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Severn Trent Plc
Annual Report and Accounts 2019

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WONDERFUL ON TAP

THURSDAY

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COMPANIES HOUSE

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Highlights

£1,767.4m

Group turnover
2018 £1,696.4m[1]

93.37p

Dividend per share
2018: 86.55p

133.4p

Basic earnings per share from continuing operations
2018 101.8p[1]

145.8p

Underlying basic earnings per share[2]
2018: 120.5p[1]

£563.3m

Group profit before interest and tax
2018 £527.2m[1]

£573.6m

Group underlying profit before interest and tax[2]
2018 £539.8m[1]

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

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

Cautionary statement

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

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

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Contents

Welcome to the Severn Trent Annual Report 2019

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

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

WONDERFUL ON TAP

What we do

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

OUR VALUES

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

WE PUT OUR **CUSTOMERS FIRST**

WE ARE **PASSIONATE ABOUT WHAT WE DO**

WE ACT WITH **INTEGRITY**

WE **PROTECT OUR ENVIRONMENT**

WE ARE INSPIRED TO CREATE AN AWESOME COMPANY

READ MORE ON PAGE 20

REGULATED WATER AND WASTE WATER

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

The primary activities we focus on
- Wholesale operations and engineering
- Household customer services

About us
We are two of [illegible] regulated water and waste water businesses in England and Wales. We provide high quality services to [illegible] businesses in the Midlands and Wales.

£1,583.1m
Turnover[1]

£527.0m
Underlying profit before interest and tax[1,2]

2.0bn
Litres of drinking water supplied each day

5,680
Employees[3]

Map removed

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

READ MORE ON PAGE 34

1. New segmental basis, see note [illegible] to the Group financial statements [illegible] prior year comparatives [illegible].
2. Alternative Performance Measures are defined in note [illegible] [illegible].
3. Average during 2018/19 see note [illegible] to the Group financial statements.

£518.1m

Profit before interest and tax[1]

4.5m

Households and businesses served

2.9bn

Litres of waste water treated each day

Revenue split

Graph removed

SEVERN TRENT BUSINESS SERVICES

The markets we focus on
- Bioresources
- Green Power
- Operating Services
- Property Development

Where we operate
Business Services operates mainly in the UK and also in Ireland

There are five parts of Business Services:

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

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

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

Property Development
Property Development manages the sale of surplus land

Other
Developer services and our property searches and affinity partnership businesses

£200.9m

Turnover[1]

£63.1m

Profit before interest and tax[1]

£64.1m

Underlying profit before interest and tax[1,2]

889

Employees[3]

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

READ MORE ON PAGE 46

Graphic removed

Our business model

Running an efficient water business

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

Resources

RESOURCES & RELATIONSHIPS WE RELY ON

Physical assets

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

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

Natural resources

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

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

Financial capital

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

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

THE WATER CYCLE

Water is collected

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

Water is cleaned

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

Clean water is distributed

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

OUR INVESTMENTS IN RENEWABLE ENERGY PRODUCTION

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

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

Food waste anaerobic *digestion plants* generating green energy

GENERATING & PRESERVING LONG TERM VALUE

Physical assets

Our biggest year of capital investment in over a decade

Good progress on our Birmingham Resilience Project

Replaced 230 km of our water network in 2018/19

Natural resources

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

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

Financial capital

Delivering returns for our investors

7.9% (2018 6.2%)
Dividend growth

Investment grade credit rating

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

Relationships

Our customers and communities

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

We serve over 4 5 million customers

Our people

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

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

Our suppliers and partners

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

We work with over 2,400 direct suppliers and contractors

Our regulators

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

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

Customers enjoy our services

We serve 4 5 million businesses and households with a safe, reliable supply of water and collect waste water seven days a week, 365 days a year

Waste water is collected

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

Waste water is cleaned

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

Water is recycled to the environment

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

Graphics removed

Solar

Wind turbines

Clean gas and green electricity from our sludge anaerobic digestion plants

Our customers and communities

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

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

Our people

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

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

Our suppliers and partners

Building sustainable relationships that provide mutual benefit

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

Our regulators

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

Launched the World Water Innovation Fund

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Our social purpose

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

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

Our social purpose, to create long-term value through serving the needs of society, is at the heart of everything we do. Our commitment is this – every decision we make is based on providing world class water services at a fair price. We aim to make the most of our contribution to society as a whole and improve the environment.

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

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

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

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

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

Our own commitments go even further than these pledges.

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

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One moment of inspiration; a lifetime of water saving

Our social purpose for

Our Customers

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

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

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

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

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

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Custodians of a precious resource enjoyed by us all

Our social purpose for

The environment and wider society

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

Our commitments include the following:

- Planting the equivalent of one tree for every three households we serve by 2030, to help reduce flooding and improve water quality.
- Being operationally carbon neutral by 2030.
- Making sure our facilities are free of single-use plastic by 2020 and, by 2030, helping to prevent the equivalent of four billion plastic bottles ending up as waste.
- Signing the Social Mobility Pledge and recruiting people from disadvantaged backgrounds across our region, so that we can provide opportunities to everyone.
- Encouraging every employee to spend at least two days a year of company time volunteering in their local community.
- Supporting charities like WaterAid (which we helped to set up) working in poorer countries.
- Offering every primary school in our region a visit from our Wonderful Water Tour – an educational roadshow to inspire tomorrow's generation.

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

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

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Our expert minds delivering investments for the future

Our social purpose for

Our Colleagues

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

Our goals are to:

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

We will achieve these goals by:

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

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Decades of sustainable investment positive effects for all

Our social purpose for

Our Investors

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

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

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

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Fulfilling our role in society

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

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

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

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

Andrew Duff
Chairman

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

Long-term achievements

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

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

Our people make the difference

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

It is important that the makeup of our workforce is representative of the communities we serve I am pleased to report that in respect of ethnic diversity, 8 7% of our workforce come from Black, Asian and Minority Ethnic ('BAME') backgrounds Additionally, 31% of our graduates and 12% of our apprentices come from BAME backgrounds, significantly above industry averages We've also invested in initiatives to help provide employment opportunities to people from disadvantaged backgrounds in our region We are also the highest ranked utility in the Hampton-Alexander Review, which measures gender diversity

Sharing the rewards

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

We have delivered strong financial performance this year, with Group turnover from continuing operations of £1,767 4 million, an increase of 4 2% Underlying earnings per share was 145 8 pence, up 21 0% from the prior year and basic earnings per share was 133 4 pence, up 31 0% from the prior year

We are therefore proposing a final dividend of 56 02 pence per share to be paid on 19 July 2019, taking the total dividend for the year to 93 37 pence per share

Your Board

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

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

Outlook

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

Andrew Duff
Chairman

93.37p
Dividend per share
2018 86 55p

£1,767.4m
Group turnover
2018 £1,696 4m[1]

£563.3m
Group profit before interest and tax
2018 £527 2m[1]

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

Market and industry overview

Our context and peers

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

17

Regional businesses

50 million

Number of household and non-household customers served

£130 billion

Total investment in the industry since privatisation

The history of the water sector

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

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

The future of the water sector

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

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

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

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

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

Our regulatory framework

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

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

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

Graphic removed

A key year in our regulatory cycle

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

Severn Trent Water's plan

Our Severn Trent Water plan was shaped by the largest engagement exercise we have ever coordinated, consulting with 32,000 customers and considering a further 1 9 million customer views, and was the outcome of over 24 months of development As part of this we established new methods of listening to our customers, such as our online 'Tap Chat', which enabled customers to give us rapid feedback on our proposals

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

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

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

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

Market and industry overview
continued

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

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

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

And in Hafren Dyfrdwy...

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

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

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

What's next?

Hafren Dyfrdwy draft determination – July 2019

Final Determinations for all companies – December 2019

Working in a changing macro environment

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

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

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

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

How our market environment influences our five strategic priorities

Embedding customers at the heart of all we do

We'll continue to anticipate and to meet changing customers' and wider societal needs

READ MORE ON PAGE 24

Driving operational excellence and continuous innovation

Innovation helps us to deliver the services customers need and keep bills affordable

READ MORE ON PAGE 25

Investing responsibly for sustainable growth

We invest to make sure we continue to benefit from a resilient, well-maintained network that meets the demands of a growing population and a changing climate

READ MORE ON PAGE 26

Changing the market for the better

We work constructively with regulators, helping to prepare the industry for the opportunities and challenges of the future

READ MORE ON PAGE 27

Creating an awesome place to work

We can only succeed if we have the support of inspired, talented, diverse and engaged people

READ MORE ON PAGE 28

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"

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

Liv Garfield
Chief Executive

Delivering value for stakeholders

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

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

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

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

Chief Executive's review
continued

Our customers: at the heart of our plan

32,000 customers had a direct say in development of our Severn Trent Water plan and a further 1 9 million views helped shape its creation Our absolute priority is to improve services for all of our customers in areas that matter most to them We work night and day to create a service that s so good that our customers would still choose us, if they had the choice So, our plan aims to deliver just that

Affordability is right at the top of our agenda and we'll be reducing bills by 5% in real terms And we already have the lowest bills in England and Wales We'll be investing £6 6 billion over the next five years and helping nearly 50% more of our customers who are genuinely struggling to pay their bills

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

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

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

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

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

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

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

£563.3m

Group PBIT
2018· £527 2m[1]

£1,767.4m

Group turnover
2018· £1,696 4m[1]

£573.6m

Underlying Group PBIT[2]
2018 £539 8m[1]

7.9%

Dividend increase
2018 6 2%

£4.5m

Net ODI penalty[3]
2018 Net reward of £71 6m[4]

1 Restated for the implementation of IFRS 15 see note 2 of the Group financial statements
2 Alternative Performance Measures are defined in note 45 of the Group financial statements
3 Outcome Delivery Incentive (ODI') quoted pre-tax in 2012/13 prices
4 Restated to reflect Ofwat s decision on Supply Interruptions in their Final Determination of in-period ODIs for 2018

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

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

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

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

Our environment: investing for the benefit of all

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

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

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

Long-term sustainability for long-term investors

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

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

Looking forward

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

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

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

Liv Garfield
Chief Executive

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

How we are achieving our strategic objectives

Embed customers at the heart of all we do

What do we mean by this?

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

READ MORE ON OUR ODIs AND KPIs ON PAGE 32

READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34

What we said we would do in 2018/19

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

Our progress in 2018/19

- We've continued to offer a range of support schemes to help our customers struggling to pay their bills. Our aim is to support at least 50,000 customers each year while continuing to evolve our offers of support and our priority services register. We're already significantly expanding the scope and offers of support available. Alongside this, our Big Difference scheme continues to offer up to 90% discounts for customers that are struggling to pay their bills
- We've maintained our position delivering the lowest bills in England (Severn Trent Water) and Wales (Hafren Dyfrdwy). Based on our PR19 Business Plans, we are set to continue this position to 2025
- We've delivered another good year on customer ODIs, delivering outperformance equivalent to £91 million. And we agreed with Ofwat to uncap ODIs on our waste water measures. This will help us deliver even more progress this AMP on the areas that matter most to our customers.
- We've made a number of changes to our operating model, including to the design and operation of our Network Control room and increasing availability of real-time data. For example, we've used 100 high pressure loggers across our network to identify pressure transients and modify the system control on booster pumps to minimise them
- We applied the learnings from the Freeze Thaw event in March 2018 during the prolonged hot, dry weather this year – which saw a 22% increase in demand for water from our customers at peak times. We demonstrated resilience and flexibility in our network during this time and focused on prioritising resources to meet the additional demand and minimising the impact on our customers
- We've increased our customer engagement including running our first ever TV ad to promote water efficiency.

Areas of focus for 2019/20

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

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Drive operational excellence and continuous innovation

What do we mean by this?

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

READ MORE ON OUR ODIs AND KPIs ON PAGE 32

READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34

What we said we would do in 2018/19

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

Our progress in 2018/19

- Our performance across Waste – service and cost efficiency – remains sector leading And our PR19 plan placed us in the upper quartile for Waste In fact, Ofwat have asked us to share best practice with other companies so that customers across England and Wales can benefit from improvements on external sewer flooding performance In Water, we've delivered substantial second half improvements, giving us confidence for 2019/20 and beyond We are continuing to make improvements in Retail
- We've successfully delivered two key environmental commitments – overall environmental performance and catchment management, enhancing the quality of our raw product and reducing the level of treatment We've also made good progress on our Water Framework Directive and biodiversity commitments Unfortunately we've seen an increase in serious pollution incidents this year and we re putting extra resources in place to make improvements in this area
- We remain in the targeted assurance category for Severn Trent Water this year, with Ofwat assessing over 80% of measures as 'meets expectations All measures were assessed as 'minor amends or above meaning that Ofwat has no major concerns with the way in which we report our performance to customers and stakeholders
- We ve continued to make strong progress, as a result of our additional investment made earlier in AMP6 *We are working really hard on further* improvements in this key area

Areas of focus for 2019/20

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

Graphic removed

How we are achieving our strategic objectives continued

Invest responsibly for sustainable growth

What do we mean by this?

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

READ MORE ON OUR ODIs AND KPIs ON PAGE 32

READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34

What we said we would do in 2018/19

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

Our progress in 2018/19

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

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

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

Areas of focus for 2019/20

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

Graphic removed

Change the market for the better

What do we mean by this?

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

READ MORE ON OUR ODIs AND KPIs ON PAGE 32

READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34

What we said we would do in 2018/19

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

Our progress in 2018/19

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

Areas of focus for 2019/20

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

Graphic removed

How we are achieving our strategic objectives
continued

Create an awesome place to work

What do we mean by this?

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

READ MORE ON OUR ODIs AND KPIs ON PAGE 32

READ MORE IN OUR PERFORMANCE REVIEW ON PAGE 34

What we said we would do in 2018/19

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

Our progress 2018/19

- We were awarded silver in the Mind Workplace Wellbeing Index 2017/18 Our health and safety performance is upper quartile within the sector and we experienced no major safety incidents and no fatalities in the last 12 months We did see an increase in Lost Time Incidents ('LTIs'), mainly due to slips, trips and falls We have detailed plans in place to address this, with new data analytics being used to identify specific areas for improvement Progress against these areas is considered at the Employee Forum, Executive Committee and Board In April 2019 we revamped our Goal Zero Strategy, with dedicated quarterly awareness campaigns
- Over the last year, Community Champions, our volunteering programme, has supported over 1,900 colleagues to make a difference by helping to make our region's waterways even healthier and supporting our local communities
- We're are also pleased to maintain our strong engagement scores following our QUEST survey – completed by over 90% of our workforce – placing us five points above the average benchmark for UK and Ireland This is great news, especially given the extra commitment of our people this year in the difficult circumstances during the prolonged hot weather over the summer
- We're on-track to deliver our Training Academy by Spring 2020 Ensuring our people have the right mindset, technical competence and leadership skills for now and in the future *We've repurposed an existing* building to provide a greener solution, and are developing an exciting syllabus that uses state-of-the-art training techniques including virtual reality and network simulation

Areas of focus for 2019/20

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

Graphic removed

Environment, Social and Governance
At a Glance

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

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

Environmental leadership

2020-2025 Commitments		ESG performance	Read more
Carbon and Climate Change	**Our triple pledge:** • Carbon neutral by 2030, more stretching than science based targets, • 100% electric vehicles by 2030 – (assumes specialist vehicles such as tankers become available within that time window), and • 100% renewable energy by 2030 (including self-generated and purchased energy)	**Carbon reduction –** Group net Greenhouse Gas Emissions ('GHG') emissions fell by 27% in 2018/19 A reduction of 41% since the beginning of the AMP Total annual net emissions 268,283 tonnes CO_2e	Page 126
		Renewable generation – Generated equivalent of 43% of our electricity needs, up from 38% in 2017/18. On track to exceed 50% target by 2020	Page 125
Links to our strategic objectives		**Water Industry Achievement awards –** Winner of the Energy and Carbon Initiative of the year	Page 126
Biodiversity	**Biodiversity –** Improve 1090 hectares of land (or km of river) for biodiversity by 2025 **Tree planting –** Plant the equivalent of one tree for every three households we serve by 2030.	**Biodiversity –** Improved biodiversity of six hectares of SSSIs in 2018/19 On track to reach our target of 75 hectares by 2020 **Catchment Management –** Gold award winner at the Corporate Engagement Awards 2018	Page 39
Links to our strategic objectives			
Water Management	**Water resources –** Reduce unsustainable abstraction by nearly 100 Ml/d **Water management –** Triple the rate of leakage reduction across the sector by 2030. Focus on metering households. **Education –** offering every primary school in the Midlands a visit from our Wonderful Water Tour, inspiring them to change water usage behaviours	**Water resources –** Published draft Water Resources Management Plan ('WRMP') setting out our long-term plans to accommodate the impacts of population growth, drought, and climate change uncertainty to balance supply and demand over the next 25 years	Severn Trent website
		Leakage – Hit MLE target and have delivered a reduction year-on-year of 16 Ml/d	Page 39
		Water quality – 6% improvement in water quality complaints	Page 35
		Catchment management – Worked in partnership with over 820 farmers to reduce the amount of chemicals entering our raw water sources	Page 38
		Education – Engaged over 130,000 young people this year through our education programme, ahead of 125,000 annual target	Page 35
Links to our strategic objectives		**Water efficiency –** Carried out 26,000 home water efficiency checks to help customers manage their consumption Installed 35,823 water meters	Page 36
Environmental Stewardship	**River quality –** By 2025 we will have improved the quality of over 50% of rivers in our region **Single use plastic –** Prevent the equivalent of four billion plastic bottles ending up as waste by 2030	**River quality –** On track to improve at least 1,600 km of our rivers by 2020	Page 41
		Single use plastic – Supported Refil campaign, contributing to the 20,000 refill stations in the UK We have eliminated single use plastic from our office locations	Page 43
Links to our strategic objectives		**Environmental management system –** 35% of our operations externally certified	

