporting and for the period ending 31 March 2020, the average time to pay was 29 days.

### Link to our Business Model

Physical assets  
Our suppliers and partners

### Link to our Principal Risks

Risks 9 and 10



## REGULATORS AND GOVERNMENT

The policy framework for the water sector in England and Wales is set by the English and Welsh Governments respectively. We seek to engage constructively and proportionally with Government to achieve the best outcomes for customers and the environment.

Below the policy framework, our industry is regulated by Ofwat and others. We agree commitments with our regulators and continually report our performance against these.



We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment.

### What matters to them

- Outcomes for customers, the environment and long-term resilience
- Performance against regulatory targets
- Trust and transparency
- Governance and compliance
- Environmental impact

### How we engage at Board Level

- To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat five times during the year.
- Regulatory matters are regularly considered by the Board, including PR19 plans, Water Resources Management Plan and Scheme of Wholesale Charges.
- Regulatory stakeholders attend Board meetings and dinners, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA') and the Consumer Council for Water ('CCW').
- Regulatory consultation updates are considered by the Board.

### How we engage across the Company

- Regular meetings with our regulators at management level including, EA, Natural England, Ofwat, DWI and Defra.
- Regular engagement with Government officials and elected representatives on water and environment related issues.

### Link to our Business Model

Our regulators

### Link to our Principal Risks

Risks 2, 3 and 5

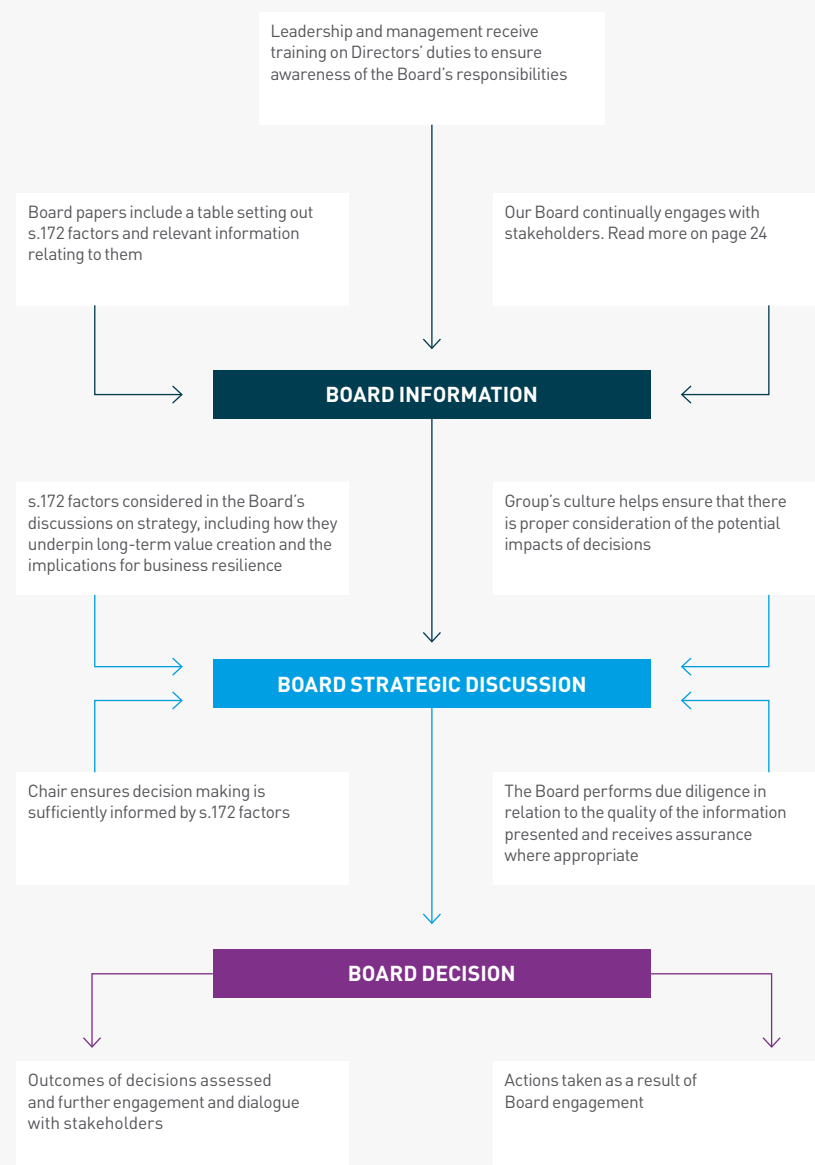


## SECTION 172 STATEMENT

The principles underpinning s.172 are not something that are only considered at Board level, they are part of our culture. It is embedded in all that we do as a company. The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top.

### Our s.172 Approach

Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success. The needs of our different stakeholders as well as the consequences of any decision in the long term are well-considered by the Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on the competing priorities of stakeholders. Our stakeholder engagement processes enable our Board 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 below 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.



## SOCIAL TARIFFS AND PRIORITY SERVICES FOR CUSTOMERS

### Section 172 Considerations



#### Consideration of s.172 impacts by the Board in its decision making

The Board invited the Consumer Council for Water ('CCW') to attend the October 2019 Board meeting to receive direct observations on the Company's performance from CCW's perspective. The Board considered the feedback from CCW in relation to Severn Trent's improved customer engagement and the trends in awareness of social tariffs and priority services.

#### Customers

The Board carefully considered CCW's views on awareness of social tariffs and priority services and discussed water poverty in the region and vulnerable customers. Additional customer insight was gained from our CCGs and direct customer feedback received by management and the Board.

#### Regulator: CCW

The CEO provided feedback to the Board following a half day meeting with the CEO and Chairman of CCW, where they had discussed progress made on supporting vulnerable customers and the new stretching targets set by the Company.

#### Workforce

Our workforce places a high emphasis on Severn Trent's contribution to society as a whole, including the work we do to support vulnerable customers. This was highlighted and considered by the Board through the annual QUEST survey and in direct discussion with employees at the Company Forum. Ensuring that our workforce is proud and inspired to work for Severn Trent is a key consideration for the Board.

### Outcomes and Actions

The Board agreed that an update on the AMP7 strategy in respect of social tariffs and priority services should be considered further by the Corporate Sustainability Committee, with an update being provided to the Board on this important topic.

We supported around 70,000 customers who struggle to pay their bills, against an annual target of 50,000. We have carried out 82,500 home water efficiency checks to help customers manage their consumption since 2015 and installed circa 35,000 water meters during the year.

## Key

- likely consequences of decisions in the long term
- the interests of the Company's workforce
- the need to foster relationships with suppliers, customers and others
- impact of operations on the community and environment
- high standards of business conduct
- the need to act fairly between members of the Company

## Read more:

- Stakeholder Engagement p.24
- Culture p.20
- Values p.20

s.172 reflected in our governance documentation: [www.severntrent.com](http://www.severntrent.com)

- Matters Reserved to the Board
- Committee Terms of Reference
- Doing the Right Thing

## TECHNICAL SKILLS DEVELOPMENT AND THE SEVERN TRENT ACADEMY

### Section 172 Considerations



#### Consideration of s.172 impacts by the Board in its decision making

The Board carefully considered the Academy and the role of the Company in developing the right skills for the future to support delivery of the Group's performance commitments and contribution to wider society. The impact of the Company's operations in the community and the positive role it could play in the promotion of social mobility, training and employment were pivotal to the Board's decision.

#### Workforce

Employees will be able to easily access the learning they need, and navigate clear career paths where they aspire to develop further. Engaging and retaining our workforce was a key consideration for the Board. The Board also considered the high emphasis that the workforce place on training and development, identified through the annual QUEST survey and in direct discussion with employees at the Company Forum.

#### Long-term Success of the Company

Developing the right skills for the future is key to ensuring that the Company can deliver its performance commitments in the long-term and mitigate the emerging risk identified through our ERM process in relation to shortage of STEM expertise within the labour market and future talent pipelines.

#### Environment and the Community

Engagement with the community on the proposed location for our Academy building, including local customers and schools. The building specification is targeting a BREEAM (Building Research Establishment Environmental Assessment Method) standard of 'Very Good'.

#### Suppliers, Customers and Other Stakeholders (including Regulators)

The Academy will foster positive relationships between suppliers, customers and other stakeholders, including public and not-for-profit organisations such as the Ministry of Defence and Fire Service. Conferencing space will be offered to SMEs and local suppliers in our region at cost as well as our regulators – Ofwat, DWI and the EA.

We are a signatory to the Prompt Payment Code ('PPC') and only work with organisations who respect our Sustainable Supply Chain Charter.

### Outcomes and Actions

The Board agreed that the next stage of the Group's strategy would involve the development of a suite of skills based training and the utilisation of new technology in delivering training.

## AMP7 DIVIDEND POLICY

### Section 172 Considerations



#### Consideration of s.172 impacts by the Board in its decision making

The Board carefully considered the impact of the dividend policy on key stakeholders, including Ofwat (with a focus on customer considerations), shareholders, debt investors, our workforce and pensioners (in liaison with the Pension Scheme Trustee).

#### Regulator (Ofwat) and Customers

A key requirement in AMP7 is that all companies can explain their dividend policy, how it is in customers' interests and outline any consequences on bill profiles and regulatory gearing. The Board determined that an affordable and sustainable dividend was important for the long-term success of the Company, maintained the expected levels of regulatory gearing and considered the expectations of shareholders and pensioners, with funds invested in Severn Trent.

#### Shareholders

Engagement with investors provided useful insight on their expectations, as follows: No cut to dividend in the transition from 2019/20 to 2020/21; Growth in the dividend linked to inflation; and a preference for sustainable ordinary dividends.

The proposed dividend policy satisfied these priorities and the Board considered it to be in line with investor expectations.

#### Debt Investors

Debt investors' expectations were focused on the impact of the dividend policy on credit metrics. The Board determined that an affordable and sustainable dividend was important for the long-term success of the Company and maintained the target levels of credit metrics.

#### Pensioners (through liaison with the Pension Scheme Trustees)

We engaged with the Pension Trustee throughout the first half of the year, as part of the triennial valuation process. The Trustee's expectation on dividends, including the preference for sustainable ordinary dividends and deficit repair contributions had been agreed (over £50 million per annum) with a resultant higher ratio of dividends to repair payments for AMP7.

#### Workforce

Many of our colleagues are shareholders, either directly through our share plans, such as Sharesave – which over 72% of our employees participate in – or indirectly through private pensions, FTSE index trackers or other investments. The Board determined that an affordable and sustainable dividend was important for the long-term success of the Company and considered the expectations of the many employee shareholders and pensioners, with funds invested in Severn Trent.

### Outcomes and Actions

The Board reached the decision that it was in the Company's best, long-term interest to approve and announce the AMP7 dividend policy, with a growth rate of at least CPIH.

Continual dialogue will be maintained with Ofwat, shareholders, debt investors, pensioners and customers on this important topic.

## DRINKING WATER QUALITY

### Section 172 Considerations



#### Consideration of s.172 impacts by the Board in its decision making

The Board invited the Drinking Water Inspectorate (the 'DWI') to attend the November 2019 Board meeting to receive direct feedback on the Company's performance from the DWI's perspective as it does every year.

#### Customers

The Board considered carefully the DWI's views on the Company's commitment to water quality, noting the improvements which have been made over the last five years and the areas of continued focus. Additional customer insight was gained from our CCGs, and direct customer feedback received by management and the Board.

#### Regulator: DWI

The DWI's Chief Inspector provided feedback to the Board in relation to Severn Trent's improved performance in closing down DWI recommendations and notices and positive outcomes delivered for stakeholders.

#### Workforce

Our workforce places a high emphasis on opportunities for growth, development and rewarding careers. The DWI outlined that the Severn Trent Academy was a very positive development in achieving this and presented an opportunity to promote the awareness of water quality regulations in training courses.

### Outcomes and Actions

The Board agreed it would receive DWI specific performance updates moving forward and that these would cover DWI focus areas, including: responses to customer feedback; long-term security of supply chain for chemicals; water discolouration issues; contractor management; and risk assessment methodologies.

The Board agreed that the Academy's syllabus would include water quality regulations.

# ACHIEVING OUR AMP6 STRATEGIC OBJECTIVES

In our 2019 Annual Report and Accounts we outlined our areas of focus for 2019/20 against our five strategic priorities. In this final year of our current business planning period (Asset Management Period 6 or 'AMP6'), we update on the further progress we have made.

As explained in our CEO's review on page 14, during the year we decided to move away from our previous strategic framework and place our Purpose, 'Taking care of one of life's essentials', at the heart of our strategy. Our Business Plan outcomes set out our priorities for the next five years of AMP7 and we have structured our Performance review on pages 38 to 49 around these outcomes to enable consistency as we move into the new AMP.



## BUILDING BLUE GREEN FLOOD-RISK INFRASTRUCTURE IN PARTNERSHIP

Flooding can be very distressing for customers, but the causes are often complex and require different responsible authorities working together to find a solution.

Severn Trent Water has worked with Nottingham City Council and a range of funding partners to tackle flood risk in the Day Brook area of the city. In this Nottingham City Council led multi-faceted scheme, nature-based solutions twinned with capital investment were used to not only reduce the risk of flooding for 160 properties in the area, but also boost biodiversity and create new green spaces for the local community to use.

Severn Trent Water's contribution included the refurbishment of an existing pumping station and ponds which created new capacity and resilience, as well as facilitating the diversion of existing sewer outfalls to allow the re-naturalisation of a river channel – enhancing amenity, aesthetics and biodiversity of the area.

The experience we are gaining through this mode of partnership working to deliver multiple benefits, will be an important part of our approach to flood risk during AMP7.

## EMBED CUSTOMERS AT THE HEART OF ALL WE DO

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

### Areas of focus for 2019/20

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

### Our progress in 2019/20

- We continued to offer a range of support options to our financially struggling customers, with some 70,000 this year benefitting. This is an increase from previous years and puts us in a great place to deliver the commitments next year. As in previous years we donated £3.5 million to the Severn Trent Trust Fund – an independent charity that supports people in financial need across our region.
- Severn Trent Water continued to offer the lowest bills in England and Hafren Dyfrdwy the lowest bills in Wales. Both companies will continue to offer some of the lowest bills throughout AMP7.
- Further year-on-year improvements in measures that matter to customers like supply interruptions, water quality complaints and leakage whilst completing our multi-year investment programmes that deliver significant environmental benefit.
- Our new Network Response team is enabling us to respond more quickly and effectively when our customers are affected by issues like supply interruptions.

## DRIVE OPERATIONAL EXCELLENCE AND CONTINUOUS INNOVATION

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

### Areas of focus for 2019/20

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

### Our progress in 2019/20

- While we have had a challenging year in some areas of waste performance including sewer flooding (which was in part impacted by prolonged periods of severe weather), we have continued to drive improvements in our water service in particular with a number of areas of investment focus now translating into improvements for customers.
- We have outperformed both our Water Framework Directive and biodiversity commitments, improving 1,600 km of river across our region, and improving 224 hectares of biodiversity in SSSIs in to favourable condition. This helps to make an important contribution to our region's natural environment.
- While Ofwat no longer assesses the quality of companies' assurance processes, we have continued to build and improve our tried and tested risk-based approach throughout the year.