Environment, Social and Governance – At a Glance
continued

Social – Our people

2020-2025 Commitments		ESG performance	Read more
Creating an awesome place to work	**Training** – Investing £10m in the new Training Academy in the Midlands **Diversity and Inclusion** – Committed to recruit people from social mobility cold spots across our region, seeking to provide opportunities to all	**Engagement** – Awarded Glassdoor Employees' Choice Award – Top 50 Places to Work in 2019 Ranked 3 9/5 overall 4 2 for culture and values Glassdoor reports that 74% of our people would recommend us to a friend. Employee engagement score five points above the average benchmark for UK and Ireland In 2018/19 our voluntary employee turnover was 6 5%	Page 108
		Training – Above EU average for training investment with over 15,000 training days	Page 44
Links to our strategic objectives		**Diversity and Inclusion** – Fourth in Hampton-Alexander Review FTSE100 for women in leadership, and the top utility	Page 44
		Social mobility – Signatory to Social Mobility Pledge Top 20 Company in the UK's Social Mobility Index	Page 113
		Gender pay gap – Mean gender pay gap of 2 8%	Severn Trent website
		Reward – The Remuneration Committee ensures that pay is fair throughout the Company and ensures executive pay is aligned to the wider workforce remuneration, our all-employee Annual Bonus Scheme is a great example of this in practice	Page 110
		Employee wellbeing – 70% of line managers trained in mental health, and over 400 mental health first aiders available	Page 45
		Goal zero health and safety – LTIs per 100,000 hours worked – Severn Trent Water 0 3 and Business Services 0 29 Upper quartile performance in the sector No fatalities in the last 12 months	Page 45
		Zero tolerance approach to modern slavery – Modern slavery statement ranked 16th in the FTSE100	Severn Trent website

Social – Our customers and communities

2020-2025 Commitments		ESG performance	Read more
Putting our customers first	**Community contribution** – We're investing 1% of profits for a new community fund – to make positive impact in our region **Vulnerable customers** – We'll help nearly 50% more customers who are struggling to pay their bills by 2025 and develop a strategy to end water poverty	**Vulnerable customers** – £3.5m trust fund donations annually, 2.62 social return on investment. Supported 52,838 people who struggle, against an annual target of 50,000	Page 24
		Our performance for customers – Overall customer satisfaction is 85%, 7% higher than the national average. Trustworthiness is at 73%, making Severn Trent the most trusted water company in England	Page 36
Links to our strategic objectives		**Customer Experience** – Maintained 14th position in customer Service Incentive Mechanism ('SIM') score. Upper quartile in the Institute of Customer Service's UK index as the top English water and sewerage company ('WaSC') and only slightly short of the UK average in all sectors	Page 33
Supporting our communities and wider society	**Innovation** – Launched the World Water Innovation Fund. Our £5m investment will make a real difference to lives across the world Doubled the funding for innovation in AMP7 **UN Sustainable Development Goals ('UNSDG')** – Aligned our commitments with the UNSDGs, highlighting positive contribution to 11 of the 17 goals	**Charitable contributions** – Founding partner of WaterAid and raised almost £30 million since 1981	Fund website
		Volunteering – 32% of employees volunteered in 2018/19 ahead of 30% target, improving 34 km of riverside and planting over 3,000 trees	Page 44
		Responsible supply chain – 100% prioritised suppliers signed up to our Sustainable Supply Chain charter	Severn Trent website
Links to our strategic objectives		**FTSE4Good certified**	

Governance

2020-2025 Commitments	ESG performance	Read more
Committed to the highest standards of transparency and corporate governance	**Highly commended** – PwC Building Public Trust Award for Executive Remuneration Reporting in the FTSE 350	
	Purposeful Company Task Force – Only utility to be named as a pathfinder by The Purposeful Company Task Force	
	Ofwat – Commended us on our 'pathfinding social purpose company' thinking	Page 19
Links to our strategic objectives	**Ofwat** – Awarded our Severn Trent Business Plan fast-track status	Page 19

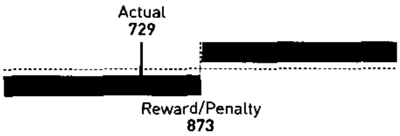
ODIs and KPIs

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

Progress against our customer Outcome Delivery Incentives[1,2,3]

Embed customers at the heart of all we do

Internal sewer flooding[4]



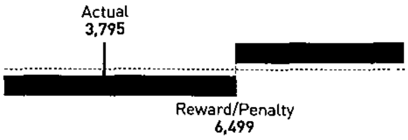
£42,820[1]

Rate of Reward/Penalty (per incident)

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

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

External sewer flooding[4]



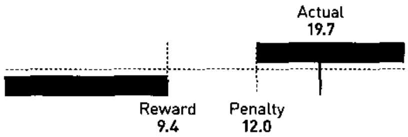
£2,967[1,5]

Rate of Reward/Penalty (per incident)

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

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

Minutes without supply



£1.10m[1]

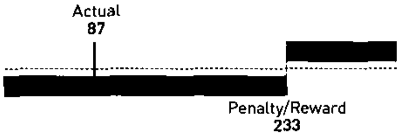
Rate of Reward/Penalty (per minute)

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

Progress in the year
We have interrupted customers supply for an average of 19 7 minutes, higher than our committed performance level of 9 4 minutes

Drive operational excellence and continuous innovation

Improvements to river water quality



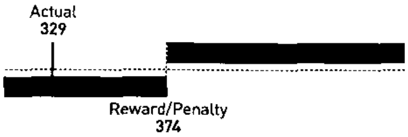
£750,000[1]

Rate of Penalty/Reward (per qualifying point)

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

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

Number of Category 3 pollution incidents[4]



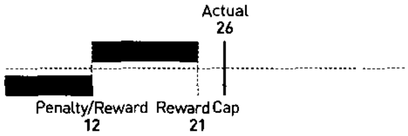
£53,900[1]

Rate of Reward/Penalty (per incident)

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

Progress in the year
We are reporting 329 Category 3 pollution incidents against an adjusted performance commitment of 374 incidents

Successful catchment management schemes



£1.03m[1]

Rate of Penalty/Reward (per scheme)

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

Progress in the year
We have delivered 26 catchment management schemes, well ahead of our performance commitment

Invest responsibly for sustainable growth

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

Create an awesome place to work

Severn Trent Water Limited

0.30

Lost time incidents per 100,000 hours worked
2017/18 0 17

Progress against our financial KPIs[7]

SIM – Customer experience

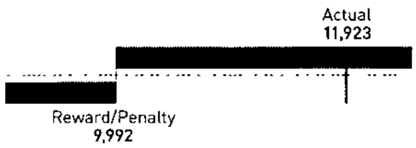
Not yet defined by Ofwat

81.45 SIM score

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

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

Complaints about water quality



£900[1]

Rate of Reward/Penalty (per complaint)

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

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

£1,767.4m

Group turnover
2017/18: £1,696.4m[8]

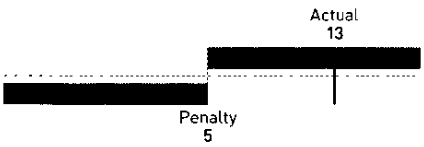
£573.6m

Group underlying PBIT
2017/18: £539.8m[8]

145.8p

Underlying earnings per share
2017/18: 120.5p[4]

Asset stewardship – coliform failures



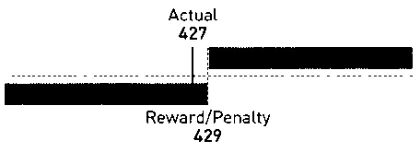
£463,000[1]

Rate of Penalty

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

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

Leakage



£123,000[1]

Rate of Reward/Penalty (per megalitre per day)

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

Progress in the year
We are reporting an outturn of 427 Ml/d which is marginally ahead of our performance commitment of 429 Ml/d

Severn Trent Business Services

0.29

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

No change

Severn Trent engagement score improvement[6]
2017/18: 6 percentage points

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

Key
Actual
| Severn Trent Actual Performance 2018/19

Regulated Water and Waste Water

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

4.5 million

Number of households and non-household customers

2.0 billion

Litres of high quality drinking water every day

Ninth year

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

Embedding customers at the heart of all we do

From the Bristol Channel to the Humber and from Rutland to North Wales, we play an essential role in the lives of 4 5 million households and non-households We provide them with around 2 0 billion litres of high quality drinking water daily, and treat around 2.9 billion litres of waste water every day

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

The issues that matter

Our engagement programme confirmed that the issue that matters most for our customers continues to be affordability – keeping bills low for our essential service is their top priority, as well as making sure that our most vulnerable customers have the support they and their families need

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

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

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

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

Reducing customer bills

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

Graphic removed

Graphic removed

Understanding different customers' needs

As part of our development of the PR19 plan, we undertook the most extensive customer engagement activity in our history More than 32,000 individual customers took part in our face-to-face research and 15,000 people joined our online panel We also evaluated 24,000 complaints and considered 1 9 million customer views From this we created our customer hierarchy of needs

15,000

People joined our online panel

Similarly, our Hafren Dyfrdwy customers enjoyed the lowest bills in Wales at £311 Over AMP7, we're going to be reducing bills in England by a further 5% in real terms, whilst at the same time investing to make further improvements to the services which we provide to our customers In Hafren Dyfrdwy we're increasing investment by 4% per customer to improve services, whilst limiting the increase in customer bills to 1 9% in real terms over the five year period

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

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

Working hard to provide the quality service that customers expect

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

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

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

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

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

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

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

Engaging with the customers of the future

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

The Wonderful Water Tour is targeted at children aged between seven and 11, to inspire them about water Comprising two buses and a whole host of gadgets and hands-on activities, the Tour educates children on three key messages the importance of using water wisely, helping them understand what they can, and can t, put down the toilet and sink, and the health benefits of staying hydrated.

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

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

Tracey Gillin
St Anne s Catholic Primary School, Nuneaton

Graphic removed

Performance review continued
Regulated Water and Waste Water

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

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

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

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

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

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

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

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

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

Graphic removed

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

More than 1 9 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 1 6 million customer contacts And the hard work of our customer communication team was recognised by a Silver Award at the European Contact Centre and Customer Service Awards

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

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

Driving operational excellence and continued innovation

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

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

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

Another strong year for waste water performance

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

On a like-for-like basis, we earned £103 1 million from waste water ODIs in the year which was reduced to £7 1m by the impact of the regulatory cap agreed with Ofwat and changes to our ODI incentives and targets for the remainder of the AMP After providing evidence of support from our customers, in December 2018, Ofwat agreed to raise the cap and we accepted even more challenging measures This will allow us to deliver an even better service for customers earlier than previously planned and to continue to drive improvements in the industry

Sewer flooding

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

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

Fighting the fat(berg)

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

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

Graphic removed

Making more informed decisions

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

Performance review continued
Regulated Water and Waste Water

Pollutions

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

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

Focusing on water quality and supply

Good progress on water quality

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

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

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

Meeting water demand

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

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

Supply interruptions

Supply interruptions ended the year at 19 7 minutes against our target of 10 8 minutes We have increased our focus on this area and we are starting to see definite improvements through our 'Prevent, Restore, Repair' strategy, which focuses on preventing asset failure where possible, and restoring supply at speed if it happens Performance in the second half of the year improved by 64% and we delivered our best ever performance in February and March

Managing our catchments

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

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

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

This is good news for the environment because it enhances biodiversity, good news for customers because it reduces treatment costs and enables us to invest elsewhere in the network, and good news for investors because it's generated £11 4 million in customer ODI outperformance payments We are expanding our catchment schemes to include biodiversity options in our farmer grants and aim to increase grant uptake by 42% by 2025

Graphic removed

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

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

Driving improvement in leakage

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

- maintaining our strong operational focus on leakage recovery and improving processes to reduce known network leaks – including a 67% increase in leakage fix teams,
- introducing innovative ways of finding leaks faster, and fixing them more efficiently – including accelerated installation of acoustic loggers, targeted WIP reduction and the use of more innovative solutions such as satellite technology, and
- spending time to better understand our leakage component data – giving us more clarity on how we can best target leakage and providing more accurate reporting going forward

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

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

Improving our environment

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

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

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

Proud to hold the Carbon Trust Standard

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

Read more on page 126

Logo removed

Improving raw water

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

Logo removed

Graphic removed

Performance review continued
Regulated Water and Waste Water

Investing responsibly for sustainable growth

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

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

Investing for today... and for future generations

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

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

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

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

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

Graphic removed

Investing to keep water flowing

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

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

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

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

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

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

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

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

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

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

Graphic removed

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

4%

The percentage of water supplies transferred today

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

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

Performance review continued
Regulated Water and Waste Water

Changing the market for the better

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

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

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

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

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

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

Driving innovation in waste water

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

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

Graphic removed

Creating an awesome place to work

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

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

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

Employee engagement

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

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

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

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

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

Read more on page 108

Helping our customers to reduce plastic

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

20,000

refill stations in the UK

150

enthusiastic Severn Trent volunteers

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

In our region there are now over 1,700 refill stations If each of these are used twice a day instead of a customer buying a new plastic bottle, then this would save over 1 2 million plastic bottles in a year

Graphic removed

Performance review continued
Regulated Water and Waste Water

Promoting diverse talent

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

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

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

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

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

Providing careers not just jobs

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

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

Playing our part

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

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

32%

of our employees volunteered in 2018/19

Over 1,900 days

dedicated to our Community Champions Programme.

Graphic removed

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

Rewarding our employees

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

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

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

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

Promoting health, safety and wellbeing

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

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

Supporting our communities

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

Turning up the heat on social mobility coldspots

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

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

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

Raising awareness of modern slavery

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

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

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

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

Logo removed

Business Services

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

Enabled construction of around

1,000

homes in our communities

43%

Generation of our energy needs

Food waste plants power 60,000 homes

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

Re-focusing our portfolio

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

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

Graphic removed

Turning waste into energy

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

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

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

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

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

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

Creating new homes and opportunities in our communities

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

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

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

Delivering for customers

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

Building a new community

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

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

Graphic removed

Chief Financial Officer's review

CFO's review

Graphic removed

James Bowling
Chief Financial Officer

We have built on our good financial performance in the first half of the year to deliver a strong set of results for 2018/19 Our Regulated Water and Waste Water ('RWWW') business delivered good growth in PBIT even after an additional £22 million of operating costs due to the hot, dry summer and our recovery after it In Business Services, strong performance in the second half of the year produced growth both in revenues and PBIT for the year as a whole In May 2018 we announced the sale of surplus land near Nottingham, and this, together with other smaller disposals later in the year, generated property profits for the Group of £19 9 million

Growth in underlying PBIT, lower finance costs and a reduction in our effective tax rate drove a strong increase in underlying basic earnings per share of 21 0% to 145 8 pence per share in the current year Basic earnings per share from continuing operations were 133 4 pence

We have delivered good performance on Regulated Equity ('RoRE') for the year end 2018/19 which was 8 1% Whilst this year's return was partly held back by reaching our Waste ODI cap, our strong financial performance helped us to an AMP6 cumulative RoRE of 9 1%, putting us amongst the very best in the sector, with outperformance on all three levers

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

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

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

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

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

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

- Group turnover from continuing operations was £1,767 4 million (2017/18 £1,696 4 million), an increase of 4 2%, as RWWW revenue increased by 4 0%, mainly due to the RPI-linked tariff increases, and growth in Business Services' external turnover
- Underlying PBIT was up 6 3% to £573 6 million (2017/18 £539 8 million) Underlying PBIT in our RWWW business grew by £29 4 million, Business Services PBIT grew by £0 7 million and Corporate and other growth was £12 8 million
- We recorded net exceptional costs of £9 6 million (2017/18 £12 6 million) arising from the High Court judgment in the Lloyds Bank case relating to Guaranteed Minimum Pension rights
- Reported Group PBIT was up 6 8% to £563 3 million (2017/18· £527 2 million)
- Net finance costs were £194.2 million (2017/18 £219 5 million) Our effective interest rate of 3 9% was down from 2017/18 (4 5%) due to. the continued benefit from replacing expensive fixed rate debt with new low cost fixed rate debt, low interest rates, and reduced RPI inflation on our index-linked debt.