## INVEST RESPONSIBLY FOR SUSTAINABLE GROWTH

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

### Areas of focus for 2019/20

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

### Our progress in 2019/20

- We have outperformed our target for partnership working on flooding, completing 26 schemes over the AMP and have delivered two innovative approaches to improve sewage treatment capacity – setting new precedents for sustainable ways of working in AMP7. This includes being the first waste treatment company in Europe to pioneer the technology.
- The World Water Innovation Fund continues to go from strength to strength, with two new members joining this year and seven live trials underway.
- Following the publication of the latest climate scenarios (UKCP18), we have updated our future water resource scenarios and are on track to deliver our next report on climate change adaption to Defra in the Autumn of 2020.

## CHANGE THE MARKET FOR THE BETTER

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

### Areas of focus for 2019/20

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

### Our progress in 2019/20

- We continued to work with Ofwat as it concluded the PR19 process and formally accepted the outcome in January and February 2020 for both our licensed companies.
- At 51%, we exceeded our ambition of generating the equivalent of 50% of our energy needs. We've also delivered the first of our commitments from the Triple Carbon Pledge with 100% of our energy coming from renewable sources.
- We continued to progress development of the North to South interconnector and welcomed the inclusion of these important feasibility stages in Ofwat's final PR19 decisions.

## CREATE AN AWESOME PLACE TO WORK

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

### Areas of focus for 2019/20

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

### Our progress in 2019/20

- We have continued to focus on colleague health, safety and wellbeing. In each quarter of the year we have focused on one of the four key hazards that causes the most harm and have seen success in this approach with a 25% reduction in all driving accidents from the preceding nine months.
- We're constantly looking at new and innovative ways of raising awareness and delivering training such as virtual reality manual handling.
- We continue to provide mental health awareness training.
- We've continued to implement feedback identified by our QUEST engagement and have seen like-for-like engagement scores go up from 62% to 71% in the year. For example, we've made our pay and reward structure much more transparent we've also built on our work on diversity and inclusion with the continued growth of our Allies programme.
- We have made significant progress in the development of our new, immersive, learning solutions using virtual reality capability. This will be a vital complement to our hands-on technical and experiential skills training in the new training Academy.

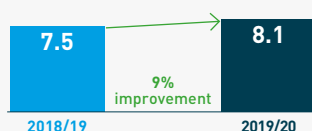


## KEY PERFORMANCE INDICATORS

# KEY PERFORMANCE INDICATORS

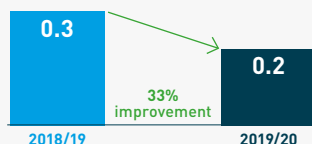
The Key Performance Indicators (KPIs)<sup>1</sup> set out below represent financial and non-financial measures which we will use from this year, and throughout the next regulatory period (2020-25), to track our performance as we deliver our Purpose and the Business Plan outcomes we have committed to our customers and communities.

### A COMPANY YOU CAN TRUST



#### Employee engagement (Score out of 10)

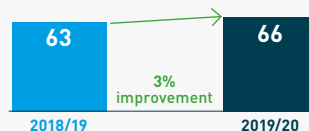
This year we introduced a new employee engagement survey which saw an amazing 92% of our colleagues giving feedback. We had a fantastic level of engagement with Severn Trent scoring 8.1 and Hafren Dyfrdwy 8.0 out of 10. Year-on-year this is around a 9% improvement. The results put us in the upper quartile of all companies in the UK and, even better, in the top 5% of utilities across the world.



#### Lost time incidents (per 100,000 hours worked)

We strive to ensure that all of our colleagues can return home safely at the end of the day. The aim is always Goal Zero, bringing the number of colleagues who are unable to work because of injuries down to zero. Despite one of our biggest years of capital investment, and some of the most difficult operating conditions on our networks, we've seen a 33% improvement year-on-year. But this isn't the end of our journey to Goal Zero and we'll continue to make changes to our approach and behaviours to ensure all of our colleagues return home safely at the end of the day.

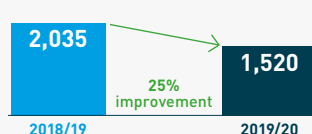
### LOWEST POSSIBLE BILLS



#### Value for money<sup>2</sup> (Percentage)

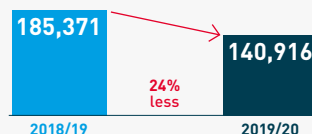
For the last decade we've had the lowest bills in the industry – and in 2019/20 we had the lowest bills in both England and Wales. But low bills don't always mean we're considered as offering value for money. This metric tracks our customers' opinions of the service we offer through quarterly surveys, undertaken by independent experts. Value for money is a combination of the bill level, the customers' perception of the service they receive and the way we contribute to wider society. This year we've seen a 3% improvement in this metric, and a huge 9% improvement over the last five years. We're committed to continue to measure value for money until at least 2025.

### A POSITIVE DIFFERENCE



#### Public sewer flooding<sup>2</sup> (No. incidents)

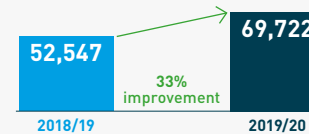
This year we have introduced a new measure for our customers in England which expands our coverage of sewer flooding to include public open spaces and highways. We believe we are the first water company in England to measure sewer flooding in this way. We introduced the measures following feedback from our customers who told us to look more at our wider impact on society and seek ways to address this. This is the first year we have focused our activities on this area and we've seen a 25% reduction year-on-year.



#### Education Programme (No. of people reached)

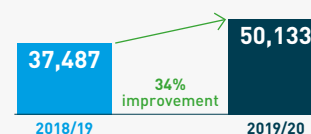
Our performance has remained on track against our ODI targets for 2018/19 and 2019/20, and we exceeded our five-year target by more than 15%. We also introduced our more immersive Wonderful Water Tour in 2019/20 that is targeted at Key Stage 2 children in schools. It was introduced in preparation for the new AMP7 ODI target that measures the number of behaviour commitments instead of number of engagements. The number of engagements has decreased slightly year-on-year because the Wonderful Water Tour is more in-depth and resource intensive.

### A SERVICE FOR EVERYONE



#### Help When You Need It<sup>2</sup> (No. of customers)

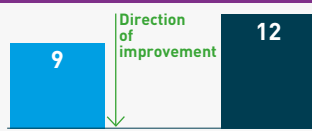
Sometimes our customers need our help to balance their bills – when they do we offer a wide range of support schemes which are collectively measured by our 'Help when you need it' indicator. Our help includes payment matching, payment holidays, bill reviews and the Severn Trent Trust Fund. Each scheme is designed to meet the needs of different customers and their unique challenges. We aim to significantly expand the scheme further over the next five years and we have made an early start this year, as seen by an increase in the number of customers helped by 33%.



#### Priority Services Register (PSR)<sup>2</sup> (No. of customers)

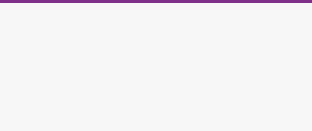
We understand that our vulnerable customers need more support and help in different ways and we make sure we understand how to do this most effectively using our Priority Services Register ('PSR'). We are working with colleagues in the energy sector to share PSR data in order to increase our awareness of vulnerability within our region, and continue to run social media and bespoke campaigns to highlight our services to all of our customers. During the last year we have grown our PSR by over 12,600 customers to 1.2% of our customer base. Over the next five years we are looking to increase this further and support over 400,000 customers by 2025.

### AN OUTSTANDING EXPERIENCE



#### Customer Measure of Satisfaction (Index)

For 2020/21, Ofwat has introduced a new measure of satisfaction for customers. It combines both quantitative performance metrics and a qualitative element based on customer surveys. The metric is reported as an index out of 100, with financial incentives based on our relative position to the median company and the frontier or laggard company. The measures has been run as a shadow measure for 2019/20 and we expect to outturn around the median for Severn Trent Water.



#### Developer Measure of Satisfaction (Index)

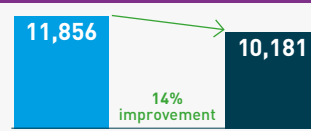
For 2020/21 Ofwat has introduced a new measure of satisfaction for developers. It combines both quantitative performance metrics and a qualitative element based on customer surveys. The metric is reported as an index out of 100, with financial incentives based on our relative position to the median company and the frontier or laggard company. The measures has been run as a shadow measure for 2019/20 but the final position has not yet been confirmed. However, we expect to outturn in the upper quartile for the industry.

### GOOD TO DRINK



#### Compliance Risk Index<sup>2</sup> (Index)

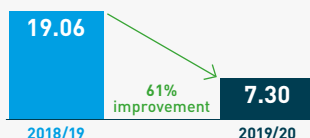
The Compliance Risk Index (CRI) is the new measure of water quality as measured by the Drinking Water Inspectorate. It has replaced the previous measure, mean zonal compliance (MZC). Our final position in England for 2019/20 has not yet been confirmed, however, we expect to see around a 40% improvement year-on-year. This improvement has been driven by an end-to-end review of our process to identify and remove higher risk points of failure. Where we do have issues, we also ensure our response is robust to protect customers and learn lessons for the future.



#### Drinking water quality<sup>2</sup> (No. of complaints)

Over the past five years we have been transforming our approach to improve the quality of our water's appearance, taste and odour. This measure focuses on the number of complaints we receive from our customers in line with the Drinking Water Inspectorate's reporting. We've seen a fantastic 14% improvement in the year, this is in addition to the 18% improvement we've already seen over the last two years. Much of the improvement is a result of the improved cleansing and flushing programme as well as improved raw water quality. We haven't quite delivered the standards our customers expect this AMP, so we're retaining this measure until at least 2025.

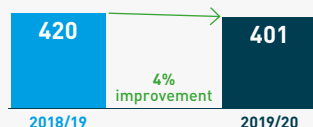
## WATER ALWAYS THERE

Supply interruptions<sup>2</sup> (No. of minutes)

Delivering a continuous supply of water is what we do. We measure this by tracking the number of minutes, on average, a customer is without water each year. This includes all interruptions that last more than three hours no matter the cause.

Over the past 12 months we've transformed our approach for our customers in England, which has resulted in more than a 60% year-on-year improvement. We've calmed the network to reduce the risk of bursts, innovated with new technology to speed up repairs and expanded our fleet allowing us to respond in a more agile way.

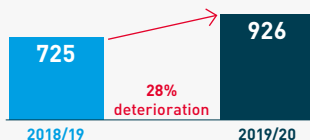
We're ambitious and aim to reduce the measure to five minutes or less by 2025.

Leakage<sup>2</sup> (Megalitres per day)

Leakage is one of our most important measures – how we perform can greatly influence our customers' perception of us. We report leakage as the average volume of water we lose from the network each day. Over the last five years we had a commitment to reduce leakage by 6% in our English operating area. In the last year alone we've reduced leakage by 4%, resulting in a fantastic 10% reduction over the period.

Our approach has included a mix of increased monitoring, improved data analytics and innovative approaches including satellite technology. But we're not stopping there, we're committed to deliver at least another 15% reduction over the next five years.

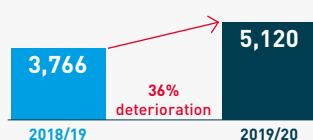
## WASTE WATER TAKEN SAFELY AWAY

Internal sewer flooding<sup>2</sup> (No. of incidents)

Sewer flooding inside the house, including cellars and attached garages, is the worst service failure our customers can experience. It occurs when the capacity of the sewer becomes overloaded and backs up through the drains.

Many of our sewers also collect rain water. The severe weather we have experienced over the last 12 months has led to our sewers being fuller than normal, leading to more incidents than normal and a 28% increase from last year.

Over the past five years we've made significant improvements to reduce the risk of sewer flooding. Looking forward we intend to make a further step change and widen the scope of flooding to include public open spaces.

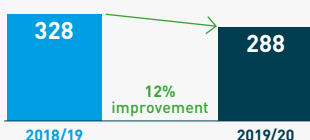
External sewer flooding<sup>2</sup> (No. of incidents)

Sewer flooding outside the house, on drive ways, garden and external buildings, is one of the worst service failure our customers can experience. It occurs when the capacity of the sewer becomes overloaded and backs up through the drains.

Many of our sewers also collect rain water. The severe weather we have experienced over the last 12 months has led to our sewers being fuller than normal, leading to more incidents than normal and a 36% increase from last year.

Over the last five years we've reduced the number of incidents by around 50%; our ambition for the future is to return to and exceed our best ever levels of performance.

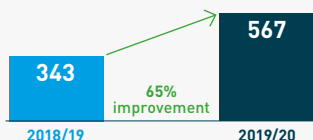
## A THRIVING ENVIRONMENT

Pollutions incidents<sup>2</sup> (No. of incidents)

Protecting and improving the environment is one of our customers' top priorities. When sewage escapes from our network it can damage the environment, these are known as pollution incidents.

In the last 12 months we've reduced the number of category 3 (minor) incidents by 12% to our lowest level in a decade.

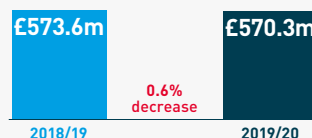
But we know there is still more to do, that's why we've committed to aim for a 50% reduction in the total number of incidents by 2025. We'll achieve this in part by improving our understanding of our network through improved telemetry, allowing us to respond before an issue impacts the environment.

Biodiversity<sup>2</sup> (No. of hectares of SSSIs)

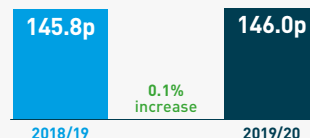
Improving the environment through changes in the biodiversity of our region is a real priority for us. One way we can track this is the number of hectares of sites of special scientific interest (SSSIs) in our region that are considered to be favourable by Natural England.

This year is the culmination of a five-year programme to improve over 200 hectares of land within our English operating area. Looking forward we have a big ambition to improve the biodiversity of 5,000 hectares of land, not just SSSIs, by 2027.

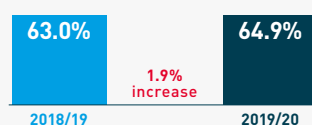
## OUR FINANCIAL KPIs

Group underlying PBIT<sup>3</sup>

Group underlying profit before interest and tax ('underlying PBIT') is a measure of the profit generated by the Group's operations excluding distortions caused by large and unusual income or costs that are classified as exceptional items. Commentary on the performance in the year is set out in the CFO's review on page 51.

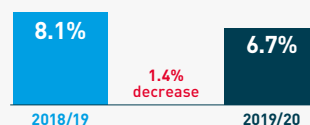
Group underlying EPS<sup>3</sup>

Earnings per share ('EPS') is a key financial metric that indicates the Group's profitability after finance costs and tax. Underlying EPS excludes distorting factors such as exceptional gains and losses and accounting adjustments for gains and losses on valuations of financial instruments and deferred tax. Commentary on the performance in the year is set out in the CFO's review on page 51 and the calculation of underlying EPS is set out in note 15 to the financial statements.



## Gearing

Gearing is calculated as the Group's net debt divided by the Regulatory Capital Value of the regulated businesses. It is an important metric in Ofwat's regulatory model, which for AMP7 is based on a notional gearing level of 60%. Low gearing would lead to a higher cost of capital as this would indicate a reliance on more expensive equity funding. High gearing indicates greater risk of default on debt finance.