£573.6m
Underlying Group PBIT[1]
2017/18· £539 8m[2]

145.8 pence
Underlying Group EPS[1]
2017/18 120 5 pence[2]

£769.3m
Group cash capex
2017/18 £591 0m

£563.3m
Reported Group PBIT[1]
2017/18· £527 2m[2]

133.4 pence
Reported Group EPS[1]
2017/18· 101 8 pence[2]

63.0%
Gearing
2017/18 60 6%

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

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

- Our full effective tax rate was 18 0% and our underlying effective tax rate was 11 6%, down from 12 7% in 2017/18 largely due to higher capital allowances from the larger capital programme in the year

Changes to segmental presentation

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

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

The segmental analysis that follows and in the financial statements shows

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

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

Regulated Water and Waste Water

Turnover for our RWWW was £1,583 1 million and underlying PBIT was £527 0 million on the new reporting basis On the old basis turnover was £1,637 6 million (2017/18 £1,574 6 million) and underlying PBIT was £544 3 million (2017/18 £514 9 million)

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

Turnover increased by 4 0% to £1,637 6 million The components of this were

- RPI and the K factor increased revenue by £55 7 million,
- Customer ODI rewards taken in the current year were £9 6 million lower than the previous year,
- The reduction in from the Wholesale Revenue Forecasting Incentive Mechanism was £13 9 million more favourable than the previous year,
- Additional revenue from the higher consumption during the hot weather was around £5 million, and
- Other small factors reduced revenue by £2 2 million

Net labour costs of £134 4 million were £7 4 million (5 2%) lower Gross employee costs increased by 5 8%, due to the annual pay award and the continuation of our strategy to bring more work in-house (including the new design team)

The growth in activity on capital projects increased the level of own labour capitalised, up £23 2 million on the previous year

Net hired and contracted costs of £165 6 million were up £17 9 million (12 1%) primarily in relation to costs incurred over the hot, dry summer and resulting operational recovery activities in the second half of the year

Power costs were up £9 9 million to £105 8 million, driven by higher pass-through costs as forecasted, and a higher demand for water during the summer The Group manages its power costs through a combination of demand management, self-generation and forward price contracts

Our bad debt charge decreased by £0 2 million this year, and represented 2 0% of household revenues (2017/18 2 2%) We continued to improve the pace of collection for new debt but also experienced slightly slower recovering of older debt, which we are actively targeting our efforts on this year

Other costs decreased by £7 1 million to £185 8 million, following increased profit on the disposal of tangible assets (mainly property) during the year

Infrastructure renewals expenditure of £141 1 million was £6 2 million higher in the year The increase was driven by additional activity to reduce leakage and an acceleration of our trunk mains renewal programme

Regulated Water and Waste Water – Underlying PBIT

Graph removed

Chief Financial Officer's review
continued

Depreciation of £334 8 million was £14 3 million higher than the prior year, partly driven by the shift towards more investment in technology assets with shorter lives There was also an increase in abandonment charges of £5 4 million as we upgraded some of our ageing assets

Return on Regulated Equity (RoRE)

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

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

	2018/19 %	AMP6 to date %
Base return	5 6	5 6
Outperformance		
Totex	–	1 2
ODIs	(0 1)	1 0
Financing	2 6	1 3
Regulatory return for the year	**8.1**	**9.1**

We have delivered RoRE of 8 1% in the year thanks to our significant outperformance on financing. ODIs were broadly neutral, impacted by hitting the Waste cap of 2% of RoRE We reinvested Totex savings for the benefit of our customers so performance was flat here as well. Our cumulative AMP6 RoRE remains strong at 9 1%, with four-year outperformance broadly based from sustained customer service, delivery on ODIs, early delivery of Totex efficiencies and strong performance on financing

Business Services

Business Services turnover was £200 9 million and underlying PBIT was £64 1 million on the new basis

The division delivered growth in revenues (up 3 8%) and underlying PBIT (up 2 0%) on a comparable basis The prior year figures have been restated to reflect the impact of the implementation of IFRS 15 on the recognition of revenue and costs for the MOD contract (see note 1)

In our Operating Services business, turnover and underlying PBIT decreased by £6 8 million and £0 6 million respectively An improvement in performance on our HomeServe contract was offset by lower rechargeable activity on our MOD contract and additional costs as a result of the hot, dry summer

In the Renewable Energy business, turnover increased by 20 2% and underlying PBIT increased by 6 5% Higher energy prices contributed to the increase together with the expansion of our crop energy plant near Nottingham; the impact of a full year of operations for our West Birmingham food waste plant, and, the purchase of Agrivert (a food waste company acquired in November 2018), which contributed £9 2 million of revenue and £1.6 million of underlying PBIT.

Corporate and other

Corporate overheads of £13 4 million (2017/18· £8 9 million) included £3 6 million acquisition costs for Agrivert Our other businesses generated a net profit of £11 7 million (2017/18 loss of £0.8 million) including a profit of £11 3 million from Property Development (2017/18 £2 1 million), which is included in Business Services on the new basis

Exceptional items before tax

We recorded a net exceptional charge of £9 6 million (2017/18· charge of £12 6 million)

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

In 2017/18 the exceptional charge of £12 6 million comprised exceptional restructuring costs of £20 9 million preparing our Bioresources business for AMP7 and an exceptional gain of £8 3 million from the net benefit of a Pension Increase Exchange arrangement

Net finance costs

Our net finance costs for the year were £194 2 million, £25 3 million lower than the prior year The reduction was driven by a lower effective interest rate as a result of recent low cost fixed debt issues and lower RPI inflation on our index-linked debt (down £14 5 million), which more than offset the impact of higher average net debt

Our effective interest rate was 3 9% (2017/18 4 5%) and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was also down to 3 1% (2017/18 3 4%). Net pension finance costs were broadly in line with the previous year Capitalised interest of £33 2 million increased by £7 4 million year-on-year due to the higher level of capital activity in the year Our earnings before interest, tax, depreciation and amortisation (EBITDA) interest cover was 5 1 times (2017/18 4 3 times) and PBIT interest cover was 3 2 times (2017/18 2 6 times) See note 18 for further details

Business Services – Turnover and Underlying PBIT

Graph removed

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

Taxation

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

The corporation tax charge for the year recorded in the income statement was £69 4 million (2017/18 £61 6 million) and we made net corporation tax payments of £21 3 million in the year (2017/18 £6 5 million) The difference between the tax charged and the tax paid is summarised in the chart below

Taxes borne

Graph removed

Reconciliation of tax charge to tax paid

Graph removed

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

The current tax charge for the year was £31 8 million (2017/18 £32 9 million) and the deferred tax charge was £37 6 million (2017/18 £28 7 million)

Our full effective tax rate this year was 18 0% (2017/18 20 5%), which is lower than the UK rate of corporation tax (19%), reflecting the fact that some of the items in our income statement will be taxed in future periods when the UK corporation tax rate falls to 17%

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

Our underlying effective current tax rate was 11 6% (2017/18 12 7%) (see note 45)

Profit for the year and earnings per share

Profit for the year from continuing operations increased by 32% to £315 3 million (2017/18 £239 6 million)

There were no discontinued operations in the year (2017/18 profit of £13 2 million)

Total profit for the year including discontinued operations in 2017/18 was £252 8 million

Basic earnings per share from continuing operations increased by 31 0% to 133 4 pence (2017/18 101 8 pence) Underlying basic earnings per share was 145 8 pence (2017/18 120 5 pence) For further details see note 15

Chief Financial Officer's review
continued

Movement in net debt

Graph removed

Movement in net debt

We generated £826 3 million cash from operations (2017/18· £773 3 million) Operating cash flows were higher mainly due to higher PBIT, depreciation and amortisation and our increase in working capital was lower than the previous year

Our biggest year of capital investment in a decade led to net capital expenditure of £769 3 million (2017/18 £591 0 million) The acquisition of Agrivert resulted in a net cash outflow of £50.9 million and we also repaid £63 0 million of debt that was acquired with the business

Our net interest payments were lower at £161 6 million (2017/18· £182 1 million) Tax payments were £21 3 million, an increase of £14 8 million The previous year benefited from a reduction of £8 million from overpayments in earlier years

We received £10 0 million net (2017/18 £5 6 million) in relation to employee share schemes and our dividends paid increased by 7.6% in line with our policy

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £477 5 million in net debt (2017/18· £274 2 million)

At 31 March 2019 we held £39 6 million (2018 £38 5 million) in net cash and cash equivalents Average debt maturity was around 14 years (2018 15 years) Including committed facilities, our cash flow requirements are funded until September 2021

Graph removed

Our long term credit ratings are

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

Net debt

Net debt at 31 March 2019 was £5,834 1 million (2018 £5,356 6 million) and balance sheet gearing (net debt/net debt plus equity) was 83 3% (2018· 84 4%) Group net debt, expressed as a percentage of estimated Regulatory Capital Value at 31 March 2019 was 63 0% (2018 60 6%)

The estimated fair value of debt at 31 March 2019 was £1,219 6 million higher than book value (2018 £1,184 3 million higher) The increase in the difference to book value is largely due to the decrease in the discount rates applied, driven by lower prevailing market interest rates

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

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

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

Treasury policy and operations

Our principal treasury management objectives are

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

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

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

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

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

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

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

Pensions

Graph removed

Pensions

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

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

- Inflation-linked payments of £15 million per annum through an asset-backed funding arrangement, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed,
- Payments under another asset-backed funding arrangement of £8 2 million per annum to 31 March 2032, and
- A deficit reduction payment of £10 million for each of the three financial years ending 31 March 2019.

In addition to these payments, the Company will directly pay the annual Pension Protection Fund levy incurred by the STPS (£1 4 million in 2018/19)

The next formal actuarial valuations of the Schemes are currently underway

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

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

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £452.9 million (2018 £519 8 million) To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns

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

Accounting policies and presentation of the financial statements

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

Our approach to risk

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

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

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

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

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

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

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

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

Our Enterprise Risk Management process

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

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

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

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

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

Risk appetite

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

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

Financial risks

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

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

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

Sustainability risks

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

Emerging risks

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

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

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

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

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

Principal risks

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

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

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

Customer perception

1

What is the risk?

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

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Link to our Values

We put our customers first

We are passionate about what we do

We act with integrity

ODIs

24-27

What does it mean for us?

We are a regulated utility providing essential services to our customers We recognise that our customers increasingly expect more from us and demand an improved and more consistent experience As other industries improve their levels of service, the bar continues to be raised

Failure to deliver the service that customers expect will lead to customer dissatisfaction This may result in financial penalties under Ofwat s Service Incentive Mechanism (SIM) in AMP6, and C-MeX in AMP7, and associated ODI outturn

What are we doing to manage the risk?

Understanding what our customers want is key to managing this risk Our PR19 Severn Trent plan was shaped by consulting with 32,000 customers, evaluating 24,000 complaints and considered 1 9 million customer views As one of only three companies to be fast-tracked we see this as a firm endorsement of our customer-focused approach

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

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

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

More than 1 9 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 1 6 million transactions And the hard work of our customer communication team was recognised by a Silver Award at the European Contact Centre and Customer Service Awards

Movement in Net Risk Exposure

Key

Increase in net risk exposure

No change in net risk exposure

Decrease in net risk exposure

Legal, regulatory and political environment

2

What is the risk?

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

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Change the market for the better

Investing responsibly for sustainable growth

ODIs

n/a

What does it mean for us?

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

What are we doing to manage the risk?

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

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

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

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

Movement in Net Risk Exposure

3

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Change the market for the better

Investing responsibly for sustainable growth

Link to our Values

We act with integrity

We protect our environment

ODIs

1-4, 19-23, 30 43

What does it mean for us?

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

What are we doing to manage the risk?

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

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

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

Movement in Net Risk Exposure

Principal risks
continued

Operations, assets and people

4

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Link to our Values

We put our customers first

ODIs

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

What does it mean for us?

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

What are we doing to manage the risk?

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

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

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

Movement in Net Risk Exposure

5

What is the risk?

We may fail to meet our regulatory targets including targets from Ofwat in relation to operational performance of our assets resulting in regulatory penalties.

Which part of Severn Trent is affected?

Regulated Water and Waste Water businesses

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Investing responsibly for sustainable growth

Link to our Values

We put our customers first

We are passionate about what we do

We protect our environment

ODIs

1-45

What does it mean for us?

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

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

What are we doing to manage the risk?

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

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

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

Movement in Net Risk Exposure

Key:

Increase in net risk exposure

No change in net risk exposure

Decrease in net risk exposure

6

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Embed customers at the heart of all we do

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Link to our Values

We put our customers first

We are passionate about what we do

ODIs

1-4, 5-18, 19-23

What does it mean for us?

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

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

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

What are we doing to manage the risk?

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

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

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

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

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

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

Movement in Net Risk Exposure

7

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Create an awesome place to work

Link to our Values

We protect our environment

We act with integrity

ODIs

30-41, 42-43

What does it mean for us?

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

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

What are we doing to manage the risk?

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

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

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

Movement in Net Risk Exposure

Principal risks
continued

8

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Drive operational excellence and continuous innovation

Investing responsibly for sustained growth

Link to our Values

We protect our environment

ODIs

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

What does it mean for us?

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

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

What are we doing to manage the risk?

Extreme Weather

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

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

Climate Change

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

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

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

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

Movement in Net Risk Exposure

Key:

Increase in net risk exposure

No change in net risk exposure

Decrease in net risk exposure

Financial risks

9

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Investing responsibly for sustained growth

What does it mean for us?

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

What are we doing to manage the risk?

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

Movement in Net Risk Exposure

10

What is the risk?

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

Which part of Severn Trent is affected?

Group-wide

Link to How We're Achieving our Strategy

Investing responsibly for sustained growth

What does it mean for us?

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

What are we doing to manage the risk?

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

See our Viability statement on pages 62 to 63

Movement in Net Risk Exposure

Brexit Statement

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

Our preparations for a no-deal Brexit are well advanced and include a Brexit Steering Committee to oversee the contingency and scenario planning necessary to operate effectively if the UK leaves the EU without transition arrangements The Committee covers Incident Management, People, Procurement, Security and Resilience, Logistics, Communications, Finance and Capital Delivery We have been actively engaged with a Water UK coordinated group called the Operations Strategy Group ('OSG') at an executive level, focusing on industry preparedness and industry-wide testing of response plans for a no-deal scenario We're also working with a number of Local Resilience Forums to test our approach and plans We are confident that we are well prepared for the UK's departure from the EU and specifically the risks associated with no-deal The most significant risk identified is associated with the availability of chemicals imported into the UK We identified this at an early stage and have ensured we have a robust process for maintaining stock levels This has also been a key focus for the OSG, which accordingly has worked with suppliers to increase stock levels of chemicals across the UK The Government and other industry regulators have been kept informed of preparations throughout We have also increased stock for critical spare parts, where a potential risk has been highlighted, by working with our supply chain

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

Assessment of current position and long-term prospects

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

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

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

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

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

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

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

Period of assessment

The Directors considered a number of factors in determining the period to be covered by the assessment The long-term nature of the Group's principal business, together with relatively stable revenues and a model of economic regulation that places a duty on the regulator to secure that water companies can finance the proper carrying out of their functions, support a longer period of assessment However, the changing nature of regulation of the water industry increases the uncertainty that is inherent in the Group's financial projections The Group has an established planning and forecasting process and the Directors consider that the assessment of the Group's prospects is more reliable if it is based on an established process The Group's latest medium-term plan extends in detail to the end of the next AMP period in 2025 with less detailed projections looking beyond this

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

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

Assessment of viability

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

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

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

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

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

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

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

Governance and assurance

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

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

Assessment of viability

The Directors have assessed the viability of the Company over a seven year period to March 2026, taking into account the Company's current position and principal risks

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

The Strategic report has been approved by the Board

By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary
20 May 2019

Governance

Chairman's introduction to governance

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Andrew Duff
Chairman

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Documents available at severntrent.com

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

Dear Shareholder

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

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

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

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

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

Company purpose and culture

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

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

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

Workforce engagement

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

Engagement with our other stakeholders

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

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

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

Board effectiveness

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

Looking ahead

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

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

Board succession

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

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

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

Andrew Duff
Chairman
20 May 2019

UK Corporate Governance Code Compliance Statement

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

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

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

Leadership	66–71
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Disclosure Guidance and Transparency Rules

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

Governance of subsidiaries

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

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

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

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

Abbreviated terms used throughout this governance report

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

Board of Directors
Leadership & Effectiveness

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1. Andrew Duff BSc, FEI

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

Membership: N C R

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

Other roles

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

2. Olivia Garfield BA (Hons)

Appointed: Chief Executive on 11 April 2014

Membership: C E D

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

Other roles

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

3. James Bowling BA (Hons) Econ, ACA

Appointed: Chief Financial Officer on 1 April 2015

Membership: D T E

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

4. John Coghlan BCom, ACA

Appointed: Independent Non-Executive Director on 23 May 2014

Membership: A T N

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

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

Other roles

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

Committee membership as at 31 March 2019

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

5. Dame Angela Strank DBE, FRS, FREng, CEng, FIChemE, DSc, PhD

Appointed: Independent Non-Executive Director on 24 January 2014

Membership: C N R

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

Other roles

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

6. The Hon. Philip Remnant CBE FCA MA

Appointed: Independent Non-Executive Director on 31 March 2014

Membership: R A T N

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

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

Other roles

- Director and Trustee of St Paul's Cathedral Foundation

7. Dominique Reiniche MBA

Appointed: Independent Non-Executive Director on 20 July 2016

Membership: C N

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

8. Kevin Beeston FCMA

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

Membership: A R N

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

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

Board and Committee meeting attendance 2018/19

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

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

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

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

Executive Committee
Leadership & Effectiveness

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1. Olivia Garfield BA (Hons)

Appointed: Chief Executive on 11 April 2014

Please see full biography on page 66

2. James Bowling BA (Hons) Econ, ACA

Appointed: Chief Financial Officer on 1 April 2015

Please see full biography on page 66

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

Director of Strategy and Regulation

Membership: E D

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

Other roles

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

4. Sarah Bentley BSc (Hons), Management Science with Computing

Chief Customer Officer

Membership: E

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

Other roles

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

5. Martin Kane BSc, CEng, CEnv, MICE, MIWEM, FIW

Special Advisor

Membership: E

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

Other roles

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

6. Bronagh Kennedy BA (Hons)

Group General Counsel and Company Secretary

Membership: E D

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

Other roles

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

Committee membership as at 31 March 2019

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

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7. Helen Miles CIMA

Capital Delivery and Commercial Director

Membership: (E)