## Return on Regulated Equity ('RoRE')

Return on Regulated Equity ('RoRE') is a key metric used by Ofwat and is the performance metric used in our Long Term Incentive Plans. It measures performance against an expected return set by Ofwat.

Performance is measured in three areas:

- total expenditure ('Totex') measures efficiency in operational and capital expenditure;
- operational performance is measured by the customer Outcome Delivery Incentive ('ODI') reward earned or penalty incurred; and,
- financing performance is measured by performance against Ofwat's expected cost of debt set in the Final Determination.

Commentary on the performance in the year compared to the previous year is set out in the CFO's review on page 51.

## Notes

- 1 A number of our operational KPIs contribute to more than one of our Business Plan outcomes.
- 2 Performance commitments relate to Severn Trent Water as it operates today, following the realignment of the England – Wales boundary.
- 3 Alternative performance measures are defined in note 44 to the Group financial statements.

# MARKET AND INDUSTRY OVERVIEW

In a year of important global, political, regulatory and Company milestones, Severn Trent has maintained focus on supporting our customers and communities, demonstrating our commitment to our social purpose.

A total of 17 regional businesses supply water services to over 50 million household and non-household customers in England and Wales. 11 of these, including Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, provide water and waste water services; the remaining six provide water only.

This year marked the 30th anniversary of the privatisation of the water industry in England and Wales. Following nearly £160 billion of investment over three decades, customers are now five times less likely to be affected by a supply interruption and eight times less likely to be affected by sewer flooding. Leakage has been reduced by a third and bills have stayed broadly stable in real terms since 1994.

Although our industry has achieved much to be proud of over the last 30 years, at the close of 2019/20 our focus turned to playing our part as our nation faced its toughest challenge of recent years.

#### **Supporting our customers and communities during COVID-19**

The COVID-19 pandemic that emerged over the course of the last quarter of 2019/20 is unprecedented, and rapidly developing even as this Annual Report and Accounts is being written. As a provider of an essential public service, we have a vital role to play and have first and foremost worked to protect our core services and the people who deliver them. With established business continuity plans, we have quickly responded to Government advice and our dedicated people, systems, and processes have proved adaptable to this continuously changing operating environment.

Protecting our core service is vital, but there is also more we can do to support the people and communities we serve. As our customers enter uncertain times, many may be vulnerable as a result of a change in their financial or medical circumstances. We worked to promote our financial support initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. We are making sure our vulnerable customers know we are there for them with targeted communications and support through our Priority Services Register.

We also recognise that many of the third sector organisations that support our vulnerable customers are facing challenges too. So we have established a COVID-19 £1 million emergency fund to support non-profit organisations and charities helping those affected by COVID-19, with over £500k already donated to 200 organisations.

With a planning horizon of over 25 years, as an industry we must all now tackle climate change, population growth and volatile weather patterns – as well as maintaining the trust of the people we serve in the face of these challenges.

### Ready for AMP7

While COVID-19 emerged as a critical issue in the final quarter, uncertainty around Brexit had dominated much of the national conversation over the first three-quarters of the year, culminating in a General Election in December. For the water industry, this meant further political debate about ownership models.

We continued to be active advocates of our industry's achievements, citing independent analysis that showed that in five out of six key measures of performance – including water quality, customer service and costs – the English and Welsh water industry was either the top performer or the most improved in Europe.

This year also marked another significant milestone in our industry's future as Ofwat made its final decisions on companies' business plans for Asset Management Period 7 ('AMP7') covering 2020-25. As a 'fast-tracked' company we received an early endorsement of our plan in January 2019 which provided us with the certainty needed to progress our readiness for AMP7. While Ofwat consulted on its initial decisions over the course of 2019, we were actively engaged and in late January and early February 2020 both Severn Trent Water and Hafren Dyfrdwy respectively accepted Ofwat's Final Determinations – more detail on our business plans is included on pages 36 to 37.

### Looking to the next 25 years

With a planning horizon of over 25 years, as an industry we must all now tackle climate change, population growth and volatile weather patterns – as well as maintaining the trust of the people we serve in the face of these challenges.

Innovation and collaboration will be critical to the sustainability of our industry. Last year we launched a new model of innovation for our sector – the World Water Innovation Fund – committing to an investment of £5 million over five years. Almost a year on, and now with 12 members, the Fund covers 60 million customers, 240,000 km of pipes and 40,000 water industry experts. There are seven live trials currently ongoing, focusing on new ways to tackle leakage, pollutions, water quality, supply interruptions and drinking water discolouration.

Ofwat announced its intention to create a further fund to drive transformational innovation in the English and Welsh water industry during the year. This welcome development will provide another source of collaboration and funding, some £200 million during 2020-25, for innovation that focuses on the industry's shared challenges.

There were also important moves towards creating greater national resilience against droughts. Over the next five years, nine companies including Severn Trent will work on the development of 17 projects to allow greater flexibility to move water resources between regions. Our involvement includes a ground-breaking development to move water from the North West to the South East via the River Severn and a new pipeline. The project will be 'shovel ready' by 2025.

## WORKING WITH OUR REGULATORS AND STAKEHOLDERS

As a provider of an essential public service we work within a wide-ranging regulatory framework.

### Our regulators' areas of responsibility

#### POLICY



The Department for the Environment, Food and Rural Affairs ('Defra') in England, and the Welsh Government in Wales provide strategic and policy direction for the industry and our regulators.



The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.



Ofwat is the economic regulator for the industry in England and Wales. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges ('price reviews') every five years.



The Drinking Water Inspectorate ('DWI') independently checks that water supplies in England and Wales are safe and that drinking water quality is acceptable to consumers.



The Environment Agency ('EA') allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it has been used by our customers and treated by us.



Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, especially for plant and animal life in both fresh water and the sea.



Natural Resources Wales is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.

#### REGULATION AND REPRESENTATION

We also work with a range of other regulators including:

- the Health and Safety Executive to manage risk and ensure that the health and safety of our employees, customers and visitors is preserved; and
- Ofgem, the economic regulator of gas and electricity markets, whose remit extends to renewable energy generation.



# OUR BUSINESS PLAN FOR 2020-25

Our plan for the next five years is ambitious, innovative and keeps our purpose at its core.

## A fast-tracked plan

Severn Trent Water's plan was developed over three years as part of a process (called 'Price Review 2019' or 'PR19') to set price and revenue controls, performance commitments and customer outcome delivery incentives ('ODIs').

Ofwat's initial assessment of Severn Trent Water's plan in January 2019 was very positive. We were one of just three companies awarded 'fast-track' status which we see as a firm endorsement of our high standards of governance, the sustainability of our business and our focus on customers and communities.

PR19 is a consultative process, so we had the opportunity to engage with Ofwat as it published further detail on its decisions, in April 2019. By seeking to find the most effective means to achieve shared aims with Ofwat, although the weighted average cost of capital ('WACC') was reduced for the industry as a whole, we were able to secure a greater Totex allowance, de-risked cost uncertainty relating to business rates, and created a stronger package of incentives, when Ofwat published its final decisions (the 'Final Determination').

There were positive developments for Hafren Dyfrdwy too. While initially assessed as one of the 14 companies required to resubmit their plans early in 2019, the stronger evidence we provided to Ofwat resulted in a greater cost allowance and a more pragmatic glidepath to achieve service improvements.

We accepted Ofwat's decisions in January and February 2020 and are now fully focused on delivering both companies' plans.

## Putting people and society first

Our Severn Trent Water plan was shaped by the largest engagement exercise we have ever coordinated, consulting with 32,000 customers and considering a further 1.9 million customer views. As part of this we established new methods of listening to our customers, such as our online community 'TapChat', which enabled customers to give us rapid feedback on our proposals. It is a channel that we continue to use today to shape our services and communications.

Consistent with what our customers told us, our plan aims to not only deliver further ambitious improvements in the core service that they rely on, but also deliver more for the communities and natural environment that we all live and work in. So while we are delivering a 43% reduction in supply interruptions, a 15% reduction in leakage and resolving 95% of pressure issues first time, we will also be helping 195,000 financially vulnerable customers a year by 2024/25, playing our part to improve 2,100 km of river, and creating £0.6 million of new natural capital by installing sustainable drainage solutions in local communities.

## Going further for sustainability

This year we expanded on our plans with a specific lens on sustainability. Over the next five years we will be investing £1.2 billion towards sustainable approaches and outcomes, and we announced our ambition to go even further for sustainability in a number of areas including:

- boosting biodiversity across 5,000 hectares by 2027;
- reducing pollutions by 50% by 2025; and
- achieving the Triple Carbon Pledge by 2030.

More detail is included in our first dedicated Sustainability Report (which can found on our website at [severntrent.com](http://severntrent.com)).



## OUR BUSINESS PLAN FOR 2020-25

9%

average bill  
reductions

2,100 km

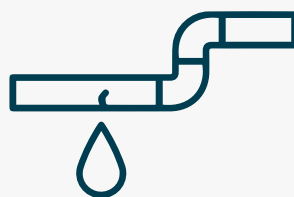
of rivers improved



195,000

financially vulnerable  
customers supported  
a year by 2024/25

15%

reduction in leakage  
(and a further  
commitment to achieve  
50% by 2045)

£6.8bn

Totex allowance



43%

reduction in supply  
interruptions

1%

of profits donated to charities  
and community groups

21%

reduction in internal  
sewer flooding

## GOING FURTHER FOR SUSTAINABILITY

Triple  
Carbon Pledge

5,000

hectares of  
biodiversity improved

50%

reduction in  
pollutions

## REGULATED WATER AND WASTE WATER REVIEW



**1** A COMPANY  
YOU CAN  
TRUST

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**2** A  
POSITIVE  
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**3** LOWEST  
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**5** AN  
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**7** WATER  
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THERE

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**8** WASTE WATER  
SAFELY  
TAKEN AWAY

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**9** A THRIVING  
ENVIRONMENT

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We focus what we do towards nine outcomes for the customers and communities we serve, and the environment that we depend on.

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

As this year marks the close of the AMP6 investment period we have looked back across the full five years of 2015-20, as well as performance in 2019/20.

# A COMPANY YOU CAN TRUST



Our stakeholders expect us to be a company that not only delivers on its commitments, but also considers *how* it delivers those commitments – being honest about progress along the way.

## Living our values

Our Purpose and Values set the cultural tone of our organisation, guide our behaviours and express the intent behind what we do. This year we undertook a consultative project involving people from across our organisation – from the front line of our operations to our Board – to re-articulate our Purpose and Values in a way that would be meaningful and inspiring for everyone. More detail is on page 14.

## Strong employee engagement

A happy and motivated workforce is vital to securing the trust of our customers and other stakeholders – so we were delighted with this year's QUEST engagement score of 8.1 out of 10 which placed us in the top 5% of global utilities. More detail on employee engagement is included on page 20.

## Involving our customers

Our commitment to including customers in our decision making has not ended with our PR19 plan. Our online community of almost 15,000 customers – 'TapChat' – has taken part in 25 discussions this year on wide-ranging topics from delivering our social purpose to roadworks. The community is a valuable critical friend that together with our ongoing customer tracking research and growing data analytics capability – including social media tracking – helps to bring the customer perspective into our daily decision making.

## A fair approach to tax

Tax is a very public way that all businesses contribute to the society that they serve. We are proud to have been accredited with the Fair Tax Mark, an independent assessment which recognises our commitment to paying the right amount of tax at the right time, and applying the 'gold standard' of tax transparency.

## Independent benchmarking

Independent benchmarking of our efforts helps us to understand relative strengths and weaknesses while providing a 'trusted voice' for our stakeholders. In early 2020, Severn Trent received an ESG Risk Rating of 18.6 and was assessed by Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors. This rating places us in the first percentile within the water utilities subindustry (as assessed by Sustainalytics). We were also ranked 10th in the inaugural Tortoise Intelligence Responsibility100 Index (an index unique for ranking whether companies do what they say they will – providing a 'walk' as well as 'talk' perspective on performance).

## Cementing our commitment

As stewards of an essential public service, we recognise that our commitment to social purpose cannot be short term. This year we consulted with our stakeholders to understand their expectations of a socially purposeful company. We also asked Ofwat to introduce a new condition to our Licence to make us legally accountable. If accepted by Ofwat, this binding undertaking will not only embed our commitment to making decisions for the long term for today's Board and employees, but also future generations of Severn Trent people.

15,000

Our online community of almost 15,000 customers – 'TapChat' – has taken part in 25 discussions this year

8.1

Our employee engagement score was 8.1 out of 10 – placing us in the top 5% of global utilities



# A POSITIVE DIFFERENCE



Because of the unique nature of what we do – a service that literally flows right through communities – we can make changes right across our value chain that add up to a big difference for our communities.

## Inspiring a generation

This year we have continued the roll-out of our innovative schools programme, which aims to inspire school children by immersing them in a virtual world that reinforces the value of water, responsible sewer use, and the importance of hydration in health. During 2019/20 we reached almost 100,000 children, which together with our ongoing customer engagement has helped us to reach over 800,000 people across the five years. Over the next five years we want to inspire another generation of water users and are aspiring to reach 500,000 school children.

## Promoting hydration while reducing plastic use

Concern about plastic use is front of mind for many of our customers, and we are well placed to help reduce the need for single-use plastic water bottles by making tap water more accessible. Over the last year we have helped to sign up around 600 businesses (making a total of 2,300 in our region by March 2020) as part of the national Refill scheme to display a blue sticker welcoming anyone passing by whose water bottle is running low to call in and fill up for free.

## An international contribution

This year we moved into a new phase of our 39-year partnership with WaterAid – a charity that provides clean water and sanitation to overseas communities in need – with a five-year project working to help 100,000 households within the Assasuni region of Bangladesh. This is a new model of working with WaterAid, focusing on a specific geographical area. Through the project not only will much needed sanitation infrastructure be provided, but other opportunities will also be created including the empowerment and training of 80 women to run reverse osmosis treatment plants.

## Volunteering to support our communities

In 2019/20 nearly 1,500 of our employees volunteered to support their local communities. We hosted over 130 events across the region, planting 2,800 trees and plants, removing 500 bags of litter and cleaning up 47 km of riverbank.



## LAUNCHING OUR £10 MILLION COMMUNITY FUND

The new Severn Trent Community Fund is providing grants to projects that support the wellbeing of communities across three categories – people, place and environment. Funded from 1% of Severn Trent Water's profits, the grants range from £2,000 for smaller local projects to £250,000 for inspirational projects that have the potential to transform communities.

With decisions made by an independent customer panel, and totalling around £10 million over the next five years, the fund will provide a much needed boost to the declining grant making landscape in our region. In April 2020 we ring-fenced £500,000, part of a total Severn Trent commitment of £1 million, to allocate to charities supporting vulnerable customers in the wake of the COVID-19 pandemic.

# LOWEST POSSIBLE BILLS



We are always looking for efficiencies and opportunities to innovate to keep our bills as low as possible.

## Lower bills, more value

Ofwat ranks Severn Trent amongst the most cost-efficient companies in the water industry which is helping to keep our bills low – in 2019/20 and over the last 10 years we have had the lowest combined bills in England. Our customers' perceptions of value for money have also improved – reaching 66% at the close of the AMP, compared with 57% in its first year. And we will continue to offer one of the lowest bills in AMP7, as we deliver a 9% real reduction over the five-year period.

## Sustainable investment

Making the right investment choices now ensures our assets continue to deliver the service levels that our customers want, and by making sure we invest efficiently, also keeps bills affordable – for today's customers and future generations. In 2019/20 we invested over £760 million in our asset base, as well as a further £145 million in renewing our water and sewer network. This year marked the completion of our £300 million Birmingham Resilience Programme (see page 45) and schemes to improve river water quality that helped us to outperform our Water Framework Directive performance commitment.

We also launched our Sustainable Finance Framework which aims to provide a stronger link between the way we raise money and the benefits we deliver to communities and the environment.

## Achieving efficiencies responsibly

As a socially purposeful company, we believe cost savings must be achieved responsibly. This year we were accredited by the Living Wage Foundation, and have made the real Living Wage a mandatory term in all future contracts. We expect all of our suppliers to sign up to our Sustainable Supply Chain Charter, committing to upholding the same values expected of our colleagues.



## SUSTAINABLE SEWAGE TREATMENT

Our industry has historically relied on tried and tested investment solutions to meet higher environmental standards and growth pressures. Our sustainable sewage treatment customer ODI rewards us for finding innovative alternatives to build capacity – two schemes have qualified this year.

In a UK first, our installation of a pre-treatment phase at our Rugby works, using BioMag® technology, has added 25% capacity and will allow us to accommodate forecast growth for much lower installation costs than a traditional solution. And, at our Finham works, we have used a novel combination of different technologies in our activated sludge processes to increase capacity by 33%. These are innovations we can now share with our industry to encourage their consideration as viable options.



# A SERVICE FOR EVERYONE



We want everyone to access and afford our service, no matter what their circumstances.

## Improving affordability

The proportion of our customers who tell us they find their bill unaffordable has fallen from 16% in 2014/15 to 9% this year. This change is welcome, but for such an essential service, we know we have to do more. By 2024/25 we want to help 195,000 customers a year with their bills, and as part of our industry's public interest commitment we will go even further by 2030 by eradicating water poverty (paying greater than 5% of disposable income on water bills).

This year around 70,000 customers benefited from financial support and advice, the majority of which, c.50,000, were on our social tariff. And we worked to improve the service experience of those we support by enabling auto-renewals for our social tariff and reducing the application processing time for Water Direct (a scheme administered in partnership with the Department for Work and Pensions) by around 90%.

Customers also benefited from our £3.5 million annual donation to the Severn Trent Trust Fund – an independent charity that administers grants to support those in financial difficulty.

## Supporting accessibility

Contacting any company to discuss difficult personal circumstances can be daunting. Our continued digital expansion (see page 43) is allowing us to connect with customers in a different way. By using a tone of voice and tailored advice that resonates with each individual, we can create emotional and personal contacts, often reaching customers who are less comfortable with a telephone exchange – including those experiencing bereavement, social anxieties and hearing impairment.

## Supporting our customers through COVID-19

Our support for vulnerable customers is just one part of a wider network that they rely on. So as well as doing more to promote our own support options during the COVID-19 pandemic, a COVID-19 £1 million fund was established with over £500,000 already donated to c.200 organisations.

c.70,000

customers benefited from financial support and advice this year

£3.5m

annual donation to the Severn Trent Trust Fund

200

charities and community groups helped by our COVID-19 emergency fund

# AN OUTSTANDING EXPERIENCE



We want to consistently exceed our customers' expectations and deliver an outstanding experience.

## Digital shift

While we are retaining more traditional contact methods, our customers are increasingly embracing new digital options. Following the introduction of our new chatbot 'Juno', improvements to our web self-serve, and expanding our social media team, total payments collected online have increased from £35 million in 2013 to £76 million this year. And as a more cost-effective approach, this shift reduces our cost to serve.

Our efforts are being recognised too. We were delighted to win gold for 'Most Effective Digital Customer Experience' at the European Contact Centre and Customer Service Awards – which we see as an endorsement that we are leading the way in digital customer experience across our industry.

## New perspectives on customer experience

Unlike its predecessor (the Service Incentive Mechanism or 'SIM'), Ofwat's new measure of customer experience ('C-MeX') places the same weighting on the perceptions of all our customers as on those who contact us. In its pilot year we have ranked ninth, so we know we have more to do in this important transitional period as the C-MeX measure is refined, and we focus on making every customer touchpoint a positive experience, including roadworks, visitor sites, and social media.



## SEWER MEN – BRINGING OUR SERVICE TO LIFE

Research for our business plan revealed that our customers would like to know more about how we deliver our service – and have a better sense of satisfaction when they do. This year we worked with ITV to produce a two-part documentary, 'Sewer Men', that followed our waste teams as they unblocked drains and went waist-deep into sewers clogged with wet wipes and fatbergs. A fifth of our customers recalled seeing the programme, of whom 72% said it improved their perception of Severn Trent.





Providing a safe supply of water for our customers to enjoy is at the very heart of what we do. We treat water like a food production line – aiming to ensure that we consistently achieve the highest standards at every stage.

#### Progress on water quality

After a challenging start to AMP6, the additional investment that we have focused on improving water quality is starting to show promising results. While we fell short of our customer ODIs for compliance and drinking water quality complaints, we have secured a 14% reduction in complaints over the last year and a 28% reduction over AMP6.

We also met our performance commitment for asset health, which was in part achieved by a programme of capital works to upgrade our water storage tanks and sampling facilities. This improved asset performance means that we expect our performance on DWI's new compliance risk index to improve by 40% this year – an improvement that places us in a stronger position to meet AMP7's challenging targets.

#### Going even further with catchment management

Working with farmers in the catchments surrounding our raw water sources has been one of our key successes over AMP6. Through building stronger relationships with over 5,000 farmers and providing 1,500 grants to prevent phosphates from fertilisers running-off into water sources, over the last decade we have been able to negate the need for £74 million of investment in our treatment processes. This year we announced ambitious new plans to engage with almost 9,000 (63%) of the farmers in our region by 2025 – engagement opportunities we will also use to enhance biodiversity. More detail is included on page 16 and in our Sustainability Report.



#### REPLACING HAFREN DYFRDWY'S VICTORIAN ASSETS

Despite the challenging weather conditions towards the close of the year created by successive storms, we completed the construction and refurbishment of two treated water storage reservoirs serving over 7,000 properties in and around Wrexham.

The assets will improve the resilience of water supplies for these local communities for generations to come and also allow the decommissioning of an existing 150-year old reservoir.

They mark the successful completion of a five-year investment programme and customer ODI to improve eight water quality assets in the Hafren Dyfrdwy region.

# WATER ALWAYS THERE



We will ensure that water is always there when our customers need it – both today and for future generations.

## Improving network management

A thorough understanding of our end-to-end processes, underpinned by accurate data, is helping us to drive improvements across our network. For example, the installation of c.40,000 loggers has played an important role in finding and fixing leaks more quickly and has helped us achieve a 19 ML/d leakage reduction (4% year on year) and outperform our regulatory target for the AMP.

At 7 minutes 18 seconds, our supply interruptions performance has now improved by over 60% this year, following challenging operating conditions earlier in the AMP. Insourcing our Network Response Team has been a key benefit – giving us more flexibility to respond and helping us to get customers back on supply faster.

## Securing future supplies

In July 2019 the Secretary of State for the Environment approved the publication of our final Water Resources Management Plan. This 25-year strategic plan prioritises demand management in our region – including a step change in leakage, water efficiency and metering activity – as well as developing new, more environmentally sustainable water sources. And we are helping national supplies too through our work on the North West to South East interconnector (see page 31).

## Supporting our customers to reduce their water use

This year we continued the roll-out of our home water surveys which help our customers to make the best use of water efficiency devices in their homes. With c.82,500 completed since 2015, we are also benefiting from much better insight about the causes of leaks on customers' private supply pipes and fixtures. Private supply-side leaks not only contribute to overall leakage, but also can be a cause of concern to our customers. With the installation of c.35,000 meters this year, in line with the prior year, we will have stronger data to help customers find them.



## SECURING BIRMINGHAM'S WATER SUPPLY FOR THE NEXT 100 YEARS

The Birmingham Resilience Programme provides a second supply option for 1.2 million customers in our nation's second biggest city.

Involving almost 26 km of pipeline, an increase in supply of 130 ML/d; a new water treatment plant; and a significant programme of customer engagement, the scheme will allow us to better maintain the 119 km gravity-fed Elan Valley Aqueduct, and protect a low carbon supply for years to come.

At £300 million, the scheme is the biggest engineering project that Severn Trent has ever embarked upon, and construction was successfully completed on time for the close of the AMP.

# WASTE WATER SAFELY TAKEN AWAY

PERFORMANCE REVIEW  
CONTINUED



Every day we take 3.2 billion litres of our customers' waste water away, ready to be made safe to return to the natural environment.

### Reducing sewer flooding and pollutions

In the first four years of AMP6, we made substantial improvements in our waste service, including a 62% reduction in external sewer flooding, 38% reduction in internal sewer flooding, and an 11% reduction in Category 3 pollutions. And last year we locked in these improvements for customers by agreeing with Ofwat new ambitious targets and the opportunity to earn further rewards (with the lifting of the waste customer ODI outperformance cap).

This year, we achieved our best Category 3 pollutions performance in a decade and have raised our ambition for AMP7 to achieve a 50% reduction in overall pollutions – an ambition that goes beyond our regulatory target. However, with a 28% and 36% increase respectively over last year our performance on internal and external sewer flooding has been disappointing and we were challenged by persistent wet weather, highly saturated ground and increased run-off of waste water in the second half of the year.

### Tackling flooding in partnership

The latter part of the year was marked by a prolonged period of heavy rainfall through Storms Ciara, Dennis and Jorge that led to flooding across our region. With responsibility for flooding shared between agencies, including water companies, local authorities and the Environment Agency, our teams worked to support both our customers and other flood authorities.

We also outperformed our partnership working customer ODI, by successfully delivering 26 schemes designed with other flood authorities (against a target of 21). With similar weather volatility expected in the future, our AMP6 experience leaves us well positioned to further embed this joined up approach to building flooding resilience.

### Tackling blockages together

Around 70% of blockages on our network are caused by customers flushing non-flushable wipes or fats, oils and greases down toilets and sinks – a challenge we must tackle. The language used on products in the home can be confusing, so we have continued to push the industry's 'Fine to Flush' messaging through partnering with other companies in an accreditation scheme for wet wipes. We expect to see improvements in future as this market driven solution becomes the expected standard across the product range.



### UNLOCKING DATA TO TARGET BLOCKAGES

With ambitious targets for AMP7, we are working to better understand the drivers of blockages and pollutions. In a Hackathon experimenting with analytics technology, we were able to run over 80 million hypotheses and, with the expertise of our operational teams, create a prototype model to predict where pollutions are likely to occur, with the potential for future development. We are also adopting a behavioural change framework used in other sectors like healthcare, together with a programme of research, to better understand our customers' flushing habits and how to change them.



# A THRIVING ENVIRONMENT

PERFORMANCE REVIEW  
CONTINUED





We rely on the natural environment, so taking care of natural resources while using nature as a source of innovation and climate change mitigation, is fundamental to what we do.

### Improving our region's rivers

The Water Framework Directive aims to improve the ecology of rivers, and support the wildlife and habitats that depend on them. Our innovative use of catchment-based approaches to manage our impact on the river system as a whole has helped us to deliver more for the wider ecosystem than focusing on single issues in isolation. Our final programme has delivered 279 points of improvement which is 20% more than our original expectations, and equates to improvements in around 1,600 km of river.

### Boosting biodiversity

Our role in communities, the estates we manage and our relationship with rivers and water sources mean we have huge potential to boost the biodiversity in our region – and we have support from our customers to do so. This year we have exceeded our AMP6 customer ODI by improving 244 hectares of our land across the five years and set a new bold ambition to improve 5,000 hectares (an area around the size of Gloucester) across our region by 2027.

Our future biodiversity ambition goes further than our AMP7 customer ODI, and includes:

- planting 1.3 million trees (working with the Woodland Trust to ensure that the trees we plant will be UK grown);
- working with the RSPB in Sherwood Forest to preserve some of the ancient woodlands;
- working on over 600 hectares in the Peak District to restore moorland and plant native trees; and
- working with Warwickshire and Nottinghamshire Wildlife Trusts on enhancing over 400 hectares with new woodlands, wetlands and wildflower meadows.

These and other projects will build resilience by investing in nature and natural systems to provide some of our best protection against the worst effects of climate change. The partnerships we are building – including with the National Trust, Wildlife Trusts, Rivers Trust, Woodlands Trust and RSPB – will help us to make a much bigger contribution for every pound we spend.

### Targeting 4\* status

We anticipate achieving 4\* EPA status from the EA this year, for the third time in the AMP. This assessment covers a range of environmental measures and reflects our strong track record on protecting and enhancing the local environment that we rely on.

### Carbon reduction

We are proud to have held the Carbon Trust Standard since 2009. This certification recognises that we take a best practice approach to measuring and managing our environmental impacts. In the last 12 months, Severn Trent Water met its carbon reduction target for water, just missed its target for waste water, and our overall Group net greenhouse gas emissions fell by 3%.

Last year we also made the Triple Carbon Pledge, a commitment that means by 2030 we will use 100% renewable energy, have a fully electric fleet of vehicles (as long as the technology is available) and have net zero carbon emissions. And this year, with the increased self-generation of renewable energy by Severn Trent Group to the equivalent of 51% of Severn Trent Water's energy needs, and remaining energy purchased solely from renewable sources, we have already achieved the first of these pledges.

We have also reinforced our ambition, announcing our commitment to Science-Based Targets. We are the first water company in the UK to sign up, which means we will be working to develop longer-term commitments in a way consistent with the Paris Agreement. This includes placing more emphasis on reducing our Scope 1 and 2 emissions through our own operations, and stepping up our focus on Scope 3 emissions and embedded carbon in our assets.



### OPENING OUR INDUSTRY LEADING RESOURCE RECOVERY AND INNOVATION CENTRE

This year we opened our £5 million research centre – the first of its kind in the UK. The centre is a vital tool in our ambition to create a circular economy from every element of what is traditionally seen as waste by turning it into a valuable resource. With three trials already underway, the centre allows us to undertake large scale technology trials in a way that was not possible before.

It also further cements our position as a sector leader on innovation by helping us to secure new funding sources including the EU's Horizon 2020 and Interreg research programmes, Innovate UK and the Carbon Trust. In this AMP alone we have secured direct grant income of £2.7 million and leveraged funding of £42 million.

# BUSINESS SERVICES

Business Services operates a UK-focused portfolio that complements Severn Trent Group's core competencies and is well positioned to capitalise on market opportunities in five areas: Green Power; Bioresources; Operating Services; Property Development; and Developer Services.

### Leading on self-generation

This year we were proud to deliver on our commitment to self-generate the equivalent of 50% of our energy needs from renewable sources – a year earlier than targeted. We are a leader on self-generation in the water industry and beyond – a practice which not only protects us from future price volatility but importantly supports our wider sustainability commitments.

Our targeted investments in solar, wind and hydro assets and our unique capabilities in anaerobic digestion ('AD') of sewage and food waste mean that we are well placed to expand self-generation in the future.

Last year's £120 million acquisition of Agrivert has given us new scale and capability in our standalone food waste business, and means that we can play our part as the Government's Environment Bill promotes a strong recycling and renewable heat agenda and favours AD over incineration.