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

Other roles

- Non-Executive Director of the Royal Navy

8. Andy Smith BTech (Hons)

Managing Director, Business Services

Membership: (E)

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

Other roles

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

9. Neil Morrison BSc (Hons), FCIPD

Director of Human Resources

Membership: (E)

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

10. Dr. James Jesic BEng (Hons), PhD, MIChemE, CEng

Managing Director of Production

Membership: (E)

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

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

Chief Engineer

Membership: (E)

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

Governance
Board composition and roles

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

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

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

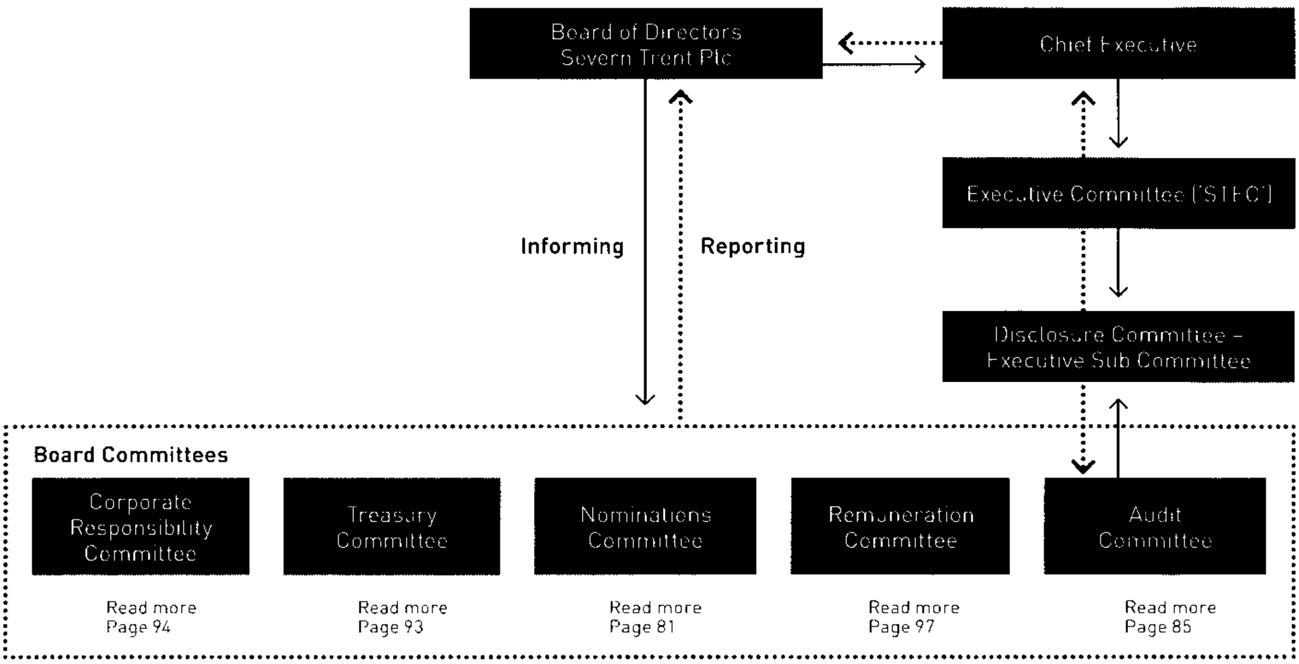
The composition and effectiveness of the Board is subject to regular review by the Nominations Committee which, in particular, considers the balance of skills, experience and independence of the Board, in accordance with the Board Diversity Policy The Board Diversity Policy Statement is available on the Severn Trent Plc website

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

Director	Responsibility
Chairman **Andrew Duff**	• Leads our unified Board and is responsible for its effectiveness • Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with CEO, CFO and Company Secretary • Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board effectiveness evaluation process • Facilitates contribution from all Directors and ensures that effective relationships exist between them • Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision-making
CEO **Liv Garfield**	• Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, suppliers and the communities we serve • Develops and implements the Group's strategy, as approved by the Board • Sets the cultural tone of the organisation • Facilitates an effective link between the business and the Board to support effective communication • Responsible for overall delivery of commercial objectives of the Group • Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our strategic framework and values The CEO's review can be found on page 21
CFO **James Bowling**	• Manages the Group s f nancial affairs The CFO's review can be found on page 48. • Supports the CEO in the implementation and achievement of the Group's strategic objectives • Oversees Severn Trent's relationships with the investment community • Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, Pension Trustees for the Company s defined benefit pension schemes, suppliers and the communities we serve.
SID **Kevin Beeston**	In addition to his responsibilities as a Non-Executive Director, Kevin also • Supports the Chairman in the delivery of his objectives • Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chairman, CEO or CFO • Leads the appraisal of the Chairman's performance with the Non-Executive Directors • Undertakes a key role in succession planning for the Board, together with the Board Committees, Chairman and Non-Executive Directors
NEDs **John Coghlan** **Dominique Reiniche** **Dame Angela Strank** **Philip Remnant**	• Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board • Satisfy themselves that internal controls are robust and that the external Audit is undertaken properly • Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company • Constructively challenge and assist in the development of strategy • Have a key role in succession planning for the Board, together with the Board Committees, Chairman and SID • Serve on various Committees of the Board
Company Secretary **Bronagh Kennedy**	• Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. • Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best-practice corporate governance developments. • Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements • Ensures compliance with Board procedures and provides support to the Chairman • Co-ordinates the performance evaluation of the Board in conjunction with the Chairman • Provides advice and services to the Board

Board Leadership

Governance Framework



Our Board

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

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

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

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

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

Governance Framework

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

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

Severn Trent Executive Committee

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

Governance
Leadership & Effectiveness

Main topics discussed by the Board during the year

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

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

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

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

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

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

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

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

Stakeholder and Shareholder engagement

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

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

	Board Engagement and Activities
Shareholders/ Investors	• Board approval of the half year and full year results Board attended results presentations • Board approval of the Annual Report and Accounts • Full Board attendance at the 2018 AGM • Investor meetings Executive and Non-Executive Directors undertook investor engagements in the year • Investor feedback presented to the Board, through monthly reports and regular broker notes • Investor roadshows to Australia, US, Canada and Europe • Investor Relations strategy agreed by the Board • Chairman attended the Capital Markets Day Read more on page 74
Customers	• Customer-shareholders had the opportunity to meet the Board at our AGM and ask questions • Customer Delivery Performance Report tabled at every Board meeting • Extensive customer research considered regularly by the Board in relation to the PR19 plan and submission • Board attended some of our PR19 customer research sessions
Communities	• Employees who live and work in our communities meet the Board at the Employee Forum, AGM and site/ operational visits • Corporate Responsibility reports regularly discussed at Board meetings, including an update on community activities • Board received updates on the Group s volunteering programme during the year • Board consideration of the community dividend, developed to fund projects in our community • Immersive Board session on the Wonderful Water Tour - our new innovative educational tour to inspire and educate children in our communities • Volunteering update considered by the Board • Board site visit to Lake Vyrnwy Reservoir and Visitor Experience Site
Employees	• Employee-shareholders had the opportunity to meet the Board at our AGM and ask questions • CEO Employee roadshows and senior leader events • Board attended a Company Purpose and Culture session with employee representation and discussion of the QUEST survey results • Board meetings held at a variety of sites, including operational sites Directors met a number of employees at these events • Board site visits outside of the Board meeting calendar, where Directors met employees and discussed matters with them • Chairman, Non-Executive Director and Executive Director attendance at the Employee Forum, including an opportunity to meet employees across the Group Individual Directors provide feedback to the Board following Forum attendance • Internal blogs by Executive Directors • Regular senior leader engagement with Executive Directors • Talent development considered by the Board • Dedicated People Strategy discussion at Board Strategy day
Regulators/ Government	• Renationalisation reports considered by the Board • Regulatory matters regularly considered at Board meetings, including PR19, Water Resources Management Plan and Scheme of Wholesale Charges. • Regulatory stakeholder attendance at Board meetings during the year • Chairman met with Jonson Cox, Ofwat • Engagement with DWI lead inspector, EA, CCW and the Pension Trustees for the Company s defined benefit pension schemes • Regulatory consultation updates provided to the Board, including Severn Trent's proposed response
Suppliers/ Contractors	• Commercial Performance Report tabled at every Board meeting, including an update on relationships with suppliers and associated performance • Chairman and Executive Director attendance at the Employee Forum, including attendance by suppliers

Stakeholder and Shareholder engagement
continued

Institutional shareholders and analysts

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

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

Investor engagement

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

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

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

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

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

2018/19 engagement

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

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

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

Looking ahead to 2019/20

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

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

Primary investor events

May 2018	London Roadshow
June 2018	Europe Roadshow
June 2018	US Roadshow
June 2018	RBS Reverse Roadshow
June 2018	Scott Harris Roadshow
July 2018	Australia Roadshow
July 2018	Scott Harris Roadshow
August 2018	Citi UK Utilities Reverse Roadshow
August 2018	Credit Suisse Reverse Roadshow
September 2018	Morgan Stanley Conference
September 2018	Bernstein Strategic Decisions Conference
September 2018	Capital Markets Day
October 2018	Scott Harris Roadshow
November 2018	London Roadshow
November 2018	Edinburgh Roadshow
November 2018	Switzerland Roadshow
January 2019	Citi European Utilities and Infrastructure Conference 2019
February 2019	London Roadshow
February 2019	US/Canada Roadshow
February 2019	Australia Roadshow
March 2019	Scott Harris Roadshow

Graphic removed

Investors attended our Capital Markets Day in September 2018.

Leadership and Effectiveness
The Board in action

The Board in action

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

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

Board Strategy Days

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

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

Our Company purpose and culture

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

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

At the heart of Severn Trent's culture is a closely held set of values – Doing the Right Thing These values embody the principles by which the Group operate, and provide a consistent framework for responsible business practices These policies codify how to identify and deal with suspected wrongdoing, fraud or malpractice, how to ensure that the highest standards of safety are maintained, and how to apply good ethics and sound judgment

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

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

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

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

Cultural Index

Topic	Measures	Benchmark
Engagement	• Glassdoor Rating • Engagement score	• Glassdoor • Versus UK Average
Fairness	• Gender Pay Gap • CEO Pay Ratio • Ethnicity Pay Ratios	• Median Versus UK Average (ONS) • Versus UK Average • TBC when Government standard disclosed
Wellbeing	• Days lost to mental health issues • Employee turnover	• Mind – Workplace Wellbeing Index • CIPD
Inclusion	• Gender representation at senior levels • Social Mobility • Ethnic Diversity	• Hampton-Alexander Ranking • Social Mobility Index • BITC Diversity Index
Skills	• Training Days • Levy Spend	• CIPD • UK Government

Leadership and Effectiveness
Reinforcing our culture

Severn Trent's values support Doing the Right Thing and drives delivery of the Group's strategy

- We put our **customers first**
- We are **passionate** about what we do
- We act with **integrity**
- We protect our **environment**
- We are inspired to create an **awesome company**

Educating our people, supporting and guiding them to demonstrate positive behaviours in all they do

Doing the Right Thing has supporting policies that apply to everyone who works for Severn Trent

These policies are the strategic link between our vision and how we manage our day-to-day business, and are underpinned by specific company standards and procedures

Read more
Page 95

To support understanding of our policies and standards, there is programme of targeted training, including e-learning modules and practical training sessions

Review mechanisms to further support and assess our culture

Our workforce can raise concerns at work through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations are carried out independently with findings being reported directly to the Audit and Corporate Responsibility Committees. The Audit Committee monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually and provides feedback to the Board

Reports from the respective Chairs are provided to the Board at the outset of every meeting, with any serious allegations being directly reported to the Board

Our annual employee engagement survey, 'QUEST', provides data in a clear and comprehensive form, identifying what's going well and where we can improve across the Group. QUEST is conducted by an independent research company to ensure the results are anonymous and the results are reported to the Board

Dedicated culture discussions are included at our Employee Forum, hosted by the Company and attended by the Chairman, Non-Executive Directors and Executive Directors. This regular Forum is attended by numerous employee representatives, Unions and other stakeholders to enable the views throughout the organisation to be considered at Board level. Individual Directors provide feedback at the Board meetings following Forum attendance

Feedback to the Board to deepen its understanding of the Group's culture

Our established reporting mechanisms for company purpose and culture are essential tools in the Board's oversight of cultural matters. All feedback received deepens the Board's understanding of the Group's culture and Board feedback is used to inform future areas of focus and ensure that local plans are consistent with feedback received

Leadership and Effectiveness
Board evaluation

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

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

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

Evaluation Process

Step 1. 2018/19 Process planning

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

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

Step 2. One-to-one meetings

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

Step 3. Evaluation and reporting

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

Step 4. Agree actions and monitor progress

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

Graphic removed

Leadership and Effectiveness continued
Board evaluation

Evaluation Findings

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

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

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

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

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

Evaluation findings

Evaluation Action 2017/18	Progress 2018/19
Balance of Debate – continue to maintain focus on strategic, operational and reputational priorities as well as regulatory matters.	Separate, dedicated PR19 meetings were scheduled outside the normal Board and Committee timetable, to reduce the pressure on the Board agenda and maintain focus on strategic, operational and reputational priorities. During the 2018/19 evaluation, the Board noted that PR19 approval and submission had been particularly well managed and that the use of additional Board Committee meetings and briefing papers had ensured that this topic had not distracted the Board from considering other strategic issues and operational performance oversight
Talent Management and Succession Planning – opportunity to apply more structure to succession planning and talent development discussions at the Nominations Committee and the Board	Talent and succession planning have been added as separate standing Nominations Committee agenda items with a forward Board programme for talent and succession planning also being developed Existing talent and succession planning elements of the Board induction programme were updated to give new Non-Executive Directors better oversight of the Group s processes
Board Composition – opportunity to increase the ethnic diversity of the Board in line with the recommendations of the Parker Review and to appoint an additional Director with Treasury/ Engineering experience	Succession planning was considered by the Nominations Committee, and Board, during the year This included consideration of the Board's Diversity Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker Review. The Board also considered Board succession planning in respect of Directors with more Treasury and Engineering experience
Financing – opportunity to spend more time on this topic during NED induction given its complexity	Relevant sections of the Board induction materials have been reviewed during the year The Board induction programme now includes two additional face-to-face sessions with the finance team to provide the opportunity to clarify and deepen Director knowledge
Culture – develop a structured plan to enable the views, ideas and constructive challenge throughout the organisation to be considered at Board level	Company purpose and culture continues to be considered by the Board as a separate Board agenda item Additional detail can be found on page 75 The Chairman and Non-Executive Directors will continue to attend our Employee Forum This regular Forum is attended by numerous employee representatives, Unions and other stakeholders to enable the views throughout the organisation to be considered at Board level Individual Directors provide feedback at the Board meetings following Forum attendance

Minor areas for further development of the Board's effectiveness

Evaluation Action 2018/19	
Succession Planning	Opportunity to apply more focus to succession planning, in full consideration of Director tenure Read more on succession planning activity following year end on page 84
Balance of Debate	The Board noted the excellent chairing of Board discussions despite challenging agendas during the year. Opportunity to allocate additional time on the Board agenda to engage personally with presenters and discuss matters more informally
Board Composition	Opportunity to consider broader diversity and inclusion in terms of the Board's composition
Remit of Board Committees	Opportunity to review the duties within the respective Committee Terms of Reference and ensure that Committee meetings have sufficient time allocated to them.