Across our Green Power and Bioresources businesses we are now the largest owner and operator of AD plants in the UK – delivering 445 GWh of renewables from 37 AD sites in 2019/20. This portfolio now includes a second Thermal Hydrolysis Plant ('THP') for our Bioresources business at our Strongford works. THP works by using heat and pressure to treat sewage sludge and enables extraction of up to 30% more energy than conventional processes.

### Welcoming opportunities in Bioresources

This year we also welcomed the opening of the new bioresources market that creates the opportunity to treat trade waste and other companies' sludge. As a land-locked company (without the option of sea discharges used by others in the last century) Severn Trent has over 40 years of experience of treating and recycling sludge efficiently and sustainably. This experience, together with our new AD capacity and central geographical location, means we are well placed to trade in the new market. While the market was still in its infancy this year, we look forward to being a key player as it expands over AMP7.

### Delivering on customer service

Operating Services continued to deliver year-on-year growth and further improvements in customer service performance on our two largest contracts: the MOD, and the Coal Authority.

We were also able to deploy our capabilities at short notice to provide additional pumping support to the Coal Authority, the Environment Agency and regional Drainage Boards across the North of England during this year's storms.

Developer Services continued our twin-track focus on great customer service with excellent value for money, and we expect to be upper quartile on the industry's service performance tables. With the introduction of the new developer experience measure ('D-MeX') next year, we believe our segmented, tailored approach to customer offerings will be an important differentiator for us. Supporting Severn Trent Group's sustainability ambitions, we also continued to encourage the adoption of sustainable solutions by our customers with tariffs that encourage the development of water-efficient properties.



### BRINGING DERELICT LAND BACK TO LIFE FOR HOUSING

Property Development has now delivered £34 million in sales in the first three years of a 10-year plan to deliver £100 million PBIT by 2027. This year, we secured the sale of land in Sandwell previously used for sewage treatment to the West Midlands Combined Authority for housing development.

The scheme, which includes land owned by Sandwell Metropolitan Borough Council, is a great example of public and private sectors working together for the communities we serve by using our redundant land assets to provide much needed homes to the region – transforming land the equivalent of 32 football pitches into a 750-home development.

CHIEF FINANCIAL  
OFFICER'S REVIEW

**James Bowling**  
Chief Financial Officer

These are unprecedented economic circumstances. The extent of the impact of the COVID-19 outbreak on the UK economy is uncertain. We are not immune to the impacts on the wider economy and we expect to see a continued reduction in consumption from non-household customers, an increase in bad debt costs from household customers, even after allowing for an increase in the use of our range of social tariffs, and a severe impact on our non-household joint venture, Water Plus. We have reflected these on our balance sheet at 31 March 2020, where appropriate, and further details are set out below.

Our funding position continues to be strong and we are carefully monitoring our liquidity and working capital. Our balance sheet at 31 March 2020 showed net cash of £48.6 million and we had undrawn facilities amounting to £755 million. All of our projected investment and other cash flow needs are covered by cash or committed facilities through to January 2022. At the year end, the Group's regulatory gearing was 64.9%.

This strong financial position was a factor in our decision to declare a final dividend of 60.05 pence in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. Other matters, over and above our strong financial position, that the Board took into account in reaching this decision are noted in the Chief Executive's review.

At the half-year we flagged the market data issues that were impacting our non-household retail joint venture, Water Plus. In the second half of the year we have seen some performance improvement as the monthly losses relating to these issues have reduced and cash collection improved. However, Water Plus expects the economic impact of COVID-19 on non-household customers to be severe and this has resulted in the joint venture recording losses from the impairment of its trade debtors, goodwill and certain intangible assets. Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year. We also recorded a provision of £4.9 million against our loans to Water Plus.

Our total share of the Water Plus losses, £51.7 million, was greater than the value of our long-term investment of £46.8 million and as a result we did not record £4.9 million of these losses in the income statement. We have shown the amount of our share of the losses from Water Plus recorded in the income statement as an exceptional item.

Turning now to our core business, we have built on good financial performance in the first half of the year to deliver another good set of results for 2019/20. Although underlying PBIT (see note 44) in our Regulated Water and Waste Water business was slightly lower than the previous year, this was expected as we chose to defer customer ODI rewards worth £78 million into AMP7, taking £22 million less in revenue than in the previous year, and increased our planned IRE programme to deliver remaining AMP6 commitments, offsetting the £22 million comparative benefit of hot weather costs in the previous

year. In Business Services, stronger performance in the second half of the year in Operating Services and Bioresources produced growth in both revenues and PBIT for the full year. There were no individually significant land sales in 2019/20 but the £6.9 million earned this year means we remain on track to deliver £100 million of PBIT from property sales over the 10 years to 2027.

Our underlying basic earnings per share (see note 44) was up 0.1% to 146.0 pence per share. Basic earnings per share were 66.7 pence.

We have delivered good performance on RoRE, which was 6.7% for the year ended 31 March 2020. The delivery of substantial environmental programmes meant another strong year on customer ODIs, and we continued to outperform on financing. This was partly offset by the impact of our reinvestment of Totex efficiencies delivered earlier in the AMP. On a cumulative basis, we outperformed across all three levers over AMP6 and achieved a RoRE of 8.5%, sustaining our position amongst the very best in the sector.

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy as well as the corporation tax shown in our tax charge in the income statement. This year we will again publish a Tax Report that sets out details of all of the taxes we incur at [www.severntrent.com/sustainability-strategy/reports-and-publications/tax/](http://www.severntrent.com/sustainability-strategy/reports-and-publications/tax/). Our corporation tax charge for the year, excluding the exceptional deferred tax charge, was higher than the statutory rate reflecting non-deductible items charged to our income statement. Cash tax payments were reduced by the benefit of tax allowances on our capital programme and contributions to our pension schemes, partly offset by the timing of instalment payments to HMRC under the current rules.

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

- Group turnover was £1,843.5 million (2018/19: £1,767.4 million), an increase of 4.3% as Regulated Water and Waste Water revenue increased by 2.4%, mainly due to the RPI-linked tariff increases and Business Services' turnover increased by 19.7% (including £21.8 million from a full year contribution from the Agrivert business acquired in the previous year).
- Underlying PBIT was down 0.6% to £570.3 million (2018/19: £573.6 million). Underlying PBIT in our Regulated Water and Waste Water business was £15.5 million lower, Business Services grew by £0.8 million and Corporate and other results improved by £2.6 million.
- We recorded no exceptional operating costs (2018/19: £9.6 million arising from the High Court judgment in the Lloyds Bank case relating to Guaranteed Minimum Pension rights).
- Reported Group PBIT was up by 0.9% to £568.2 million (2018/19: £563.3 million).
- Net finance costs were £188.4 million (2018/19: £194.2 million). Our effective interest cost of 3.7% (see note 44) was down from 2018/19 (3.9%) due to the continued benefit of replacing expensive fixed rate debt with new low cost fixed rate debt, low variable interest rates and reduced RPI inflation on our index-linked debt.
- Our full effective tax rate was 48.9%, including the exceptional deferred tax charge arising from the change in corporation tax rate for 2020/21. Our underlying effective current tax rate (see note 44) was 10.4%, down from 11.6% in 2018/19 largely due to higher capital allowances from the larger capital programme in the year.
- Reported Group profit after tax was £158.8 million (2018/19: £315.3 million).



## Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water business was £1,620.7 million (2018/19: £1,583.1 million) and underlying PBIT was £511.5 million (2018/19: £527.0 million).

	2020 £m	2019 £m	Increase/(decrease)	
			£m	%
Turnover	1,620.7	1,583.1	37.6	2.4
Net labour costs	(135.8)	(124.0)	(11.8)	(9.5)
Net hired and contracted costs	(155.9)	(161.9)	6.0	3.7
Power	(105.8)	(102.1)	(3.7)	(3.6)
Bad debts	(42.5)	(25.5)	(17.0)	(66.7)
Other costs	(192.6)	(186.2)	(6.4)	(3.4)
	(632.6)	(599.7)	(32.9)	(5.5)
Infrastructure renewals expenditure	(149.6)	(141.4)	(8.2)	(5.8)
Depreciation	(327.0)	(315.0)	(12.0)	(3.8)
<b>Underlying PBIT</b>	<b>511.5</b>	<b>527.0</b>	<b>(15.5)</b>	<b>(2.9)</b>

Turnover increased by £37.6 million. The components of this were:

- Higher tariffs, including the impact of the annual RPI increase on prices, which increased revenue by £48.2 million;
- A net increase of £8.1 million to revenue as a result of a lower year-on-year adjustment for wholesale revenue in prior periods billed in excess of the wholesale revenue allowance; offset by
- A reduction year-on-year of £21.7 million on the outperformance payments earned from customer ODIs taken into revenue this year;
- A number of other smaller variances resulted in an additional net increase of £3.0 million.

Net labour costs were £11.8 million (9.5%) higher. Gross employee costs increased by 10.8% due to the annual pay award and the continuation of our strategy to bring more work in-house. The significant step up in activity on capital projects this year increased the level of own labour capitalised, up £16.7 million on the previous year.

Net hired and contracted costs were down £6.0 million (3.7%). Increases in job volumes and some outsourced debt collection activity offset the benefit from the in-sourced capital design team and the costs incurred in the hot, dry summer in the previous year.

Power costs were up £3.7 million driven by the anticipated rise in pass-through costs. Energy consumption was flat year-on-year as increased efficiency across the business offset the impact of new capital schemes and increased pumping required in the wetter winter. The Group manages its power costs through a combination of demand management, self-generation and forward price contracts.

Our bad debt charge increased by £17.0 million this year and represented 3.2% of household revenue (2018/19: 2.0%). We continued to perform well in collecting recent debt and our new targeted approach to older debt is showing some promising results, although the uncollected balance falling into older age categories this year increased the provision. The impact of COVID-19 has led directly to £2.2 million of the increase in the provision to take account of the expected impact of the forecast economic downturn next year on collection of our year end receivables.

Other costs rose by £6.4 million. The increase was predominantly driven by higher chemical prices and usage due to the completion of new capital schemes.

Infrastructure renewals expenditure was £8.2 million higher in the year reflecting the completion of AMP6 projects, including our Trunk Mains Renewal Programme, enhancing the resilience of our network as we enter AMP7.

Depreciation of £327.0 million was £12.0 million higher than the prior year, following the capitalisation of new assets and increased investment in data technology assets with shorter lives creating operational efficiencies in our network.

## Return on Regulated Equity ('RoRE')

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

Severn Trent Water's RoRE for the year ended 31 March 2020 and for the five-year period ended on that date is set out in the following table:

	2019/20 %	AMP6 %
Base return	5.5	5.6
Totex performance	(2.0)	0.5
ODI performance <sup>1</sup>	1.0	0.9
Financing performance	2.2	1.5
<b>Regulatory return for the year<sup>2</sup></b>	<b>6.7</b>	<b>8.5</b>

<sup>1</sup> For years 2015/16 to 2018/19, customer ODI performance has been restated by 0.1% p.a. to recognise the impact of the PR14 SIM penalty over the years when the penalty was earned.

<sup>2</sup> Calculated in accordance with Ofwat guidance set out in RAG 4.07.

We have delivered RoRE of 6.7% in the year, outperforming the base return by 1.2% as a result of:

- Continued outperformance on financing, reflecting our effective interest cost of 3.7%;
- Customer ODI performance of 1.0%, primarily following successful delivery of our Water Framework Directive and Sustainable Sewage Treatment programmes, both the culmination of five years of investment; and
- Our Totex position of negative 2.0%, reflecting our reinvestment of efficiencies from earlier in the AMP, enhancing our resilience and supporting customer ODI performance, as well as increased spend on maintenance schemes, and a higher bad debt charge.

Our cumulative AMP6 RoRE of 8.5% highlights a strong AMP performance where we have outperformed the Final Determination on all components of RoRE. Over the five-year period we have delivered a sector-leading customer ODI performance, overall net Totex efficiencies, and strong upper quartile performance on financing.

## Business Services

	2020 £m	2019 £m	Increase/(decrease)	
			£m	%
<b>Turnover</b>				
Operating Services	70.7	60.2	10.5	17.4
Green Power	53.5	29.7	23.8	80.1
Bioresources	102.4	97.5	4.9	5.0
Other	13.8	13.5	0.3	2.2
	240.4	200.9	39.5	19.7
<b>Underlying PBIT</b>				
Operating Services	14.8	7.0	7.8	111.4
Green Power	6.6	0.6	6.0	1,000.0
Bioresources	29.3	29.5	(0.2)	(0.7)
Property Development	7.7	19.9	(12.2)	(61.3)
Other	6.5	7.1	(0.6)	(8.5)
	64.9	64.1	0.8	1.2

Business Services turnover was £240.4 million (up 19.7%) and underlying PBIT was £64.9 million (up 1.2%).

In our Operating Services business, turnover and underlying PBIT increased by £10.5 million and £7.8 million respectively. Improved performance across all areas within the business, as well as an increase in the expected whole-life revenues and profits on the contract with the Ministry of Defence, have driven the increase.

In Green Power, turnover increased by £23.8 million and underlying PBIT increased by £6.0 million. Strong energy generation complemented by the first full year of Agrivert, the food waste company acquired in November 2018, (increasing turnover by £21.8 million and underlying PBIT by £7.2 million in the current year) have generated the increase.

Turnover from Bioresources increased by £4.9 million, but underlying PBIT decreased by £0.2 million due to lower wholesale energy prices.

Turnover and underlying PBIT in our other businesses (principally Affinity Products and Developer Services) was broadly flat year-on-year. Profits from Property Development were £12.2 million lower as there were no individually significant disposals in the current year. We remain on track to deliver £100 million of PBIT from property sales by 2027 although we expect market conditions to be less favourable in the next year following the COVID-19 pandemic, resulting in a rephasing of our planned disposals.

### Corporate and other

Corporate overheads were £8.6 million (2018/19: £8.6 million) and our other businesses generated PBIT of £3.0 million (2018/19: £0.4 million).

### Exceptional items before tax

We recorded no exceptional operating costs (2018/19: £9.6 million from a High Court judgment in the Lloyds Bank case in relation to gender equality in Guaranteed Minimum Pension rights).

In 2019/20 we recorded exceptional losses before tax of £51.7 million arising from the impact of COVID-19 on our joint venture Water Plus, including £46.8 million from our share of its losses and an exceptional impairment charge of £4.9 million in relation to our loans receivable from Water Plus. In view of the materiality of these impacts and the unprecedented nature of the impact of COVID-19 on Water Plus, we consider these items to be exceptional.

### Net finance costs

Despite higher net debt, our net finance costs for the year were £188.4 million, £5.8 million lower than the prior year due to a combination of lower interest rates, and effective management of our debt portfolio. Capitalised interest of £44.2 million increased by £11.0 million year-on-year due to the higher level of capital activity in the year.

Our effective interest cost was 3.7% (2018/19: 3.9%) and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges – see note 44) was 3.1% (2018/19: 3.1%). Net pension finance costs were broadly in line with the previous year.

Our earnings before interest, tax, depreciation and amortisation ('EBITDA') interest cover was 5.3 times (2018/19: 5.1 times) and underlying PBIT interest cover was 3.2 times (2018/19: 3.2 times). See note 44 for further details.