Leadership and Effectiveness
Effectiveness

Board Development and Knowledge

Training and Continuing Professional Development ('CPD')

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

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

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

Our Regulators

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

Informal Board interactions

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

Directors' resources

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

Induction programme

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

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

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

Graphic removed

Graphic removed

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

Leadership and Effectiveness continued
Effectiveness

Operational and Site Visits

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

Site	*Objectives*	*Key Board Considerations*
Minworth – Thermal Hydrolysis Plant ('THP')	• Practical demonstration of Health and Safety considerations on complex operational sites • Employee expertise • Overview and demonstration of the sludge treatment process and operations • Overview of THP process and its importance to the Group, including implementation of technological advances • Process optimisation across the Minworth site • Site sampling and performance record • Environmental	• Health and safety • Employee stakeholders and People Strategy • Operational knowledge • Technology • Environment
Lake Vyrnwy Reservoir and Visitor Site	• Practical demonstration of Health and Safety considerations on publicly accessible sites • Tour and briefing on educational programmes delivered at the site • Tour of conservation programmes, including the RSPB Organic Farm and SSSI site • Opportunity to interact with employees • Overview of Lake Vyrnwy s infrastructure • Catchment Management activities • Biodiversity activities	• Customer and community experience • Environment • Health and safety • Employee stakeholders and People Strategy • Operational knowledge • Infrastructure • Environment • Biodiversity
Agrivert	• *Practical demonstration of health and safety considerations on* complex operational sites • Employee expertise and opportunity to interact with employees • *Overview and demonstration of the anaerobic digestion process* and operations, including implementation of technological advances • Process optimisation across the Agrivert site • Environmental	• *Health and safety* • Employee stakeholders and People Strategy • *Operational knowledge* • Technology • Environment

Graphic removed

Graphic removed

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

Nominations Committee report
Leadership & Effectiveness

Chairman's message

Graphic removed

Andrew Duff
Chairman of the
Nominations Committee

Attendance table

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

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

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

Dear Shareholder

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

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

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

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

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

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

Andrew Duff
Chairman of the
Nominations Committee

Documents available at severntrent.com

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

1 Independent on appointment
2 Independent Non-Executive Director

Key areas of Nominations Committee focus in 2018/19

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

July 2018
- Preparations for the 2018 UK Corporate Governance Code

November 2018
- STEC Succession Planning

January 2019
- NED Tenure Review and Succession Planning
- Workforce Engagement, including individual Director commitments

March 2019
- Board Effectiveness Report 2018/19
- Continuing Office of Directors
- Board Composition and Independence
- Conflicts of Interest Annual Review
- Diversity and Inclusion Update

April 2019
- Board Succession Planning

May 2019
- Board Succession Planning
- Talent Development and STEC Succession Planning
- Nominations Committee Report within the Annual Report and Accounts

Diversity

As highlighted earlier in the report, the Board and Nominations Committee continue to drive the agenda of diversity across the Group and are proud of the progress made, especially in respect of female representation on the Board and Executive Committee (now at 37 5% and 36% respectively) A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2019 is set out below

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

The Board Diversity Policy (the 'Policy') was reviewed by the Committee in January 2019, with recommended updates approved by the Board As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths throughout the organisation, including on the Board itself Although no targets have been set at present, the benefits that diversity brings to the Board are wholly recognised by the Committee and is evidenced through the commitments made in the Policy

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

Graphs removed

Board Diversity Policy – Objectives and Progress

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

Nominations Committee report continued
Leadership & Effectiveness

Talent development

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

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

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

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

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

Succession planning

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

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

- it would be beneficial for the new Chair to be able to join the Board and work alongside Andrew Duff for a period before they step up to become Chair,
- a search for a high quality candidate takes time and the Committee does not want to rush this important search, and
- in the Committee's opinion, Andrew Duff remains a very strong and effective Chairman, who is independent of management and provides robust challenge The findings of the Board effectiveness evaluation support this view

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

Director conflicts and independence

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

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

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

Graphic removed

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

Chairman's message

Graphic removed

John Coghlan
Chairman of the Audit Committee

Attendance table

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

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

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

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

Dear Shareholder

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

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

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

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

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

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

John Coghlan
Chairman of the Audit Committee

Documents available at severntrent.com
Audit Committee Terms of Reference
Non-Audit Services Policy

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

Audit Committee report continued
Accountability

Key areas of Audit Committee focus in 2018/19

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

May 2018	**Scheduled meeting**
• Financial results announcement 2017/18 • Severn Trent Plc Annual Report and Accounts 2017/18 • Severn Trent Water Limited Annual Report and Accounts 2017/18 • Viability Statement and Going Concern	Financial Reporting
• Deloitte Full Year Audit Report	External Audit
• Internal Audit update • Assurance Map update	Internal Audit
• PR19 Assurance Plan	Regulatory
• Internal control and risk management effectiveness for Severn Trent Plc and Severn Trent Water • Whistleblowing update	Internal Control and Risk Management
• Fair, balanced and understandable assurance process Severn Trent Plc and Severn Trent Water • Relevant Audit Information process Severn Trent Plc and Severn Trent Water	Governance
June 2018	**Additional meeting**
• Annual Performance Report and Annual Regulatory Compliance Statement for Severn Trent Water • PR14 Reconciliation for Severn Trent Water and Dee Valley Water Limited (now Hafren Dyfrdwy)	Regulatory
July 2018	**Additional meeting**
• Hafren Dyfrdwy Annual Report and Accounts 2017/18, including Viability Statement and Going Concern	Financial Reporting
• Hafren Dyfrdwy Enterprise Risk Management Update, including Principal Risks for the Annual Report • Internal control and risk management effectiveness for Hafren Dyfrdwy • Whistleblowing update	Internal Control and Risk Management
• Annual Performance Report and Annual Regulatory Compliance Statement for Hafren Dyfrdwy • PR19 Assurance Plan for Hafren Dyfrdwy	Regulatory
• Fair, balanced and understandable assurance process Hafren Dyfrdwy	Governance
August 2018	**Additional meeting**
• PR19 Plan – Severn Trent Water • PR19 Plan – Hafren Dyfrdwy	Regulatory
September 2018[1]	**Scheduled meeting**
• External Audit 2018/19 plan and terms of engagement • External Audit Review of non-audit fees	External Audit
• Internal Audit update	Internal Audit
• Scheme of Wholesale Charges	Regulatory – SEVERN TRENT WATER
• Scheme of Wholesale Charges	Regulatory – HAFREN DYFRDWY
• Enterprise Risk Management update • Whistleblowing update • Review of effectiveness of Whistleblowing arrangements	Internal Control and Risk Management
November 2018	**Scheduled meeting**
• Interim financial results 2018/19	Financial Reporting
• Deloitte Interim Audit Report	External Audit
• Internal Audit update • Assurance Map update	Internal Audit
• Customer ODI Forecast and Assurance • Company Monitoring Framework Risk Statement • General Data Protection Regulation review	Regulatory – SEVERN TRENT WATER
• Customer ODI Forecast and Assurance • Company Monitoring Framework Risk Statement	Regulatory – HAFREN DYFRDWY
• Cyber review • Whistleblowing update	Internal Control and Risk Management
• Material Litigation Report and Legal Compliance Report	Governance
January 2019	**Additional meeting**
• Water Resources Management Plan • New Connections Charging	Regulatory – SEVERN TRENT WATER
• Water Resources Management Plan	Regulatory – HAFREN DYFRDWY

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

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

May 2019	Scheduled meeting ✓
• Financial results announcement 2018/19 • Severn Trent Plc Annual Report and Accounts 2018/19 • Severn Trent Water Limited Annual Report and Accounts 2018/19 • Viability Statement and Going Concern	Financial Reporting
• Deloitte Full Year Audit Report	External Audit
• Internal Audit update	Internal Audit
• Annual Performance Report for Severn Trent Water • Assurance of ODI Performance	Regulatory – SEVERN TRENT WATER
• Annual Performance Report for Hafren Dyfrdwy • Assurance of ODI Performance	Regulatory – HAFREN DYFRDWY
• Internal control and risk management effectiveness • Cyber update • Whistleblowing update	Internal Control and Risk Management
• Fair, balanced and understandable assurance process Severn Trent Plc and Severn Trent Water • Relevant Audit Information process Severn Trent Plc and Severn Trent Water	Governance

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

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

Audit Committee report continued
Accountability

Significant financial statement reporting issues

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

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

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

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

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

Significant financial statement reporting issues

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic report on going concern and long-term viability
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited At 31 March 2019, the provision in Severn Trent Water Limited's financial statements was £115 2 million and the charge for the year was £24 2 million Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid This increases the risk of bad debts In addition it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis	The Committee challenged the changes made to the methodology for calculating the provision during the year and critically appraised management's explanations for these changes The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision The Committee determined that no adjustment to the amounts recorded was required
Revenue recognition in relation to the estimation of metered revenue from the new non-household retail market in Severn Trent Water Limited In the year ended 31 March 2019, Severn Trent Water Limited recognised £379 million in revenue from sales to retailers in the new non-household retail market On 1 April 2017, the non-household retail market in England opened to competition This enabled all non-household customers to choose their water and waste water supplier although wholesale services remained with the incumbent companies Market Operator Services Limited ('MOSL) was established to operate the market and to provide data to wholesalers and retailers to allow settlement between market participants to take place MOSL provides data for monthly settlement periods based on actual meter readings and estimations extrapolated from the last known meter read This is an iterative process with subsequent settlement runs including more actual readings for the same period Empirical observations have shown that metered consumption is consistently higher than the previous estimates	The Committee does not consider that there is a significant risk of a material adjustment in respect of this estimate in the next financial year because the estimated amount is not material Nevertheless, the Committee considered this to be a significant issue because the systems and processes are new and the amounts recognised are subject to management judgment The Committee reviewed the process for calculating the metered revenue estimate from non-household retailers and considered the reasonableness of the estimates in the light of emerging trends and the experience of other market participants The Committee scrutinised management s evidence supporting its judgments and examined the data from the underlying evidence The Committee discussed the External Auditor's work and their conclusions The Committee determined that the approach taken by management was reasonable and that no adjustment was required to the amounts recognised in the financial statements.
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited Severn Trent Water Limited has a significant capital programme that includes projects made up of a combination of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment	The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year. The Committee enquired of management whether the policies had been applied consistently from year to year and sought explanation for the increase in amounts capitalised The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor The Committee determined that no adjustment to the amounts recorded was required.

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

Internal control over financial reporting

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

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

Internal and External Audit

Internal Audit and internal controls

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

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

Audit Committee report continued
Accountability

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

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

External Auditor

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

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

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

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

Non-audit fees

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

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

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

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

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

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

Regulated subsidiaries

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

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

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

Risk management

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

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

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

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

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

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

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

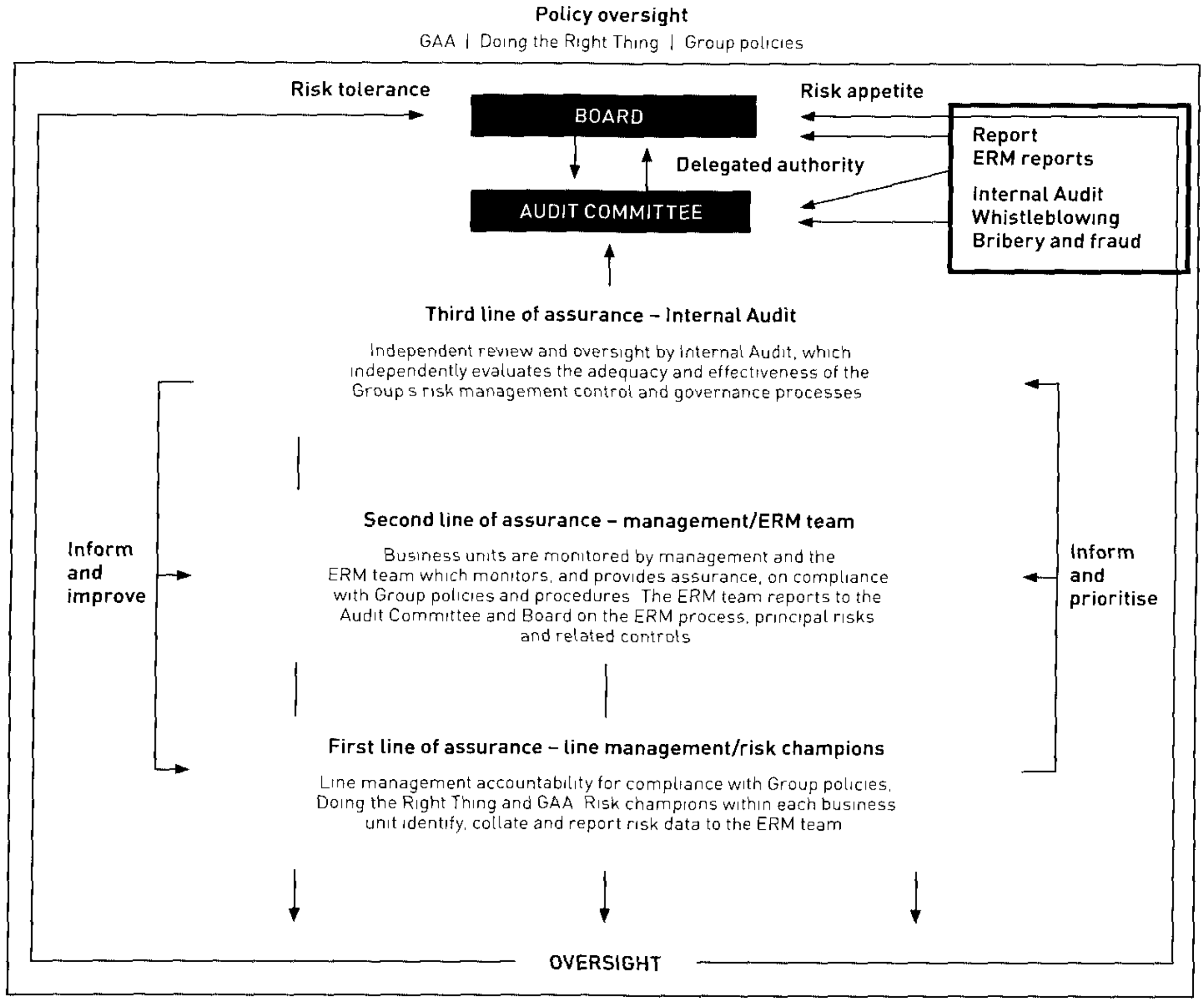
Non-Audit Fees 2018/19

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

Audit Committee report continued
Accountability

Risk management governance process

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



Treasury Committee report
Accountability

Chairman's message

Graphic removed

John Coghlan
Chairman of the Treasury Committee

Attendance table

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

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

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

The Committee s Terms of Reference were updated in March 2019

Dear Shareholder

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

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

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

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

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

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

Treasury Committee Responsibilities

The responsibilities of the Committee are explained below

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

Key areas of focus in 2018/19

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

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

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

John Coghlan
Chairman of the Treasury Committee

Documents available at severntrent.com
Treasury Committee Terms of Reference

Chair's message

Graphic removed

Dame Angela Strank
Chair of the Corporate Responsibility Committee

Attendance table

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

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

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

Dear Shareholder

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

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

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

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

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

The Committee spent a significant proportion of its time focusing on Severn Trent s role as an environmental leader, reviewing aspirations, commitments and performance to date As part of this work, the Committee reviewed our approach to biodiversity including new more ambitious targets for AMP7 These include expanding the scope of our biodiversity agenda beyond Severn Trent sites and providing a focus on flood protection, recreational facilities and improved water quality This biodiversity agenda complements the Government's 25 Year Environment Plan and it is strongly supported by our stakeholders The Committee also discussed the approach to carbon and climate change, including our triple pledge to become carbon neutral by 2030, have 100% electric vehicles by 2030 (as long as the vehicles are available) and generate 100% renewable energy by 2030 This pledge is even more ambitious than a science-based target and builds on our long track record of making year-on-year reductions in emissions

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

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

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

Dame Angela Strank
Chair of the Corporate Responsibility Committee

Documents available at severntrent.com

Corporate Responsibility Committee Terms of Reference
Modern Slavery Statement
Group Environment Policy

Our Corporate Responsibility Framework

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

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

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

'Doing the Right Thing – The Severn Trent Way'

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

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

Key areas of Corporate Responsibility Committee focus in 2018/19

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

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

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

November 2018
- Corporate Responsibility performance report
- Engaging Responsibly with Our Supply Chain
- Political Risks
- Realising Our Vision for Environmental Leadership
- Whistleblowing report

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

Corporate Responsibility Committee report continued
Accountability

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

Human Rights and Modern Slavery

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

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

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

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

Graphic removed

Freedom of Association and Collective Bargaining

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

Whistleblowing

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

Prevention and detection of bribery and corruption

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

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

Chairman's letter

Graphic removed

Philip Remnant
Chairman of the Remuneration Committee

Attendance table

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

Contents

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

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

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

Dear Shareholder

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

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

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

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

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

Remuneration for the year under review

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

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

The annual bonus will pay out at 70 2% of salary for both the CEO and the CFO

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

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

2018 AGM Shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Remuneration Policy	165,243,866	1,369,398	266,854
	(99 18%)	(0 82%)	
Approve Directors' remuneration report	165,511,103	1,100,476	273,463
	(99 34%)	(0 66%)	

Directors' remuneration report continued
Remuneration

Employment at Severn Trent

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

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

Remuneration in the year ahead

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

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

- Our LTIP will continue to be based on upper quartile ('UQ') stretch RoRE performance This means, to be fully rewarded, management must deliver one of the best service and cost performances compared with other companies in the sector, aligning reward with the interests of both investors and customers.
- We are changing the weighting of existing elements within our Annual Bonus Scheme Whilst the focus of the bonus will remain combined ODI and PBIT performance, the changes will drive an even stronger operational culture within Severn Trent, as we transfer smoothly into the new AMP
- We continue to apply a consistent bonus scheme design throughout the organisation, from the front line to Executive Directors, ensuring that every employee is incentivised and rewarded to deliver the same shared objectives

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

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

Ongoing Shareholder communication

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

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

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

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

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

Committee performance

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

Philip Remnant
Chairman of the
Remuneration Committee

Key areas of Remuneration Committee focus in 2018/19

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

May 2018	
	Annual bonus outcome for 2017/18
	2015 LTIP vesting
	Salary increases for Executive Committee members and for Executive Directors
	Annual bonus 2018/19 targets
	LTIP awards for 2018
	Final draft of Directors' remuneration report for 2017/18
	Review of AGM season
	Update on Remuneration Policy consultation
November 2018	
	Reward and performance alignment 2017/18 compared with Water and Sewerage Companies ('WaSC') peers
	Update on market practice and remuneration forward look
	UK Corporate Governance Code update
	Gender pay reporting 2018
	Annual bonus 2018/19 – interim update
	LTIP award – application of RoRE methodology
	LTIP leavers
	Annual bonus 2019/20 – design
January 2019	
	Executive Committee members and Executive Directors benchmarking review
	Review of expense claims procedure for Chairman and CEO
	LTIP awards for 2019
	Annual bonus 2019/20 – structure and targets
	Directors' remuneration report planning for 2018/19
	Review of mandatory shareholding requirements and update on sourcing for share schemes
March 2019	
	Executive Committee members and Executive Directors salary increase proposals
	Terms of reference for the Remuneration Committee
	Annual bonus 2018/19 – interim update
	LTIP awards for 2019
	UK Corporate Governance Code update
	LTIP leavers
	Review of fees for the Company Chairman

Who supports the Committee?

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

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

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

Directors' remuneration report continued
Remuneration

At a Glance

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

Strategic alignment of remuneration

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

Strategy and its link to performance based pay

Embed customers at the heart of what we do	Driving operational excellence and continuous innovation	Investing responsibly for sustainable growth	Changing the market for the better	Creating an awesome place to work
How do we measure progress against our objectives?				
• Internal sewer flooding • External sewer flooding • Minutes without supply • Water quality complaints	• Improvements to river water quality • Number of Category 3 pollution incidents • Successful catchment management schemes	• Delivering our capital programme • Building a sustainable business	• Clear PR19 plan • Compelling case for investment • Bioresources change programme • Be the sector's thought leader • Create a strong Welsh entity	• Lost time incidents per 100,000 hours worked
How are our strategic objectives linked to our incentive plan?				
Annual Bonus Scheme				
Customer ODIs (20%) Customer Complaints [illegible]	Customer ODIs (20%) Personal Objectives (7%)	RWWW PBIT (47%) Business Services PBIT [illegible]	Customer ODIs (20%) Personal Objectives [illegible]	Health and Safety [illegible]
LTIP				
RoRE* (100%)	RoRE* (100%)	RoRE* (100%)	RoRE* (100%)	

* Components of RoRE are:

Wholesale Totex | Retail operating costs | ODIs | Financing

2018/19 Single figure outcomes

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

2018/19 Single figure outcomes £'000

CEO (Liv Garfield)

Graph removed

CFO (James Bowling)

Graph removed

- Minimum pay is fixed pay only (i e salary + benefits - pension)
- On-target pay includes fixed pay 50% of the maximum bonus (equal to 60% of salary for both the CEO and the CFO) and 50% vesting of the LTIP awards (with grant levels of 200% of salary for the CEO and 150% of salary for the CFO), and illustrating 25% increase in share price on LTIP shares over the vesting period
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards, and illustrating 50% share price increase on LTIP shares over the vesting period
- All amounts have been rounded to the nearest £1,000 Salary levels (which are the base on which other elements of the package are calculated) are based on the salary paid during the year ended 31 March 2019 The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2019 The Executive Directors are also permitted to participate in the all-employees Sharesave scheme, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity

Annual bonus 2018/19 outturn

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

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
RWWW PBIT [i]	£515 1m	£528 1m	£541 1m	47%	21 5%
	Actual £527.0m				
Customer ODIs [ii]	£40m	£60m	£80m	20%	20%
			Actual £91 1m		
Business Services PBIT	£58 8m	£60 8m	£62 8m	10%	10%
			Actual £67 4m		
Health and safety [iv]	0 17	0 13	0 09	8%	0%
Actual 0.30					
Customer complaints [v]	5%	10%	15%	8%	0%
Actual -14%					
Personal performance				7%	7% - CEO 7% - CFO

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

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

(iii) Underlying PBIT adjusted to remove £3 3 million impact of IFRS 15

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

(v) Measured as the percentage reduction in written complaints

	2018/19 salary* (£)	Bonus opp (% salary)	Bonus outcome (% max)	Annual Bonus (£)	Cash bonus (£)	Value of shares awarded (£)
CEO	708 0	120	58 5	497 0	248 5	248 5
CFO	426 6	120	58 5	299 5	149 8	149 7

* Bonus calculated using salary at 31 March 2019

2016 LTIP vesting in 2018/19

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

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

2016 LTIP vesting in 2018/19

	Threshold FD (25% payable)	Maximum (100% payable)	CEO outcome (vesting as % of award)	CFO outcome (vesting as % of award)
RoRE – measured against multiple of Ofwat FD	1x	1 39x	100%	100%

	Number of shares *granted*	Award vesting *(% max)*	Face value of shares *vesting*	Value attributable to share price *movement*	Value of dividend equivalents *due*	Value of resultant *award*
CEO	46,115	100%	913 2	£0	£88 5	£1,001 7
CFO	18,529	100%	366 9	£0	£35 6	£402 5

(i) Based on 3 month average share price as at 31 March 2019 of £19 80

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

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

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

Business performance – 2018/19 outturns against KPIs

ODI £m[i][ii][iii]

Graph removed

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

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

(iii) 2018/19 figure is post the regulatory customer ODI cap Pre cap the net reward was £91 9 million as shown in the annual bonus 2018/19 outturn on page 101

RoRE %[i][ii]

Graph removed

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

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

Executive Director shareholdings

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

Shareholding requirement

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

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

Executive Director shareholdings
% of base salary

Graph removed

(i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share awards (of which 50% are deducted to cover statutory deductions)

(ii) Represents 2016 LTIP shares which are subject to an ongoing vesting period plus shares held as part of the Sharesave scheme

(iii) Represents the 2017 and 2018 LTIP awards which are subject to ongoing performance

All calculations in the above chart use a closing share price on 31 March 2019 of £19 76

Overall link to remuneration and equity of the Executive Directors

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

Overall link to remuneration and equity of the Executive Directors

	2018/19 Single Figure (£'000s)	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£'000s) (i)	Value of shares at end of year (£'000s) (ii)	Difference (£'000s)
CEO	2,395 4	103,274	137,349	£1,904 4	£2,714 0	+£809 6
CFO	1,253 0	23,464	32,075	£432 7	£633 8	+£201 1

(i) Based on a closing share price on 31 March 2018 of £18 44

(ii) Based on a closing share price on 31 March 2019 of £19 76

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

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

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

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

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

Base Salary

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

Operation	Opportunity	*How we implemented the Policy in 2018/19*	*How we plan to implement the Policy in 2019/20*
Salaries are normally reviewed annually on 1 July Salaries take account of - Individual performance, - Experience and contribution, - Developments in the relevant employment market, - Company performance and affordability, - Wider economic environment, and - Internal relativities	Any increases will typically not be higher than the average increases for employees However, a higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstances	Executive Directors salaries increased by 2 5% from 1 July 2018 CEO – £708,000 CFO – £426,600 These rises were lower than the general employee salary increase	Executive Directors' salaries increase by 2 4% from 1 July 2019 CEO – £725,000 CFO – £436,900 These rises are in line with the general employee salary increase

Benefits

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

Operation	*Opportunity*	How we implemented *the Policy in 2018/19*	How we plan to implement *the Policy in 2019/20*
Benefits typically include car allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses In addition, Executive Directors are eligible to participate in all-employee share plans on the same terms as other eligible employees	The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit The range and value of the benefits offered are reviewed periodically	Normal company benefit provision	No change

Pension

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
A defined contribution scheme and/or cash supplement in lieu of pension	For current Executive Directors, the Company contribution to a pension scheme and/or cash allowance will be up to a maximum of 25% of salary For any new recruit, the contribution will be up to a maximum of 15% of salary This is in line with the level provided to the wider workforce	Executive Director current pension arrangements for 2018/19 are as follows CEO – 25% of salary CFO – 25% of salary	No change for current Executive Directors

Directors' remuneration report continued
Remuneration

Annual bonus

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

Operation	Opportunity	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
Bonuses are based on financial, operational and customer service 50% of the bonus is paid in cash and 50% is deferred into shares for three years (with the value of any dividends to be rolled up and paid on vesting) There are no further performance targets on the deferred amount The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework Malus and clawback provisions apply.	Maximum award of 120% of salary There will be no payment made for threshold performance 50% of maximum will be paid for target performance and 100% of maximum will be paid for stretch performance	Maximum opportunities CEO – 120% of salary CFO – 120% of salary Performance measures (as a % of maximum) Regulated Water and Waste Water PBIT – 47% Business Services PBIT – 10% Customer ODIs - 20% Health & Safety – 8% Customer experience – 8% Personal objectives – 7% Executive Directors awarded bonuses of CEO – 70 2% of salary CFO – 70 2% of salary Deferral of 50% of bonus earned See page 101 for further details on outcomes	No change to the maximum bonus opportunity or payment mechanisms of bonuses See page 97 for the Chairman s letter and description of changes proposed to the operation of the annual bonus for financial year 2019/20 Performance measures (as a % of maximum) Group PBIT – 49% Resilient Service ODIs – 35% • Customer (15%) • Asset Health (10%) • Environment (10%) Customer Service – 8% Health & Safety – 8%

LTIP

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

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

Shareholding requirement

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

Operation	How we implemented the Policy in 2018/19	How we plan to implement the Policy in 2019/20
The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirement has been met	CEO – 300% of salary CFO – 200% of salary See pages 103 and 120 for further details on shareholding requirements and outstanding share awards	No change to requirements

LTIP awards to be granted in 2019

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

	Award 2019 LTIP	Threshold FD % Salary	1 39 x FD % Salary	UQ RoRE performance relative to WaSCs % Salary
Vesting for performance	CEO	37 5%	150%	200%
	CFO	25%	100%	150%

Chairman and Non-Executive Directors' fees (audited)

From 1 April 2019, Non-Executive Director fees were increased by 2 4% from £55,100 to £56,450, and the Chairman s fee was increased by 2 4% from £287,600 to £294,600 These increases are in line with the general employee salary increase

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

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

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

Chairman and Non-Executive Directors' fees (audited)

	Fees 2019/20	Fees 2018/19	Increase %
Chairman s fee	£294,600	£287,600	2 4%
Fee paid to all Non-Executive Directors	£56,450	£55,100	2 4%
Supplementary fees			
– Senior Independent Director	£10,000	£10,000	0 0%
– Audit Committee Chairman	£15,000	£15,000	0 0%
– Remuneration Committee Chairman	£15,000	£15,000	0 0%
– Corporate Responsibility Committee Chair	£13,000	£13,000	0 0%
– Treasury Committee Chairman	£15,000	£15,000	0 0%

Directors' remuneration report continued
Remuneration

Employment at Severn Trent

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

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

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

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

This section of the report covers the following

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

Communication with employees

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

The objectives of the Forum are to

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

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

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

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

Remuneration principles

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

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

Top 50 Best Places to Work

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

Logo removed

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

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

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

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

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

Our remuneration principles

Support our purpose, vision and values and our wider business goals	Drive long-term sustainable performance for the benefit of all our customers, shareholders and wider stakeholders	Be simple, transparent and easily understood by internal and external stakeholders	Encourage our employees to think and act like owners in the business	Attract, motivate and retain all our employees with diverse backgrounds, skills and capabilities

How does the Committee address the requirements under Provision 40?

Cultural alignment and proportionality
- The Committee ensures that the overall reward framework embeds our purpose, vision and values
- The Committee reviews the executive reward framework regularly to ensure it supports the Company's strategic objectives

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

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

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

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

Alignment of the Policy to the Provisions of the 2018 Code

Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through KPIs which are used for the Annual Bonus and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid
Simplicity	The Company operates a UK market standard approach to remuneration which is familiar to all stakeholders
Risk	The Policy includes the following: • Setting defined limits on the maximum awards which can be earned; • Requiring the deferral of a substantial proportion of the incentives in shares for a material period of time, helping to ensure that the performance earning the award was sustainable, and thereby discouraging short-term behaviours; • Aligning the performance conditions with the agreed strategy of the Company; • Ensuring a focus on long-term sustainable performance through the LTIP; and • Ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes, especially if it appears that the behaviours giving rise to the awards are inappropriate or that the criteria on which the award was based do not reflect the underlying performance of the Company
Predictability	Shareholders were given full information on the potential values which could be earned under the Plans on their approval. In addition, all the checks and balances set out above under 'Risk' were disclosed at the time of shareholder approval
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy, and through deferral and measurement of performance over a number of years ensure that the Executive Directors have a strong drive to ensure that the performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance
Alignment to culture	A key principle of the Company's culture is a focus on customers and their experience; this is reflected directly in the type of performance conditions used for the bonus. The focus on ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used for the incentive plans are measures used to determine the success of the implementation of the strategy

Wider Workforce considerations and our approach to fairness

Pay and alignment

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

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

Our Social Purpose

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

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

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

Do more to support our development and wellbeing

£10m

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

240

Menopause awareness programme, so far over **240 employees** have attended our menopause workshops, **10% of whom were male**

Pride 2019

LGBT+ Ally campaign and Pride

Recognise and fairly reward everyone's contribution

Our 2019 starting rates are **c.£16,000** for Apprentices, **£16,900** pro rata for Undergraduate Placements and **c.£27,000** for Graduates

Fairness, transparency and **alignment** runs through our entire customer focused bonus scheme from the top to the bottom of the Company

Provide everyone the opportunity to succeed in a job that the community depends upon

2 days

To enable employees to participate in volunteering programmes, and a third of our employees took this up

24

Visited 24 schools and colleges in social mobility cold spots

Employability scheme to support people with learning difficulties to gain work experience and skills

TAP INTO YOUR **POTENTIAL**

Our graduate scheme has a Black, Asian and Minority Ethnic ('BAME') representation of 31%, with the equivalent figure for our apprentices being 12%

Be a company that we're inspired to work for

Top 4

The top 4 for women's representation amongst Executive Committee and their direct reports within the FTSE100 recognised in the 2018 Hampton-Alexander Review

Top 50

Logo removed

62%

Employee engagement which is 5 points ahead of the UK and Ireland average benchmark

93%

Trusted to do my job

92%

Proud to be part of Severn Trent

Gender Pay Gap Reporting

Gender pay reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. At Severn Trent, we are passionate about equality, diversity and inclusion and are committed to addressing our Gender Pay Gap.

We reported our Gender Pay Gap in November 2018 in line with statutory requirements. The data was based on figures from 5 April 2018 and showed a mean gap of 2.8% (last year 2.4%) and a median gap of 13.2% (14.6%). The increase in the mean reflects small changes in the number of men and women within our executive population, and the decrease in the median is primarily driven by a higher proportion of females being recruited and promoted within our senior managerial population.

We continue to encourage and embrace diversity, and are always looking at ways in which we can build our inclusive approach.

The full Gender Pay Gap report can be found on the Severn Trent website, detailing the methodology and definitions, including case studies showcasing the achievements of two of our employees, and information about our trailblazing menopause awareness campaign.

Pay quartiles

72.4%	Top quartile	27.6%
80.5%	Upper middle quartile	19.5%
70.8%	Lower middle quartile	29.2%
57.1%	Lower quartile	42.9%

The difference in hourly pay between men and women is

2.8%

Mean

1 2 3 4 5

13.2%

The difference in annual bonus pay between men and women is

-50%

Median

1 2 3 4 5

3.9%

Social Mobility Employer Index 2018

We were ranked as one of the Top 50 employers in the Social Mobility Employer Index 2018 ('the Index'). The Index ranks participating employers on their actions to access and progress talent from all backgrounds, and showcases their progress towards improving social mobility.

Having a workforce that is diverse in terms of social background is as important to Severn Trent as being diverse in terms of gender and race, and the Index has assessed us on the actions we are taking to ensure we are open to accessing and progressing talent from all backgrounds.

Our ranking has increased from 38th to 20th in the Index due to the work we have already undertaken in this area to enable those from lower socio-economic backgrounds to succeed. Measures taken to improve social mobility include:

- Targeting our outreach work at schools with above-average levels of free school meals/low levels of attainment with a focus on Social Mobility Cold Spots;
- Unlike many other organisations, which offer apprenticeships at levels two and three, we offer higher apprenticeships; and
- Removing the name, grades and university attended from all stages of the recruitment process for our graduate and apprenticeship programmes. As a consequence, offers were made to individuals who would probably not have been recruited under the previous grade requirements.

We also signed the Social Mobility Pledge in 2019, which encourages companies to improve the UK's record on social mobility. As part of this, we will:

- Partner with schools and colleges to provide coaching through quality careers advice, enrichment experiences and by mentoring people from disadvantaged backgrounds or circumstances;
- Provide structured work experience and/or apprenticeship opportunities to people from disadvantaged backgrounds or circumstances; and
- Adopt open employee recruitment practices which promote a level playing field for people from disadvantaged backgrounds or circumstances.