### Gains/losses on financial instruments

We use financial derivatives solely to hedge risks associated with our normal business activities including:

- Exchange rate exposure on foreign currency borrowings;
- Interest rate exposures on floating rate borrowings;
- Exposures to increases in electricity prices; and
- Forthcoming changes in the regulatory model from RPI to CPIH.

We hold interest rate swaps with a net notional principal of £50 million fixed to floating, £423 million floating to fixed, £250 million of forward starting interest rate swaps, floating to fixed, and cross currency swaps with a sterling principal of £141 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings.

We revalue the derivatives at each balance sheet date and take the changes in value to the income statement, unless the derivative is part of a cash flow hedge.

Where hedge accounting is not applied, if the risk that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the year there was a loss of £9.8 million (2018/19: gain of £28.5 million) in relation to these instruments.

Note 12 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed 62.4% of our estimated wholesale energy usage for 2020/21.

### Share of loss of joint venture

Our joint venture, Water Plus, had a difficult year. Billing and revenue assurance issues identified early in the year impacted trading results in the first half and the recovery that was starting to bear fruit in the second half was stopped in its tracks by the COVID-19 outbreak.

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak, the resulting lockdown and its effects on commercial customers, and expects to see lower economic activity leading to increases in business customer failures. Water Plus reworked its business plan to take account of the expected impacts of the COVID-19 outbreak on its customer base and recorded impairments of its goodwill, intangible assets and trade receivables as a result.

Water Plus has updated its impairment assessment for its long-term assets, in particular goodwill and customer relationships recognised under the acquisition accounting rules of IFRS 3. The updated impairment tests identified an impairment of £51.1 million against these assets. In addition, Water Plus has already seen a significant reduction in cash collected from its non-household customers and, using prospective economic data to estimate the likely impact of future economic circumstances on its debt book at 31 March 2020, has recognised an additional £29.3 million bad debt provision.

Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year.

We have recognised £46.8 million, our share of these losses capped at the level of our long-term investment, as an exceptional loss from our joint venture. We have not recognised £4.9 million of losses in excess of our investment.

We have also recorded an exceptional impairment of £4.9 million in our loans receivable from Water Plus.

### Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy, as well as the corporation tax shown in our tax charge in the income statement. Our corporation tax charge for the year, excluding the exceptional deferred tax charge, was higher than the statutory rate reflecting non-deductible items charged to our income statement, such as losses from joint venture which are reported after tax, partially offset against tax credits arising from overpayments in the previous year. Cash tax payments were reduced by the benefit of tax allowances on our capital programme, contributions to our pension schemes partly offset by the timing of instalment payments to HMRC under the current rules.

	2020 £m	2019 £m
<b>Tax incurred:</b>		
Corporation tax	26.7	31.5
Business rates and property taxes	81.6	80.7
Employer's National Insurance	28.9	25.5
Environmental taxes	6.6	9.6
Other taxes	4.9	3.5
	<b>148.7</b>	<b>150.8</b>

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2019/20", available at [www.severntrent.com/sustainability-strategy/reports-and-publications/tax/](http://www.severntrent.com/sustainability-strategy/reports-and-publications/tax/).

The corporation tax charge for the year recorded in the income statement, before exceptional taxes, was £59.2 million (2018/19: £71.2 million) and we made net corporation tax payments of £33.9 million in the year (2018/19: £21.3 million). The difference between the tax charged and the tax paid is summarised below:

	2020 £m	2019 £m
Tax on underlying profit	59.2	71.2
Tax on exceptional items	0.9	(1.8)
Exceptional deferred tax charge arising from rate change	91.8	–
Tax effect of timing differences	(120.9)	(37.6)
Current tax credits recorded in Other Comprehensive Income or equity	(9.5)	(9.7)
Overprovisions in previous years	5.2	9.4
Corporation tax payable for the year	26.7	31.5
Payable by instalments next year	–	(15.9)
Instalments due in the year	26.7	15.6
Repayments received	(0.4)	–
Payments relating to prior years	4.5	5.7
Overpayments	3.1	–
Net tax paid in the year	33.9	21.3

The overpayments arose from prudent estimates of the tax charge for the year when calculating quarterly instalment payments.

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

The current tax charge for the year was £31.0 million (2018/19: £31.8 million) and the deferred tax charge, before the exceptional deferred tax charge arising from the change of rate, was £29.1 million (2018/19: £37.6 million).

In March 2020 the UK Government announced that it would reverse the previously planned reduction in the corporation tax rate that was due to take effect from 1 April 2020. This change was substantively enacted in March 2020 and we have therefore remeasured our deferred tax assets and liabilities at 31 March 2020 at the new rate of 19%. This resulted in an exceptional deferred tax charge in the income statement of £91.8 million and a credit to reserves amounting to £2.7 million.

Our full effective tax rate this year was 48.9% (2018/19: 18.0%), which is higher than the UK rate of corporation tax (19%), due to the exceptional deferred tax charge.

UK tax rules specify the rate of tax relief available on capital expenditure. Typically this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our underlying effective current tax rate and corporation tax payments in the year. By the same token we make a provision for the tax that we will pay in future periods when the tax relief on the capital expenditure has been received and we receive no allowance for the depreciation charge arising on that expenditure. This is the most significant component of our deferred tax position.

Our underlying effective current tax rate was 10.4% (2018/19: 11.6%) (see note 44).

The exceptional losses recorded in relation to our joint venture, Water Plus, are recorded after tax and therefore there is no impact on our tax charge from these losses.

## Profit for the year and earnings per share

Total profit for the year was £158.8 million (2018/19: £315.3 million).

Basic earnings per share decreased by 50.0% to 66.7 pence (2018/19: 133.4 pence). Underlying basic earnings per share was 146.0 pence (2018/19: 145.8 pence). For further details see note 15.

## Cash flow

	2020 £m	2019 £m
Operational cash flow	888.5	826.3
Cash capex	(799.5)	(769.3)
Net interest paid	(184.2)	(161.6)
Purchase of subsidiaries net of cash acquired	–	(50.9)
Payments for swap terminations	(16.8)	–
Proceeds from swap terminations	16.5	–
Net tax paid	(33.9)	(21.3)
Free cash flow	(129.4)	(176.8)
Dividends	(228.4)	(211.9)
Issue of shares	9.6	11.1
Purchase of own shares	–	(1.1)
Change in net debt from cash flows	(348.2)	(378.7)
Debt acquired in subsidiaries	–	(63.0)
Non-cash movements	(49.2)	(35.8)
Change in net debt	(397.4)	(477.5)
Opening net debt	(5,834.1)	(5,356.6)
Closing net debt	(6,231.5)	(5,834.1)
	2020 £m	2019 £m
Bank loans	(1,251.9)	(1,120.1)
Other loans	(5,058.5)	(4,820.5)
Lease liabilities	(122.7)	(112.2)
Net cash and cash equivalents	48.6	39.6
Cross currency swaps	60.4	37.1
Loans due from joint ventures	92.6	142.0
Net debt	(6,231.5)	(5,834.1)

Operational cash flow (see note 44) was £888.5 million (2018/19: £826.3 million) mainly due to higher PBIT, depreciation and amortisation and our increase in working capital was lower than the previous year.

Our biggest year of capital investment in more than a decade led to cash capex (see note 44) of £799.5 million (2018/19: £769.3 million). In 2018/19 the acquisition of Agrivert resulted in a net cash outflow of £50.9 million and we also repaid £63.0 million of debt that was acquired with the business.

Our net interest payments were higher at £184.2 million (2018/19: £161.6 million). Our net tax payments were £33.9 million, an increase of £12.6 million, largely due to the acceleration of quarterly instalment payments introduced by the government this year.

We received £9.6 million (2018/19: £11.1 million) from the exercise of options under the employee Save As You Earn share scheme and our dividends paid increased in line with our policy.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £397.4 million in net debt (2018/19: £477.5 million).

At 31 March 2020 we held £48.6 million (2019: £39.6 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2019: 14 years). Including committed facilities, our cash flow requirements are funded until January 2022.

Net debt at 31 March 2020 was £6,231.5 million (2019: £5,834.1 million) and balance sheet gearing (net debt/net debt plus equity) was 83.4% (2019: 83.3%). Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2020 was 64.9% (2019: 63.0%) and Severn Trent Water Group RCV gearing was 64.4% (2019: 62.3%).

The estimated fair value of debt at 31 March 2020 was £951.8 million higher than book value (2019: £1,219.6 million higher). The decrease in the difference to book value is largely due to higher credit spreads at the balance sheet date.



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CONTINUED**

Our policy for the management of interest rates is that at least 40% of our borrowings in AMP6 should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. We continue to carefully monitor market conditions and our interest rate exposure. Given the flatness of the yield curve we believe it is appropriate to reduce our exposure to floating rates of interest. At 31 March 2020, 64% of our gross debt of £6,433.1 million was at fixed rate, 12% was in floating and 24% was index-linked. In March 2020 we raised £200 million at fixed rates of interest through a US Private Placement.

Our long-term credit ratings are:

Long-term ratings	Severn Trent Plc	Severn Trent Water	Outlook
Moody's	Baa2	Baa1	Stable
Standard and Poor's	BBB	BBB+	Stable

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

### Pensions

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

The most recent formal actuarial valuations for the Severn Trent schemes ('the Schemes') were completed as at 31 March 2019. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, included:

- Inflation-linked payments of £15.0 million per annum through an asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed;
- Payments under another asset-backed funding arrangement of £8.2 million per annum to 31 March 2032; and
- Deficit reduction payments totalling £32.4 million increasing in line with inflation through to 31 March 2027.

In addition to these payments, the Company will directly pay the annual PPF levy incurred by the STPS (£1.4 million in 2019/20).

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

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

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £234.0 million (2019: £452.9 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

On an IAS 19 basis, the funding level has improved to 91% (31 March 2019: 84%).

The movements in the net deficit during the year were:

	Fair value of scheme assets £m	Defined benefit obligations £m	Net deficit £m
At start of the year	2,418.9	(2,871.8)	(452.9)
Amounts credited/(charged) to income statement	54.8	(69.5)	(14.7)
Actuarial (losses)/gains taken to reserves	(0.4)	187.8	187.4
Net contributions received and benefits paid	(59.2)	105.4	46.2
<b>At end of the year</b>	<b>2,414.1</b>	<b>(2,648.1)</b>	<b>(234.0)</b>

During the year lower inflation expectations had been largely offset by lower discount rates. However, at the year end we saw an increase in corporate bond yields resulting in a higher discount rate than would have applied earlier in the year, which in turn led to a reduction in the net deficit.

### Dividends

In line with our AMP6 policy to increase the dividend by at least RPI+4% each year, the Board has proposed a final ordinary dividend of 60.05 pence per share for 2019/20 (2018/19: 56.02 pence per share). This gives a total ordinary dividend for the year of 100.08 pence (2018/19: 93.37 pence). In January we announced that our dividend policy for AMP7 will be growth of at least CPIH.

The final ordinary dividend is payable on 17 July 2020 to shareholders on the register at 12 June 2020.

# OUR APPROACH TO RISK

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

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

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

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

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

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

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

The principal risks facing the Company are illustrated on pages 58 to 62.

## Our Enterprise Risk Management process

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

consistency. ERM champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Criteria are used to consider the likelihood of occurrence and potential financial and reputational impacts.

The potential causes and subsequent impact of the risks are documented to enable mitigating controls to be assessed. This assessment allows us to put in place effective strategies to remediate defective controls or implement additional controls.

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

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

In addition, individual risks, emerging risks and overall risk landscape were also discussed by the Board during the year.

## Changing risk landscape

Emerging risks are reviewed frequently as part of our horizon scanning process. We monitor closely changes in the global risk landscape as climate change and the environment continue to be key areas of risk focus. Building resilience to climate related risks is of key importance to the water sector and we constantly review how our business risks reflect and work towards this.

By the nature of what we do several of our Principal Risks have a sustainability focus, and we monitor our social and environmental impacts with the same rigour as our broader performance.

This year we have introduced a Strategic Risk Forum to help provide a strategic lens and review of, our existing and emerging risks. The findings of the Forum will help guide emerging risk discussions and ensure existing risks are continually peer reviewed.

## Risk appetite

The Board keeps the relationship between our strategic ambitions and the management of risk under continual review. The ERM process establishes target risk positions for each of our significant risks. The Board formally discusses the progress towards this position and the mitigating actions being undertaken every six months.

## Financial risks

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

The ERM process and relevant risk assessments are factored into the 'stress testing' to assess the Group's prospects as part of our long-term viability statement.

## Sustainability risks

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

## PRINCIPAL RISKS

### OUR PRINCIPAL RISKS

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. For each risk we state what it means for us and what we are doing to manage it.

#### 1 CUSTOMER PERCEPTION

WHAT IS THE RISK?	WHAT ARE WE DOING TO MANAGE THE RISK?
We may be unable to improve and maintain our levels of customer service sufficiently to deliver what our customers tell us they want.	Understanding what our customers want is key to managing this risk. Our PR19 Severn Trent Water business plan was shaped by consulting with 32,000 customers, evaluating 24,000 complaints and analysing seven million contacts on social media. As one of only three companies to be fast-tracked, we see this as a firm endorsement of our customer-focused approach.
WHAT DOES IT MEAN FOR US?	We recognise there is work to do to continue to improve our C-MeX performance which replaces the previous AMP6 Service Incentive Mechanism ('SIM') from March 2020. Shadow year for C-MeX indicates our overall performance is ahead of forecast. Our retail performance remains strong. We have a full programme to deliver the required improvements.
We are a regulated utility providing essential services to our customers. We recognise that our customers increasingly expect more from us and demand an improved and more consistent experience. As other industries improve their levels of service, the bar continues to be raised.	The Retail Transformation Programme continues to deliver a number of initiatives focused on customer experience. Future initiatives include further 'Customer First' interventions for customers with a complaint and those whose situation makes them vulnerable. Customers continue to tell us they are delighted when we are able to complete issues for them at point of contact and we will continue the work to improve our point of contact resolution.
Failure to deliver the service that customers expect will lead to customer dissatisfaction. This may result in financial reward or penalties under Ofwat's new Customer Experience ('C-MeX') measure, and associated ODI outturn.	Our drive to digital strategy focuses on continued demand reduction and a shift to digital channels making it easy for customers to self-serve through a channel of their choice. Future initiatives look to broaden the remit of our award winning chat-bot 'Juno', increase the number of paperless communications we make to customers as well as open new digital customer channels. More than 2 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 2.3 million transactions.
MOVEMENT	We have accelerated our programmes in light of COVID-19 and picked up additional activity to support a new population of vulnerable customers.