Directors' remuneration report continued
Remuneration

Introduction to Committee remit and the Committee's report

Process

In order for the Committee to carry out its oversight review of wider workforce pay and policies and incentives, a specific process is being developed This section provides some detail on how the Committee will carry out its duties and the key issues that will be considered

The Committee will receive a report twice a year from the Group setting out key details of remuneration throughout the Group The table sets out a summary of the information that will be received and discussed by the Committee at the end of the financial year

Levels of remuneration and the types offered will vary across the Group depending on the employee s level of seniority and role The Committee is not looking for an homogeneous approach but, when conducting its review, it will pay particular attention to the following issues

- Whether the element of remuneration is consistent with the Remuneration Principles,
- Whether any differences are objectively justifiable, and
- Whether the approach seems fair and equitable in the context of other employees

Once the Committee has conducted its review of the wider workforce remuneration and incentives, it will consider the approach applied to the remuneration of the Executive Directors and senior management In particular, the Committee is focused on whether, within the framework set out above, the approach to the remuneration of the Executive Directors and senior management is consistent with that applied to the wider workforce

The first report, as described above, is due to be considered by the Committee later in 2019 Details of the findings on the alignment of pay across the Group will be communicated to employees and reported on in next year s Directors' remuneration report

Remuneration element	Details reviewed
Salary	Salary rises
	General positioning of base salary against market
Bonus	Total eligible population (% of Group employees)
	Target and maximum range (% of Salary)
	Performance conditions in place across the Group
	Method of payment – cash or shares
	Recovery provisions in place (malus and clawback)
Long Term Incentive Plan	Total eligible population (% of Group employees)
	Target and maximum range (% of Salary)
	Type of performance conditions
	Holding period
	Minimum shareholding requirement
	Recovery provisions (malus and clawback)
Pension	**Defined Contribution**
	Total eligible population
	Group contribution
	% – Range of values
	For new EDs and existing EDs
	Employee contribution
	Defined Benefit
	Total eligible population
	Range of values

Pay comparisons

Our policy quantum compared with peers

The following table shows the relative position of target total compensation under the policy for our Executive Directors compared with the FTSE51-150

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for Executive Directors, which we believe is the FTSE51-150, and the size of the Company compared with these peers The Company is around the median of this comparator group by market capitalisation and the proposed target total compensation has been set broadly in line with this position

Relative position of target total compensation

Graph removed

CEO remuneration vs returns to shareholders

The graph shows the value at 31 March 2019 of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index The FTSE100 was chosen as the comparator index because the Company is a constituent of that index The intermediate points show the value at the intervening financial year ends

Total shareholder return and total remuneration

Graph removed

Total shareholder return

The chart shows the value at 31 March 2019 of £100 invested in Severn Trent at the start of the current AMP The intermediate points show the value at the intervening financial year ends

Total shareholder return over AMP

Graph removed

Directors' remuneration report continued
Remuneration

Remuneration of the CEO

The figure of remuneration for the CEO over the last 10 financial years is shown in the table below The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown

										Year ended 31 March
	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	**Liv Garfield**
Total remuneration[i] (£'000)	1,027 0	949 8	1,244 1	1,635 3	1,818 4	2,197 6	2,493 6	2,424 0	2,193 5	**2,395.4**
Annual bonus (% of maximum)	51 5%	43.2%	48 1%	82 4%	78 7%	52 0%	88 2%	75 8%	72 5%	**70.2%**
LTIP vesting (% of maximum)	60 3%	0 0%	28 4%	57 5%	100 0%	100 0%	100 0%	100 0%	100 0%	**100%**
SMP vesting (% of maximum)	N/A	N/A	N/A	78 0%	64 3%	N/A	N/A	N/A	N/A	**N/A**

(i) 2018 onwards includes any SAYE grants made during the year as well as dividend equivalents in respect of vested LTIP shares

Percentage change in the remuneration of the CEO

The table shows the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Group's total wage bill as a result of movements in the number of employees The comparator group used is Severn Trent employees in the UK

The Committee monitors this information carefully to ensure that there is not a divergence in the fixed pay of the CEO compared with the wider workforce In addition, this information demonstrates the Company's approach to bonus throughout the organisation with employees and the CEO benefiting when the Company does well

Percentage change in the remuneration of the CEO

	CEO			Average per employee		
	2018/19 £'000	2017/18 £ 000	Change	**2018/19 £'000**	2017/18 £ 000	Change
– Salary (i)	**708.0**	690 6	2 5%	**31.8** (iv)	30 5	4 3%
– Benefits (ii)	**17.1**	17 7	(3 4)%	**0.4**	0 4	0%
– Bonus (iii)	**497.0**	501 0	(0 8)%	**1.7**	1 8	(5 6)%

(i) The salary figures shown are based on full time equivalent comparisons

(ii) The benefits figures include car allowance and family level private medical insurance for senior and middle managers

(iii) The figures shown are reflective of any bonus earned during the respective financial year Bonuses are paid in the following June

(iv) The average pay increase for the wider workforce during the year was 3 0%

Annual Report on Remuneration

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 17 July 2019. The information on pages 117 to 122 is audited.

Total single figure of remuneration (audited)

The total single figure of remuneration table below sets out the remuneration received by the Directors for 2018/19 (or for performance periods ending in 2018/19 in respect of the long-term incentives) and, for the purposes of comparison, for 2017/18. Where necessary, further explanations of the values provided are included below. This table and the explanatory notes below this table have been audited.

Total single figure of remuneration (audited)

	Year ended 31 March 2019							Year ended 31 March 2018						
Executive Directors	**Salary and fees (£'000)[i]**	**Benefits (£'000)[ii]**	**Annual bonus (£'000)[iii]**	**LTIP (£'000)[iv]**	**Pension (£'000)[v]**	**Other (£'000)[vi]**	**Total (£'000)**	Salary and fees (£'000)[i]	Benefits (£'000)[ii]	Annual bonus (£'000)[iii]	LTIP (£'000)[iv]	Pension (£'000)[v]	Other (£'000)	Total (£'000)
Liv Garfield	**703.7**	**17.1**	**497.0**	**1,001.7**	**175.9**	**–**	**2,395.4**	687	18	501	811	172	4.5	2,193.5
James Bowling	**424.0**	**16.5**	**299.5**	**402.5**	**106.0**	**4.5**	**1,253.0**	414	19	302	319	104	-	1,157.8
Non-Executive Directors	**Salary and fees (£'000)**	**Benefits (£'000)**	**Annual bonus (£'000)**	**LTIP (£'000)**	**Pension (£'000)**	**Other (£'000)**	**Total (£'000)**	Salary and fees (£'000)	Benefits (£'000)	Annual bonus (£'000)	LTIP (£'000)	Pension (£'000)	Other (£'000)	Total (£'000)
Andrew Duff (Chairman)	**287.6**	–	–	–	–	–	**287.6**	281	–	–	–	–	–	281
John Coghlan	**85.1**	–	–	–	–	–	**85.1**	84	–	–	–	–	–	84
Philip Remnant	**70.1**	–	–	–	–	–	**70.1**	69	–	–	–	–	–	69
Kevin Beeston	**65.1**	–	–	–	–	–	**65.1**	64	–	–	–	–	–	64
Dominique Reiniche	**55.1**	–	–	–	–	–	**55.1**	54	–	–	–	–	–	54
Dame Angela Strank	**68.1**	–	–	–	–	–	**68.1**	67	–	–	–	–	–	67

(i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions via salary sacrifice. Salary is based on salary earned during the financial year.

(ii) Benefits include a car allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme.

(iii) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to continued employment for three years but with no further performance conditions attached.

(iv) The value of the 2016 LTIP is based on the estimated value of shares calculated using the average share price for the period 1 January to 31 March 2019 of £19.80 and includes dividends paid to date. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares.

(v) The Executive Directors' pension provision is equal to 25% of salary. No Executive Directors accrued benefits under any defined contribution pension plans during the year or have participated in a defined benefits scheme while an Executive Director.

(vi) This figure relates to the difference between the market price and the discounted option price relating to an SAYE option granted during the financial year.

Relative importance of the spend on pay

The table below shows the expenditure of the Company on staff costs against dividends paid to shareholders for both the current and prior financial periods, and the percentage change between the two periods.

Relative importance of the spend on pay

	2019 £m	2018 £m	% Change
Staff costs (i)	**309.4**	288.1	7.4%
Dividends	**211.9**	197.0	7.6%

(i) Staff costs from continuing operations

Directors' remuneration report continued
Remuneration

Benefits for 2018/19 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically. In line with the Policy outlined on page 105, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible

Benefits for 2018/19 (audited)

	Typical annual value 2018/19	Typical annual value 2017/18	Percentage increase/ (decrease)
Car allowance	£15,000	£15,000	0%
Private medical insurance	£1,500	£1,500	0%
Life assurance	Up to 6 x salary	Up to 6 x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide policy	0%
Biennial health screening	£581 per health screen	£620 per health screen	(6 3)%
Incapacity benefits [1]	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

(i) Incapacity benefit for Executive Directors and senior management is 75% of salary, and for the rest of the eligible workforce is 50% of salary

Annual bonus outturn for 2018/19

Full detail on the Company's performance during the financial year can be found in the Strategic report

The performance outcomes in respect of financial performance conditions, and the overall bonus awarded to each Executive Director, is set out in the At a Glance section on page 100 The table provides detail on the performance outcomes for both Executive Directors in relation to their specific personal objectives.

Personal objectives for the Executive Directors continue to be linked to our strategic framework and were shared across the team, with each Executive Director leading on the areas which best align to their accountabilities and expertise

CEO

Objective and activity	Key achievements in 2018/19	Performance outcome
Embed customers at the heart of all we do Deliver on customer measures through customer ODIs	• Achieved customer ODI uncapping enabling benefits of outperformance to be shared with customers • 40% year-on-year improvements in Supply Interruptions • Ofwat approved waste uncapping benefiting the remainder of AMP6. • Supported 52,838 vulnerable customers • Retained UQ for Customer Service Index for 2018/19	● Fully met
Drive operational excellence and continuous innovation Deliver UQ plans across Waste, *Water and Retail*	• Significant improvements have been made in waste networks ODIs during AMP6, including 50% reduction in total flooding incidents (internal and external), and year-on-year reduction in the number of Cat3 pollutions • Delivery of 2018 Agrivert acquisition • Significant improvements in leakage year on year, including leakage work in progress *down by 65% and a 50% improvement in the median no of days to fix a leak.* • New customer first programme rolled out to all Contact Centre staff	● Fully met
Invest responsibly for sustainable growth Achieve material improvements in some of our key Board and STEC level Enterprise Risk Management ('ERM') risks	Taken actions to reduce risk scores across a range of areas through reviewing and embedding control and assurance frameworks, additional infrastructure investment and identification and implementation of remedial plans	● Fully met
Change the market for the better Produce compelling cases for investment at PR19 that enable strong Regulatory Capital Value ('RCV') growth over AMP7 and AMP8	• PR19 fast-tracked • *Only utility to be named as a Pathfinder by The Purposeful Company*	● Fully met
Create an awesome place to work Continue on improving overall QUEST *engagement scores*	• Overall QUEST score held flat in spite of exceptional work effort and unprecedented external factors affecting normal day-to-day working. We are five points above the UK and Ireland benchmark • Social Mobility Employer Index ranking increased from 38th to 20th	● Fully met

CFO

Objective and activity	Key achievements in 2018/19	Performance outcome
Embed customers at the heart of all we do Support customer ODIs	• Identified and made improvements in reporting and analysis, enabling management to have greater insight when making in-year decisions • Ofwat approved waste uncapping benefiting the remainder of AMP6.	● Fully met
Drive operational excellence and continuous innovation Continue the evolution of regulatory submissions and building financial resilience	• Produced high quality Annual Performance Reports for both Severn Trent Water and Hafren Dyfrdwy • Embedded robust financial resilience processes, e.g. early adoption of Ofwat's proposed stress testing scenarios for PR19	● Fully met
Invest responsibly for sustainable growth Support effective decision-making in Capital Delivery, delivering efficiencies and effective resource allocation	• Implemented improved capital governance model, enabling more efficient project resource allocation • Successful creation of £100m 'Spend to Save' capital fund targeted at operational efficiencies for AMP7	● Fully met
Change the market for the better Deliver Finance plan for PR19, and an excellent assurance programme for PR19 submission	• Created cost-effective Assurance plan as part of PR19 submission, and achievement of fast-track status has enabled early implementation	● Fully met
Create an awesome place to work Develop breadth and depth of experience and expertise across whole Finance team	• Launched Finance for the Future model designed to improve effectiveness, embrace innovation and drive efficiency towards AMP7 Totex challenges, supported by an award winning study programme for future talent (graduates and apprentices)	● Fully met

LTIP awards vesting in relation to performance in 2018/19 (audited)

The table below shows the outcome in respect of the 2016 LTIP awards, granted on 21 June 2016, which had performance periods ended 31 March 2019 and indicates the resulting number of shares vesting and their value The LTIP based on RoRE over the three years to 31 March 2019 will vest in full. This is representative of continued solid performance in customer ODIs, financing and Totex Detail on the performance outcome is given in the At a Glance section on page 102

LTIP awards vesting in relation to performance in 2018/19 (audited)

Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	% award vesting	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting[i] (£'000)	Value of dividend equivalents due on vesting shares[ii] (£'000)	Total value of LTIP (Single Figure) (£'000)
CEO	46,115	£995 6	31/03/19	100%	46,115	21/06/19	£0	£913 2	£88 5	£1,001 7
CFO	18,529	£400 0	31/03/19	100%	18,529	21/06/19	£0	£366 9	£35 6	£402 5

The RoRE calculation used for LTIPs differs slightly from that used in the Annual Performance Report, which uses the Ofwat definition The LTIP measure seeks to align better our LTIP targets to actual cash flows and against a clearly defined target In this measure, financing outperformance is based on actual gearing rather than the notional capital structure and compares our cost of debt against the allowance in the Ofwat Financial Model It includes profits/losses associated with land sales, miscellaneous activities and the impact of the wholesale revenue forecasting incentive mechanism

(i) Based on the average share price over the final three months of the performance period £19 80 as the awards will not be released until after the end of the closed period

(ii) Based on dividends paid in the period since date of grant to 31 March 2019

Payments for loss of office

There were no payments for loss of office in the year

Payments to past Directors (audited)

Emma FitzGerald

Full details of Emma FitzGerald's unvested shares under the deferred Annual Bonus Scheme and LTIP awards can be found in the 2017/18 Directors' remuneration report The table below sets out details of the LTIP award which will be released to her on the ordinary vesting date, 21 June 2019 She will also receive dividend equivalents on the vested shares

Award	End of performance period	Number of shares
2016 LTIP	31 March 2019	11,243

Outstanding scheme interests, including share awards granted during the year (audited)

The table below sets out details of the Executive Directors outstanding share awards as at 31 March 2019

Directors' shareholdings and summary of outstanding share interests (audited)

Executive	Award type[i]	Maximum number of shares[ii]	Percentage vesting at threshold performance	Exercise price (pence)	End of performance period	End of holding period	Vesting/ exercise date[iii]	Awards granted during the year: Basis of award	Awards granted during the year: Face value (£'000)	Notes
Liv Garfield	2016 LTIP	46,115	25%	-	31/03/19	-	21/06/19			(a)
	2016 ABS	16,260	-	-	31/03/16	-	28/06/19			(c)
	2017 LTIP	42,383	25%	-	31/03/20	-	20/06/20			(a)
	2017 ABS	12,850	-	-	31/03/17	-	28/06/20			(c)
	2018 SAYE	1,089	-	1,652	-	-	May-21	-	-	(d)
	2018 LTIP	72,880	25%	-	31/03/21	24/07/23	24/07/21	200% of salary	£1,381	(b)
	2018 ABS	13,394	-	-	31/03/18	-	19/06/21	Deferred bonus	£250 5	(c)
	Total	204,971								
James Bowling	2016 LTIP	18,529	25%	-	31/03/19	-	21/06/19			(a)
	2016 ABS	9,634	-	-	31/03/16	-	28/06/19			(c)
	2016 SAYE	1,044	-	1,724	-	-	May-19	-	-	(d)
	2017 LTIP	17,028	25%	-	31/03/20	-	20/06/20			(a)
	2017 ABS	7,693	-	-	31/03/17	-	28/06/20			(c)
	2018 LTIP	32,941	25%	-	31/03/21	24/07/23	24/07/21	150% of salary	£624 3	(b)
	2018 ABS	8,072	-	-	31/03/18	-	19/06/21	Deferred bonus	£151 0	(c)
	2019 SAYE	1,221	-	1,474	-	-	May-22	-	-	(d)
	Total	96,162								

(i) LTIP awards are conditional share awards subject to performance conditions ABS awards are deferred shares which are not subject to further performance conditions

(ii) Additional dividend equivalent shares may be released where provided in the rules

(iii) Awards that are due to vest in a closed period will be released as soon as practicable after the end of the closed period

a) 2016 and 2017 LTIP awards

All of the LTIP awards are subject to a RoRE performance condition measured over three financial years, and average RoRE performance is compared with the baseline figure set by Ofwat in our FD

The award will vest at threshold (25%) if average RoRE matches the baseline figure, and increases on a straight-line basis to full vesting (100%) for outperforming the baseline

2016 and 2017 LTIP awards

Award	Grant date	Threshold vesting FD (Baseline)	Full vesting (Outperformance)	3 day average share price used for grant calculations
2016 LTIP	21/06/2016	5 65%	x1 39 (equivalent to 7 86%)	£21 59
2017 LTIP	20/06/2017	5 65%	x1 39 (equivalent to 7 86%)	£23 96

b) 2018 LTIP award (awards granted during the year)

In 2018, the LTIP maximum opportunity changed from 150% to 200% of salary for the CEO and 100% to 150% of salary for the CFO We retained RoRE as a performance condition and aligned the Company definition of RoRE with the Ofwat definition We recalibrated the previous stretch target as the new target and introduced a new relative stretch target of UQ performance against the WaSC peer group, as well as introducing a two year post-vesting holding period

2018 LTIP award (awards granted during the year)

Award	Grant date	Threshold vesting FD (Baseline)	1 39x FD	Full vesting (Outperformance)	3 day average share price used for grant calculations
2018 LTIP	24/07/18	5 65%	Equal to 7 86%	UQ RoRE compared to WaSCs	£18 95

c) Deferred shares under the annual bonus scheme (including awards granted during the year)