#### 2 LEGAL AND REGULATORY ENVIRONMENT

WHAT IS THE RISK?	WHAT ARE WE DOING TO MANAGE THE RISK?
We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in our business plans becoming unsustainable.	With the acceptance of our PR19 Final Determination we now have more certainty about the next five-year AMP period running from 2020-25.
WHAT DOES IT MEAN FOR US?	The impact of COVID-19 has seen a number of changes in relation to the business retail market. We continue to engage proactively with Ofwat and MOSL to ensure that they do not materially change the risk profile of our wholesale business and support the retail market.
The regulated business operates in a highly regulated environment. Whilst we are broadly content with the direction of changes proposed for our industry in Ofwat's new strategy, there remains a risk that additional future changes could have a significant impact on Severn Trent. The renationalisation of the water industry could remain a central policy of the Opposition, and, therefore remains a possibility in the event of a change of Government. In the event of renationalisation, there is a possibility that the Group's regulated businesses (Severn Trent Water and Hafren Dyfrdwy) are acquired at below the value currently implied in Severn Trent Plc's share price.	Alongside retail market engagement, we will continue to be an active participant in conversations about the future shape of the regulatory regime to best serve our customers in the future.
MOVEMENT	We continue to engage with the Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector. The renationalisation of the water industry remains a possibility should a future Government adopt such a policy. Any associated changes in Government policy may fundamentally impact our ability to deliver the Group's strategic objectives, impacting shareholder value. Our aim is to ensure the water sector in England and Wales continues to deliver a world class service for customers, is able to invest for the future and maximises the benefits to wider society all stakeholders through the social and environmental benefits the current model allows us to deliver. We seek to minimise potential risk and maximise opportunities through regular communication and robust scenario planning as Government policy evolves.

## Key

- ↑ Increase in net risk exposure
- ↔ No change in net risk exposure
- ↓ Decrease in net risk exposure

### 3 LEGAL AND REGULATORY ENVIRONMENT

#### WHAT IS THE RISK?

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

#### WHAT DOES IT MEAN FOR US?

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

#### WHAT ARE WE DOING TO MANAGE THE RISK?

We specifically continue to engage with the Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector.

Our established governance framework, engagement with customers and stakeholders, policies, supported by internal controls, guidance and training ensure our ongoing compliance with all applicable laws and regulations including Competition Law and the General Data Protection Regulation ('GDPR'), for the operation of separate Wholesale and Retail business and between our Group businesses.

Our control frameworks are subject to regular review to take account of changes to legislation, regulation and our business. This is particularly relevant in relation to COVID-19 where there have been a number of changes to market codes to support the business retail market. We work closely with Ofwat and MOSL to shape and understand all developments.

Any changes to the legal and regulatory environment are captured as emerging risks through our ERM process with identified owners and action plans to ensure compliance when the changes come into effect. More detail on our emerging risks can be found on page 63. Our external legal advisers also provide detailed reviews in respect of upcoming legislation that may affect the Group. Any applicable legislation is reported to the Executive Committee and Board with communication across the business as required.

#### MOVEMENT



### 4 OPERATIONS, ASSETS AND PEOPLE

#### WHAT IS THE RISK?

We may experience loss of data or interruptions to our key business system as a result of cyber attacks.

#### WHAT DOES IT MEAN FOR US?

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

#### WHAT ARE WE DOING TO MANAGE THE RISK?

We continue to commit significant resources and financial investment to maintain the integrity and security of our assets and data. We follow guidance from the National Cyber Security Centre and have defence through multiple layers of software and processes including web gateways, filtering, firewalls, intrusion and advanced threat detection.

We have strengthened our security and network operations capability this year and have improved the controls around third party access to our systems and data. We have reviewed our cyber risk methodology and are using this to prioritise future investment to ensure that we protect ourselves in-line with GDPR, Network and Information Systems Regulation and Payment Card Industry Data Security Standard ('PCI DSS') best practices. We have also participated in a number of internal cyber security incident exercises to test our response capability to cyber attacks. There has been no material change in the net risk exposure.


There has been an increase in cyber-related events nationally and globally during the COVID-19 pandemic, however, there have been no material instances impacting our Group operations. We maintain robust cyber defences and additional reminders have been issued to colleagues to remain vigilant.

#### MOVEMENT






## 5 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?	WHAT ARE WE DOING TO MANAGE THE RISK?
<p>We may fail to meet our regulatory targets in the round, including targets from Ofwat, in relation to operational performance of our assets resulting in regulatory penalties.</p>	<p>We have significantly improved our performance on water measures this year. This demonstrates that our approach, including tracking leading measures at our comm cells and at performance meetings, is working.</p> <p>Performance on supply interruptions has improved through our 'Prevent, Restore, Repair' strategy which focuses on preventing asset failure where possible, and restoring supply at speed if this happens. On leakage, we've continued to use innovative ways of finding leaks faster and fixing them more efficiently. We've also maintained performance on many of our waste water measures, but the revised targets accepted as part of waste water ODI uncapping in December 2018, meant we were in penalty on our flooding measures this year. We have improvement plans in place and will continue to use our outcomes to resources approach to ensure we undertake the right operational interventions to improve performance.</p> <p>AMP6, the largest ever period of capital investment for Severn Trent has now concluded. ODIs such as Birmingham Resilience and the Water Framework Directive have been successfully delivered, as well as mains renewal activity and the strategic sewer upgrade programme at Newark.</p> <p>We are closely monitoring the impact of COVID-19 on our operational performance and our ability to prevent asset failure. To date, we have not experienced a material increase in this risk as a result of the working practice changes we have made.</p>
<p><b>WHAT DOES IT MEAN FOR US?</b></p> <p>In AMP7, Ofwat is setting targets on an upper quartile basis. If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties within the current price review period, or applied to the next price review. Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.</p>	
<p><b>MOVEMENT</b></p>	

## 6 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?	WHAT ARE WE DOING TO MANAGE THE RISK?
<p>Failure of certain key assets or processes may result in inability to provide a continuous supply of clean water to large populations and take waste water safely away within our area.</p>	<p>Our delivery plan for 2020 to 2025 includes significant investment to improve the resilience of our assets. Our approach to system planning is building on this investment to create more redundancy and to develop more options for responding to events. The plan is to have system plans for all of our control groups by summer 2022.</p> <p>We recognise there are areas where our performance is not as consistent as we would like and are committed to improving these. We are continuing our Cleanest Water Plan which drives the delivery of our inspection, cleaning and repair of storage tanks, increasing our capital maintenance interventions, optimising our operation and maintenance tasks and formalising our processes, standards and operating procedures involved in delivering clean water. Building on the success of the Asset Management Framework and its implementation in operations through OEE approaches, we are moving towards more predictive and proactive solutions and so reducing the need for reactive response.</p> <p>Coupled with the evolution of the Asset Health Dashboard, this will enable better targeting and prioritisation of our intervention. Our response to failures in supply such as burst mains has been greatly enhanced and we are now able to reach the site and initiate recovery plans much quicker than in previous years.</p>
<p><b>WHAT DOES IT MEAN FOR US?</b></p> <p>Some of our assets are critical to the provision of water to large populations for which we require alternative means of supply. Examples of risk include the failure of one of our reservoirs or water treatment works. These assets are regularly inspected and maintained and our assessment of the overall condition of these assets is good. Other examples are our IT, telephony systems and remote monitoring systems which are also key to our operations.</p>	
<p><b>MOVEMENT</b></p>	

# Key

- ↑ Increase in net risk exposure
- ↔ No change in net risk exposure
- ↓ Decrease in net risk exposure

## 7 OPERATIONS, ASSETS AND PEOPLE

### WHAT IS THE RISK?

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

### WHAT DOES IT MEAN FOR US?

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

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

### WHAT ARE WE DOING TO MANAGE THE RISK?

We have a well-established Health, Safety and Wellbeing Framework to ensure all of our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. We have reviewed our Framework and processes in the light of COVID-19 and have revised working practices to ensure we keep people as safe as possible while delivering our essential services.

Our Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do. We experienced no major safety incidents and no fatalities in the last 12 months, with a 33% improvement in Lost Time Incidents ('LTIs') this year. We have also refreshed our strategy and have targeted interventions in the four main hazard areas causing us most harm.

We have made a number of ODI commitments to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance. In AMP6 we delivered our largest ever environmental programme. This programme is supported by our customers who want to see us do more to improve river water quality. During the year we completed a number of environmental programmes including those under the Water Framework Directive, which helped deliver 1,600 km of river quality improvements. We anticipate achieving 4\* EPA status from the Environment Agency, reflecting our strong performance across the range of measures it uses to assess the impact we have on the environment.

We recognise the impact our operations have on the wider environment and we want to reduce our carbon footprint by seeking lower carbon ways of operating our business, driving energy efficiency and generating renewable energy. We now generate the equivalent of 51% of our energy needs, with our remaining electricity now sourced from 100% renewable sources. During the year we were re-certified by the Carbon Trust – the 11th consecutive year we have achieved this standard. This verifies that we have sound carbon management processes in place and are reducing carbon emissions year-on-year.

### MOVEMENT



## 8 OPERATIONS, ASSETS AND PEOPLE

### WHAT IS THE RISK?

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

### WHAT DOES IT MEAN FOR US?

Climate change is one of the greatest challenges our society will face this century. As a company providing an essential service drawn from nature, we know that our sector is particularly vulnerable to the effects of climate change. Climate change (hotter and drier summers, wetter winters and increased storminess) could result in an inability to meet customer demand, lower river levels, decreased raw water quality, flooding of our water or waste works, sewer capacity being exceeded and increased land movement. Climate change could also be a multiplying factor for several of our principal risks – 1, 5, 6 and 7 detailed above. This challenge will only grow in the longer term.

Climate change also presents some opportunities we look to maximise, such as aquifer recharge and increased biological treatment.

### WHAT ARE WE DOING TO MANAGE THE RISK?

Climate change is well-embedded in our long-term planning. We are better placed than many other businesses to understand, and plan for, the potential impacts of climate change.

As part of our Water Resources Management Plan ('WRMP') process, we model multiple climate projections in order to design new sources to offset any supply risk resulting from climate change. Similarly, our Drainage and Wastewater Management Plan ('DWMP') enables strategic planning for the management of waste water.

#### Extreme Weather

Adapting to climate change and being able to cope with more frequent extreme weather events is essential to ensure we can maintain a great service to our customers. We have applied the learnings from the Freeze Thaw event and prolonged hot, dry summer event in 2018. Our contingency and future investment plans have been reviewed using 'Extreme Flood Outline' data following the 2015/16 flooding events. All activity has further informed our incident response and contingency plans.




#### Climate Change

Our approach to climate change focuses on both mitigation and adaptation, as outlined in our Triple Carbon Pledge and Science-Based Targets commitment. Our climate change adaptation report, considered at Board level, sets out our review of climate change risks across all aspects of our service delivery and sets out detailed plans to make further progress in building climate resilience.

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

### MOVEMENT



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

## 9 FINANCIAL

### WHAT IS THE RISK?

Lower interest rates, higher inflation or underperforming equity markets may require us to provide more funding for our pension schemes.

### WHAT DOES IT MEAN FOR US?

Our largest defined benefit fund has a significant deficit between the present value of its assets and liabilities. We have agreed the triennial actuarial valuation as at 31 March 2019 and as a result agreed to increase deficit repair payments for the next three years to approximately £55 million per annum. But we also continue to run a degree of investment risk within the scheme in order to further reduce the deficit. As such, we are exposed to market movements that may result in our deficit not falling as rapidly as the Trustee or the Pension Regulator consider acceptable. This may lead to requests for additional repair payments above the agreed amounts, reducing the amount of cash available for shareholder distributions, debt reduction or reinvestment in the business.

### MOVEMENT



### WHAT ARE WE DOING TO MANAGE THE RISK?

With the Company's support, the Pension Trustee has introduced additional hedging arrangements to reduce the impact of fluctuations in interest rates and inflation on the Schemes' liabilities without adversely impacting the expected return from the Schemes' assets.

On an IAS 19 basis, the net position (before deferred tax) of all the Group's defined benefit pension schemes was a deficit of £234.0 million (2019: £452.9 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the Schemes' assets or their expected returns.

## 10 FINANCIAL

### WHAT IS THE RISK?

We are unable to fund the business sufficiently in order to meet our liabilities as they fall due.

### WHAT DOES IT MEAN FOR US?

We must ensure sufficient liquidity is available to meet our near-term financial commitments. We have a significant funding requirement in AMP7, to fund our investment programme and refinance maturing debt. This is a well-controlled risk, but it is important that we maintain these high standards to mitigate this risk.

### MOVEMENT



### WHAT ARE WE DOING TO MANAGE THE RISK?

We have maintained compliance with our Board approved liquidity policy of ensuring at least 18 months' liquidity – with liquidity to early 2022. We have been active in the Euro Medium Term Note ('EMTN') market, increased our committed bank facilities and have accessed the GBP public bond market over the course of the last 12 months.

The Group also completed its first debt issue under the Sustainable Finance Framework in March 2020 with a £200 million USPP debt issue by Severn Trent Plc. This demonstrates we are able to replace the European Investment Bank as a source of financing as a result of the UK's departure from the European Union. We are actively looking to other capital markets to diversify further our sources of funding.

We are closely monitoring the potential economic impacts of COVID-19, in particular financing and liquidity. This activity included modelling plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Additional detail can be found in our viability statement on page 66. Our modelling shows that, while there will be a financial impact, neither the plausible or extreme scenarios we have modelled would result in an impact to the Group's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions, and are therefore not considered threats to the Group's financial resilience. However, there remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

## EMERGING RISKS

We continually identify and monitor emerging risks through our network of ERM co-ordinators, ERM champions and risk owners and through cross-functional workshops at all levels of the organisation using tools such as horizon scanning and PESTLE analysis. This culminates with an emerging risk horizon map reported annually to the Audit Committee and Board. We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage. Emerging risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose. It aims to identify new and changing risks at an early stage and

analyse them thoroughly to deduce the potential exposure to Severn Trent. We closely monitor emerging risks and, with time, they may become fully fledged ERM risks or be incorporated into existing ERM risks (as potential causes) as we learn more. In some cases, the emerging risks are superseded by others or cease to be relevant or applicable as the internal and external environment in which we operate evolves. The Directors have carried out a robust assessment of the Company's emerging risks and consider the following to be risks that have the potential to increase in significance and affect the performance of the Group:

Title	Detail	Area / Factor	Time Horizon
<b>Macroeconomic Uncertainty</b>	– Increased macroeconomic uncertainty throughout and post-COVID-19 and post Brexit transitional period.	Economic	Medium
<b>Performance Challenges</b>	– AMP7 presents new, challenging ODI's with demanding performance targets. The greater disaggregated regulatory reporting framework means we have to adapt to meet our ambitions over the next five years.	Operational	Medium – Long
<b>Biodiversity</b>	– A predicted consequence of climate change is the reduction of species diversity. We may have to manage the impact of invasive, non-native species within the habitats we manage and interact with in our operations.	Environmental	Long
<b>Energy Security</b>	– Despite the UK having a reliable energy system with electricity supply from a diverse range of sources, a major power disruption occurred in August 2019 and the knock-on impacts for energy users were significant. To increase our resilience to such events, we are exploring ways to increase our self-generation capability from renewable energy sources. These are being investigated as part of our Climate Change Adaptation Strategy.	Technology	Medium
<b>Micro plastics</b>	– Understanding and addressing the impact of micro plastics – including on natural resources and customers.	Health, Safety and Environmental	Medium
<b>HS2</b>	– Direct impact on operational sites along the proposed route and the indirect impact on labour availability in the area.	Operational	Medium – Long



## COVID-19 STATEMENT

At the time of writing, the COVID-19 global pandemic continues to dominate the focus of the world. Whilst global pandemics have not previously been noted as a principal risk, they do feature on our horizon scanning and many of the associated risks are captured within our ERM framework.

Management continues to assess the impact of COVID-19 on the Company's operations and finances. Internal Strategic and Tactical Incident Teams were established, comprising Executive Committee members, to lead the swift implementation of contingency plans and continuously monitor plans in response to the rapidly-changing situation. You can read more on our COVID-19 response governance framework on page 10.

We have modelled plausible and extreme scenarios to determine expected impacts and test our financial resilience. The modelled outcomes are based on regularly updated assumptions, including:

- The longevity of the incident (initial lockdown and recovery) – using latest Government advice;
- The expected macroeconomic impacts of the incident (GDP, inflation and unemployment rates) using independent economic forecasts;
- The impact on household bad debt rates, using our experience during previous recessions;
- An estimate of incremental operating costs both during the incident and in the recovery phase, required to ensure service levels are maintained, using our experience of previous incidents; and
- The impact on our revenues in 2020/21 and subsequent years, based on the expected revenue true-up mechanisms in the regulatory model.

All modelled scenarios generate outcomes consistent with, and within, the parameters used to support our published viability statement on page 66.

Our modelling to date shows that, while there will be a financial impact, neither the plausible or extreme scenarios we have modelled would result in an impact to the Group's expected liquidity, solvency or debt covenants that could not be addressed by mitigating actions, and are therefore not considered threats to the Group's financial resilience.

Our priority remains the health and safety of our people and customers, and we are taking all possible actions to support them whilst continuing to deliver our essential services.

The Board continues to receive at least weekly updates on the Group's COVID-19 response in order to assess, monitor and promptly respond to the evolving impact of COVID-19 on our operations and business, including impacts for all of our stakeholders.

## BREXIT STATEMENT

We continue to monitor and prepare for various scenarios relating to the customs exit of the UK Brexit plan. Despite uncertainty on timescales and details of agreements we remain confident that Brexit does not give rise to new principal risk for the Group and the risk has materially reduced since the terms of Brexit were resolved and the UK formally left the EU on the 31 January 2020.

Preparations are well advanced at a company and industry level but it has been agreed to pause industry plans through the Water UK co-ordinated group, called the Operations Strategy Group. This will reconvene subject to Government timelines but it is not envisaged that there are likely to be any significant risks not previously considered as part of the 'No Deal' preparations. Progress in the Brexit negotiations will continue to be monitored and the risks and uncertainties will be managed through our existing ERM process.

Progress during the Brexit transition phase and trade negotiations will continue to be monitored and the risks and uncertainties will be managed through our existing ERM process.

# NON-FINANCIAL INFORMATION STATEMENT

This section of the Strategic report constitutes the non-financial information statement of Severn Trent Plc, produced to comply with sections 414CA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference.

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
<b>STAKEHOLDERS</b>	<ul style="list-style-type: none"> <li>– Customer policy</li> <li>– Group data protection policy</li> <li>– Group commercial policy</li> </ul>	Stakeholder engagement, <b>pages 24 – 27</b> s.172 statement, <b>pages 28 – 29</b> Board activities, <b>pages 79 – 80</b>
<b>ENVIRONMENTAL MATTERS</b>	<ul style="list-style-type: none"> <li>– Group environment policy</li> </ul>	Sustainability disclosure, <b>pages 16 – 19</b> Corporate Sustainability Committee report, <b>pages 99 – 101</b> Sustainability report, <b>pages 12 – 28</b>
<b>EMPLOYEES</b>	<ul style="list-style-type: none"> <li>– Group health, safety and wellbeing policy</li> <li>– Group speak up policy</li> </ul>	Employee engagement, <b>page 20</b> Our people, <b>page 20</b> Our Purpose and Values, <b>page 14</b> Our culture, <b>page 14</b> Gender Pay Gap, <b>page 120</b> Governance report, <b>pages 69 – 129</b> Audit Committee report, <b>pages 91 – 96</b>
<b>RESPECT FOR HUMAN RIGHTS</b>	<ul style="list-style-type: none"> <li>– Modern Slavery Statement</li> </ul>	Modern Slavery Act, <b>page 99</b> Corporate Governance report, <b>pages 69 – 129</b> Corporate Sustainability Committee report, <b>pages 99 – 101</b>
<b>ANTI-CORRUPTION AND ANTI-BRIBERY</b>	<ul style="list-style-type: none"> <li>– Group financial crime and anti-bribery and anti-corruption policy</li> <li>– Group conflicts of interest policy</li> <li>– Group security policy</li> <li>– Group competition and competitive information policy</li> </ul>	Corporate Governance report, <b>pages 69 – 129</b> Audit Committee report, <b>pages 91 – 96</b>
<b>SOCIAL MATTERS</b>	<ul style="list-style-type: none"> <li>– Doing The Right Thing</li> <li>– Group environment policy</li> <li>– Customer policy</li> </ul>	Sustainability disclosure, <b>pages 16 – 19</b> Corporate Sustainability Committee report, <b>pages 99 – 101</b> Directors' report, <b>pages 124 – 128</b> Sustainability report, <b>pages 32 – 44</b>
<b>DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY</b>		Risk overview, <b>page 57</b> Principal risks, <b>pages 58 – 62</b> Business model, <b>pages 6 – 7</b>
<b>DESCRIPTION OF THE BUSINESS MODEL</b>		Business model, <b>pages 6 – 7</b>
<b>NON-FINANCIAL KEY PERFORMANCE INDICATORS</b>		Strategic report, <b>pages 1 – 68</b> Key Performance Indicators <b>pages 32 – 33</b>

The policies mentioned above form part of Severn Trent's Group policies, which act as the strategic link between our Purpose and Values and how we manage our day-to-day business. During the year, the Directors approved the relaunched Doing the Right Thing and supporting Group policies, and it was determined that the policies remain appropriate, are consistent with the Company's values and support its long-term sustainable success.

# VIABILITY STATEMENT

## ASSESSMENT OF CURRENT POSITION AND LONG-TERM PROSPECTS

The Directors' assessment of the Group's current financial position is set out in the Chief Financial Officer's review on pages 51 to 56.

Our principal operating subsidiary is Severn Trent Water, which is a regulated long-term business characterised by multi-year investment programmes and relatively stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions. Ofwat meets this obligation by setting price controls for five-year Asset Management Periods (AMPs) including mechanisms that reduce the risk of variability in revenues from the regulated business in the medium term by adjusting future revenues to balance over or under recovery compared to the original plan.

AMP6 ended on 31 March 2020 and Ofwat has made its determination of price controls for Severn Trent Water for the AMP period 2020–25 (AMP7). Severn Trent Water has developed its plans to deliver the operational and financial performance set out in the Final Determination and we have based our assessment of prospects for the next five years on these plans, subject to modifications resulting from the impacts of the COVID-19 outbreak (see below).

When considering the Group's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025–30 (PR24), which will take place in 2024. In making this assessment we have taken account of:

- Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions;
- Severn Trent Water's financial structure, which is close to the Ofwat notional capital structure and our plan to retain this; and
- Severn Trent Water's plans for AMP7, the successful execution of which would deliver benefits to all stakeholders and financial incentives that would help to further strengthen our financial resilience in the period beyond 2025.

We have significant investment programmes, largely funded through access to debt markets. Our strategic funding objectives reflect the long-term nature of the Severn Trent Water business and we seek to obtain a balance of secure long-term funding at the best possible economic cost. Our Treasury Policy requires us to maintain sufficient liquidity to cover cash flow requirements for a rolling period of at least 18 months in order to limit the risk of restricted access to capital markets. Our Group Treasury team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 13 years.

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

Our medium-term plan reflects the Group's prospects and considers the potential impacts of the principal risks and uncertainties. We perform stress tests to assess the potential impact of combinations of those risks and uncertainties. The plan also considers mitigating actions that we might take to reduce the impact of such risks and uncertainties, and the likely effectiveness of those mitigating actions.

## Impact of COVID-19 on the Group's prospects

The Office for Budget Responsibility has identified the water industry as likely to be amongst the least affected by the COVID-19 outbreak. But we are not immune to the impacts on the wider economy and we expect to see a reduction in consumption from non-household customers following the restrictions implemented by the Government, and an increase in bad debt costs from household customers, even after allowing for an increase in the use of our range of social tariffs. Some independent forecasters are also predicting a sharp reduction in inflation during calendar years 2020 and 2021 that would impact our revenue in financial years 2021/22 and 2022/23. We have modelled the likely impacts on our medium-term plan and developed an updated assessment of our prospects allowing for the anticipated impacts of COVID-19 based, inter alia, on the Office for Budgetary Responsibility's Reference Scenario published on 14 April 2020, Government advice and water sector specific guidance from our regulator Ofwat. We have applied our stress tests, including more severe impacts of the COVID-19 outbreak, to this adjusted plan. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

## Period of assessment

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

However, the changing nature of regulation of the water industry increases the uncertainty that is inherent in our financial projections. We have an established planning and forecasting process and the Board considers that the assessment of the Group's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP7 period in 2025 with less detailed projections looking beyond this.

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

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

## ASSESSMENT OF VIABILITY

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described on pages 57 to 64, and from the key assumptions in the financial model. Where the risk occurs at a point in time we have assumed that it occurs at the point in the plan with the lowest headroom.

The scenarios tested are described below.

Scenario tested	Related principal risk	Mitigating actions
<p><b>1. A more severe impact from the COVID-19 outbreak resulting from a prolonged 'lockdown' period resulting in lower economic activity, higher unemployment and lower inflation</b></p> <p>The adjustments that we have made to our medium-term plan to reflect the anticipated impacts of COVID-19 are based on a number of assumptions including a 'lockdown' period of three months followed by another period of three months when Government restrictions are partially lifted. We have modelled longer periods of 'lockdown' and a partial lifting of restrictions of six months each which might result in more severe impacts on total revenues and household bad debts, together with a larger and longer reduction in inflation.</p>		<p>The regulatory model includes mechanisms to adjust future revenues to balance out any under recovery when compared to the original price review. The application of these mechanisms would necessarily take into account affordability of customers' bills and therefore might be spread into the next AMP period.</p> <p>Reduce discretionary expenditure to mitigate the impact of lower revenue in the affected years.</p> <p>Lower inflation would reduce the finance cost incurred on index-linked debt.</p> <p>Consider use of hybrid debt instruments to protect credit ratings.</p> <p>Consider a temporary reduction in, or re-phasing of, dividends.</p>
<p><b>2. An increase in the funding deficit of the Group's defined benefit pension schemes</b></p> <p>The planned funding for the Group's defined benefit pension arrangements is based on current assumptions for future inflation, asset returns and members' longevity. Outcomes adverse to our assumptions could result in a higher funding deficit. We have assessed the impact of an increase in cash contributions to the schemes to £85 million per annum. Contributions are reviewed and agreed with the Scheme trustee on a triennial basis with the next valuation of the main scheme based on the funding position at 31 March 2022.</p>	<p><b>Risk 9:</b> Increased funding for pension schemes</p>	<p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p> <p>Consider use of hybrid debt instruments to protect credit ratings.</p> <p>Consider a temporary reduction in dividends.</p> <p>Identify and implement sustainable cost savings and efficiencies.</p> <p>Reduce working capital to support cash flow.</p>
<p><b>3. Severn Trent Water experiences a severe climate event, operational failure or other exceptional event with a very significant financial impact</b></p> <p>The Group's Enterprise Risk Management process has identified a number of risks including extreme weather events, failure of key assets and cyber attacks that might have a significant impact on the Group's operational and financial performance. We have assessed the effects of an incident with an impact of £300 million.</p>	<p><b>Risk 4:</b> Cyber security</p> <p><b>Risk 6:</b> Failure of key assets</p> <p><b>Risk 7:</b> Health and safety and environmental impact</p> <p><b>Risk 8:</b> Impact of extreme weather/ climate change</p>	<p>Reduce discretionary expenditure to cover any extra costs resulting from the event.</p> <p>Consider use of hybrid debt instruments to protect credit ratings.</p> <p>Consider a temporary reduction in dividends.</p> <p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p>
<p><b>4. Severn Trent Water underperforms against its performance commitments</b></p> <p>Severn Trent Water operates under a regulatory model that encourages companies to deliver what customers want, using performance related rewards and penalties. Failure to deliver performance at the committed level can lead to significant penalties. We have assessed the impact of a penalty equivalent to 3% of one year's revenue.</p>	<p><b>Risk 1:</b> Failure to deliver what our customers want</p>	<p>Reduce discretionary expenditure to cover any extra costs resulting from penalties.</p> <p>Discuss the impact on debt covenants with lenders and seek a temporary waiver if necessary.</p>
<p><b>5. Severn Trent Water incurs higher costs than planned that are not funded</b></p> <p>Significant overspending could result in a deterioration in financial metrics and performance, which might adversely impact the Group's solvency. We have assessed the impact of a 10% overspend on capital and operating expenditure in each year of the plan.</p>	<p><b>Risk 2:</b> Changes in the regulatory environment for the UK water industry</p>	<p>Reduce discretionary expenditure in the short term.</p> <p>In the medium term implement a cost reduction programme to deliver sustainable cost savings and efficiencies to bring costs back in line with regulated allowances.</p> <p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p> <p>Consider a temporary reduction in dividends.</p>
<p><b>6. A combination of scenarios 4 &amp; 5</b></p>	<p>See above</p>	<p>Reduce discretionary expenditure in the short term.</p> <p>Reduce working capital to support cash flow.</p> <p>Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.</p> <p>Consider a temporary reduction in dividends.</p>



## VIABILITY STATEMENT CONTINUED

The combined scenario represents a situation where several of the severe but plausible scenarios occur simultaneously. In this situation, the same mitigating actions would be available but their application would be deeper.

We have significant funding requirements to refinance existing debt that falls due for repayment during the period under review and to fund our capital programme. Under all scenarios considered, the Group would remain solvent and have access to sufficient funds in normal market conditions. Our Treasury Policy requires that we retain sufficient liquidity to meet our forecast obligations, including debt repayments for a rolling 18 month period.

In making its assessment, the Board has made the following key assumption:

- Any period in which the Group is unable to access capital markets to raise finance during the period under review will be shorter than 18 months.

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

### GOVERNANCE AND ASSURANCE

The Board reviews and approves the medium-term plan on which this viability statement is based. The Board also considers the period over which it should make its assessment of prospects and the viability statement. The Audit Committee supports the Board in performing this review. Details of the Audit Committee's activity in relation to the viability statement are set out in the Audit Committee report on page 92. Since the onset of the COVID-19 outbreak, the Board has received regular and frequent updates of its likely impact and the results of stress tests based on more severe scenarios.

This statement is subject to review by Deloitte, our external auditor. The audit report is set out on pages 130 to 136.

### ASSESSMENT OF VIABILITY

The Board has assessed the viability of the Company over a seven year period to March 2027, taking into account the Company's current position and principal risks.

Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2027.

### Going Concern Statement

In preparing the financial statements the Directors considered the Company's ability to meet its debts as they fall due for a period of one year from the date of this report. This was carried out in conjunction with the consideration of the viability statement above.

On this basis the Directors considered it appropriate to adopt the going concern basis in preparing the financial statements.

### Approval

This Strategic report was approved by the Board.

By order of the Board.



**Bronagh Kennedy**

Group General Counsel and Company Secretary

19 May 2020