Each year, 50% of an Executive Director s annual bonus is deferred in shares for three years The awards are granted in the form of deferred shares The deferred shares relating to the annual bonus for 2018/19 will be granted in June 2019

Deferred shares under the annual bonus scheme (including awards granted during the year)

Award	Relating to FY	Grant date	3 day average share price used for grant calculations
2016 ABS	15/16	28/06/16	£21 59
2017 ABS	16/17	28/06/17	£23 96
2018 ABS	17/18	19/06/18	£18 70

d) Save As You Earn ('SAYE')

The Executive Directors, in common with all eligible UK employees, are entitled to participate in the Company s SAYE Scheme

Directors' remuneration report continued
Remuneration

Directors' shareholdings and summary of outstanding share interests (audited)

Page 103 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements

The shareholding requirements for the CEO and CFO increased in 2018/19

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders The retention and build-up of equity is important in a long-term business such as Severn Trent as it encourages decisions to be made on a long-term sustainable basis for the benefit of customers and shareholders

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 20 May 2019

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017 In respect of her appointment for the year ended 31 March 2019, she was paid fees of £12,000 which she retained

Service contracts for Executive Directors

Copies of the service contracts of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours

Director	Beneficially owned	Interests in shares as at 31 March 2019				% Shareholding guideline achieved[iii]
		Outstanding scheme interests				
		LTIP shares[i]	Annual Bonus shares[ii]	SAYE options	Total	
Kevin Beeston	2,244	–	–	–	2,244	–
Dominique Reiniche	400	–	–	–	400	–
John Coghlan	2,670	–	–	–	2,670	–
Andrew Duff	8,184	–	–	–	8,184	–
Philip Remnant	1,969	–	–	–	1,969	–
Dame Angela Strank	459	–	–	–	459	–
Liv Garfield	137,349	161,378	42,504	1,089	342,320	147%
James Bowling	32,075	68,498	25,399	2,265	128,237	103%

(i) LTIP share awards subject to ongoing performance conditions

(ii) ABS awards are deferred shares which are not subject to further performance conditions

(iii) The share price used to calculate the percentage of the shareholding guideline achieved was £19 76 (as at 31 March 2019) The guideline figures include unvested ABS shares (50% deducted to cover statutory deduction)

Service contracts for Executive Directors

Name	Date of service contract	Nature of contract	Notice period	Termination payments
Liv Garfield	10 04 14	Rolling	12 months	Payments for loss of office comprise a maximum of 12 months' salary and benefits only
James Bowling	01 04 15			

Philip Remnant
Chairman of the
Remuneration Committee
20 May 2019

Directors' report

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2019. The performance review of the Company can be found within the Strategic report. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2019. The Governance report set out on pages 64 to 128 is incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Strategic report on pages 54 to 61.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK and Ireland.

Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2019 are shown in note 19 and 46 to the Group financial statements.

Areas of operation

During the course of 2018/19, the Group had activities and operations in the UK and Ireland.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 66 and 67.

All of the Directors will be offering themselves for re-election at the Annual General Meeting ('AGM'), as set out in the Governance report on page 84. The Chairman, Andrew Duff, will be standing for re-election at the Company's forthcoming AGM on 17 July 2019 and, in order to facilitate an effective succession plan, it is intended that he remains as Chairman until the announcement and induction of his successor.

Details of Directors' service contracts are set out in the Directors' Remuneration report on page 122. The interests of the Directors in the shares of the Company are shown on page 120 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force.

Severn Trent Plc does not have in place any indemnities for the benefit of the External Auditor.

Employees

The average number of employees within the Group is shown in note 9 to the Group financial statements.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population. Severn Trent believes that no one should be hurt or made unwell by what we do. We did not experience any major safety incidents and no fatalities during the year.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons, and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well, including an employee assistance programme.

Additional information on our diversity aims and progress can be found on pages 44 and 82.

Employee engagement

We continuously engage with our employees in a number of ways to accommodate different working patterns. This includes:

- all people briefings, 'Team Talk';
- corporate communications events and roadshows held by functions across the Company;
- a dedicated intranet, 'Streamline';
- online news portal and weekly roundup, 'Pipeline News';
- an active employee social media presence, 'Yammer';
- conference calls and email;
- leadership engagement channels – Executive Director blogs, senior management monthly visibility programme and quarterly events;
- Employee Forum; and
- regular meetings with Trade Unions.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings, our Employee Forum and QUEST. More information on employee engagement can be found in *the stakeholder engagement section on* pages 73 to 74.

Directors' report continued
Other disclosures

The Company is keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all-employee plan, the Severn Trent Sharesave Scheme ('Sharesave'), which is offered to UK employees on an annual basis.

69.7% of Severn Trent's UK employees now participate in the Sharesave scheme, with the average participant contributing £276 each month.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plan.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Group and our products must continue to deliver value for customers.

Expenditure on research and development is set out in note 7 to the Group financial statements.

Internal controls

Further details of our internal control framework can be found in the Audit Committee report on page 89.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 52.

Post balance sheet events

Details of post balance sheet events are set out in note 43 to the Group financial statements.

Dividends

An interim dividend of 37.35 pence per Ordinary Share was paid on 4 January 2019. The Directors recommend a final dividend of 56.02 pence per Ordinary Share to be paid on 19 July 2019 to shareholders on the register on 14 June 2019. This would bring the total dividend for 2018/19 to 93.37 pence per Ordinary Share (2017/18: 86.55 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

In 2017/18, we enhanced our Dividend Policy for the period 2015-2020, with effect from 2017/18, and will now increase the dividend by growth of at least RPI +4% each year. This replaced the previous Dividend Policy of annual growth of the dividend at no less than RPI until March 2020.

The Dividend Policy reflects our strong operational delivery and financial performance, while ensuring that our bills are affordable for all our customers. When determining the policy the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment grade credit rating.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 10 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 37 to the Group financial statements. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document which can be found on our website, the Articles and the Governance report on page 71.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2018 AGM.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment because of a takeover bid.

Substantial shareholdings

As at 31 March 2019, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings.

Name of holder	No of Ordinary Shares column	Voting rights held (%)
Lazard Asset Management	23,307,808	9.82%
BlackRock	18,722,846	7.73%
RReef Real Estate	9,729,101	2.73%
Legal & General Investment Management	9,285,649	3.86%
Vanguard Group	8,336,011	3.51%
Maple-Brown Abbott	8,083,911	2.55%
Pictet Asset Management	7,781,012	3.06%

As at 20 May 2019, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company Lazard Asset Management 23,425,859 shares (9 88%); BlackRock, Inc shares 17,747,520 (7 48%); Legal & General Investment Management 9,072,090 shares (3 83%); Vanguard Group 8,367,928 shares (3 53%), Qatar Investment Authority shares 7,964,730 (3 35%), Pictet Asset Management shares 7,306,925 (3 08%), RReef Real Estate 6,594,363 shares (2 78%), Maple-Brown Abbott 6,047,772 shares (2 55)%, SSGA 5,551,542 shares (2 34%)

The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules

Authority to purchase shares

The Company was given authority at its AGM in 2018 to make market purchases of Ordinary Shares up to a maximum number of 23,677,393 Ordinary Shares During the year, no Ordinary Shares have been repurchased

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,757,109 Ordinary Shares

The Directors believe that it is desirable to have the general authority to buy back the Company s Ordinary Shares in order to provide maximum flexibility in the management of the Group's capital resources However, the authority would only be used if the Board was satisfied at the time that to do so would be in the best interests of shareholders

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £65,936 (2018 £81,947) Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships
In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes We are also committed to supporting WaterAid, the UK s only major charity dedicated to improving access to safe water, hygiene and sanitation in the world s poorest countries

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure Accordingly, neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclosure of any such payment must be made in the Annual Report and Accounts The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation

At the 2018 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries Pursuant to those authorities, during the year ended 31 March 2019, the Group incurred costs of £nil (2018 £nil) Those authorities will expire at the 2019 AGM and, in line with market practice to renew the authorities on an annual basis, the Board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum aggregate of £150,000 p a As permitted under the Companies Act 2006, this resolution also covers any political donations made or political expenditure incurred by any subsidiaries of the Company

We reduce our carbon footprint

The UK is playing a leading part in reducing carbon emissions We want to play our part in reducing our impact by reducing our carbon emissions As the majority of our carbon emissions are driven by our use of energy, managing carbon also means managing costs
We therefore aim to reduce carbon emissions and increase our generation of renewable energy

We have recently committed to becoming Net Carbon Zero by 2030 This is even more ambitious than a science-based target and builds on our long track record of making year-on-year reductions in emissions We will set out our detailed strategy to deliver this goal as part of our forward plans

The Carbon Trust Standard recognises our consistent emissions reductions and effective carbon management processes and we scored in the top quartile of companies We continue to report to the Carbon Disclosure Project ('CDP) each year which means our climate change information is publicly accessible
CDP request information about climate change from companies on behalf of investors and score each company on the quality and completeness of their responses

This year, we again increased renewable energy generation across Severn Trent (including the total generation of energy from Agrivert food waste business, which we purchased in December 2018)
We generated an equivalent of 43% of Severn Trent Water Limited's electricity needs This was up from 38% in 2017/18
We continue to lead the UK water industry, and are on track to generate the equivalent of 50% of our electricity needs by the end of 2020

We plan to continue to reduce our operational emissions by reducing our energy use and increase our renewable energy generation Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors

Directors' report continued
Other disclosures

Report on greenhouse gas emissions

This is the sixth year Severn Trent has been required to report greenhouse gas ('GHG') emissions in the Directors' report

Severn Trent is committed to reducing its GHG emissions For Severn Trent Water, which accounts for 99% of our total Group emissions, we have been publicly reporting on our emissions since 2002 In that time we have reduced our emissions by being more energy efficient and generating more renewable energy

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO_2e), for the period 1 April 2018 to 31 March 2019

Our total net emissions have fallen again this year, due to our increased generation of renewable energy, a reduction in the emissions-intensity of UK grid electricity and reduced process emissions as we move to more advanced digestion of our sewage sludge Our net emissions have also fallen as we have now secured a proportion of our electricity supply from accredited renewable energy sources We have reported this market-based benefit separately in the table below

The GHG data we report is reported internally during the year to the Corporate Responsibility Committee and to the Board We have subjected our GHG data and processes to external assurance by Jacobs

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions

For the appointed UK Water businesses Severn Trent Water and Hafren Dyfrdwy, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry' methodology for estimating operational emissions, Version 13' (released April 2019) This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors For non-appointed business emissions, we have used the latest Defra emissions factors which include the relevant conversion factors for overseas electricity

Severn Trent carbon footprint kt CO_2e

Graph removed

GRID BALANCING

We help National Grid balance supply and demand, so that electricity is available for everybody We do this by turning assets such as treatment sites and generators on and off as requested by the Grid. We can now provide flexible capacity equivalent to the power demand of a town the size of Stafford This year we won the Energy and Carbon Initiative of the year at the Water Industry Achievement awards in recognition of this work

BUYING GREEN

As part of our efforts to reach carbon neutrality, we are now securing a proportion of our imported electricity from accredited renewable sources We plan to increase the amount of renewable energy we procure in future to reduce our footprint further.

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tonnes CO_2e)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Emissions from combustion of fuel and operation of facilities (Scope 1)	132,535	132,406	134,584	138,131	134,307	132,360
Emissions from electricity purchased for own use (Scope 2)	330,679	357,756	337,028	294,426	279,393	217,726
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700	350,086
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	21,672	38,878	45,085	42,069	45,333	46,986
Emissions reduction from purchase of renewable energy (market-based carbon accounting benefit)	-	-	-	-	-	34,818
Total Annual Net Operational Emissions	441,542	451,285	426,527	390,488	368,367	268,283

Annual GHG intensity ratio (tCO_2/unit)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Operational GHG emissions of Severn Trent per £m turnover	248 6	255 2	234 7	214 0	217 4	151 8

Our gross emissions total in the table on page 126 applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years. This year, we have also shown the net benefit of our renewable energy procurement via our suppliers, applying the 'market-based' accounting methodology, which is included in our net emissions total.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC'). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Relevant audit information

The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed by Listing Rule 9.8.4R can be located in the following pages of this Annual Report and Accounts.

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	155
(4)	Details of long-term incentive schemes	106
(8)	Section 7 in relation to subsidiary undertakings	193 to 194
(2), (5), (6), (7), (9)–(14)		Not applicable

External Auditor

Having carried out a review of their effectiveness during the year, details of which can be found in the Audit Committee report on page 90, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

Separate Annual Performance Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are prepared and provided to Ofwat. Copies are available on the respective websites.

Additionally, separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are available on the respective websites.

Annual General Meeting

The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 17 July 2019. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on the Severn Trent Plc website.

By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary
20 May 2019

Directors' Responsibilities Statement

Other disclosures

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing the parent company financial statements, the Directors are required to·

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a Going Concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Responsibility Statement

Each of the Directors confirm that to the best of their knowledge

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 20 May 2019 and is signed on its behalf by·

Andrew Duff
Chairman
20 May 2019

James Bowling
Chief Financial Officer

Independent Auditor's report to the members of Severn Trent Plc

Report on the audit of the financial statements

Opinion

In our opinion

- the financial statements of Severn Trent Plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2019 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements which comprise

- the consolidated income statement,
- the consolidated and parent company statement of comprehensive income,
- the consolidated and parent company balance sheets,
- the consolidated and parent company statements of changes in equity,
- the consolidated cash flow statement, and
- the related notes to the consolidated financial statements 1 to 46 and the related notes to the parent company financial statements 1 to 18

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were • valuation of the provision for trade receivables in Severn Trent Water Limited, • valuation of the Group's retirement benefit obligation, and • classification and valuation of capital expenditure in Severn Trent Water Limited Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year identified with
Materiality	The materiality that we used for the Group financial statements was £18 million which was determined on the basis of profit before tax, gains/losses on financial instruments and exceptional items.
Scoping	Our audit scoping has resulted in over 95% of the Group's net operating assets and profit before tax being subject to audit testing
Significant changes in our approach	In the year ended 31 March 2018, we reported the accuracy of wholesale revenue for non-household customers in the new water market as a key audit matter As the year ended 31 March 2019 represents the second year of the operation of this market, and processes and controls are embedded within the business, we no longer consider this to be a reportable key audit matter

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 2 a) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9 8 6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent Auditor's report to the members of Severn Trent Plc continued

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to

- the disclosures on pages 56 to 61 that describe the principal risks and explain how they are being managed or mitigated,
- the Directors confirmation on page 56 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, or
- the Directors' explanation on pages 62 and 63 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We are also required to report whether the Directors statement relating to the prospects of the Group required by Listing Rule 9 8 6R(3) is materially inconsistent with our knowledge obtained in the audit

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Valuation of the provision for trade receivables in Severn Trent Water Limited

Key audit matter description	A portion of household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance Management makes estimates regarding the expected future loss rate when calculating the bad debt provision The provision for trade receivables as at 31 March 2019 was £115 2 million (31 March 2018 £124 5 million) Changes have been made to the basis of estimation of the bad debt provision for the year ended 31 March 2019 as a result of the adoption of IFRS 9 Financial Instruments Provisions are made against Severn Trent Water Limited's trade receivables based on historical cash collection rates of debt now aged over seven years, which is considered by management to be representative of collection risk on the whole population of household debtors The key audit matter, which is also a potential fraud risk, has been focused on the valuation of the household bad debt provision, specifically cash collection reflected in the model for debt aged greater than seven years The Audit Committee also considered this as a significant issue as discussed in the Audit Committee report on page 88 The provision for trade receivables is discussed in note 2 p) and 21 to the Group financial statements
How the scope of our audit responded to the key audit matter	We have audited and critically reviewed the assumptions used in the calculation of the bad debt provision as follows • assessed the design and implementation of key management review controls over the bad debt provision model, • assessed the allocation of cash collected on years seven to ten debt to ensure that it has not inappropriately been allocated to this ageing bucket to reduce the overall provisioning rate, • reviewed management's assumptions applied to the provision for trade receivables and challenged whether they reflect the lifetime expected credit loss applied to trade receivables, including a review of cash collection trends, demographic and economic trends, and • reconciled the debtor ageing for each debt category to source data
Key observations	We are satisfied that the assumptions applied in assessing the overall bad debt provision are reasonable and we consider changes to the basis of estimation of the bad debt provision to be appropriate

Valuation of the Group's retirement benefit obligation

Key audit matter description	Valuation of retirement benefit obligations is an area involving significant estimation because the process is complex and requires management (after taking advice from their actuarial advisers) to make a number of assumptions concerning the discount rate, inflation rate, pension increases, and the longevity of current pensioners in order to determine the value of the schemes' liabilities The key audit matter is focused on the valuation of the pension scheme liabilities and the appropriateness of the actuarial assumptions that are used to calculate it, specifically with reference to the discount rate The Group's retirement benefit obligation as at 31 March 2019 is £452 9 million (31 March 2018 £519 8 million) as per note 28 Retirement benefit schemes. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee report on page 89. Management has included this as a key source of estimation uncertainty in note 4 to the Group financial statements
How the scope of our audit responded to the key audit matter	We have challenged the assumptions applied by performing the following procedures • evaluated the design and implementation of management's key control; • with the support of our pension specialists within our audit team, we challenged the assumptions used in the calculation of the pension scheme deficit as detailed in note 28 specifically challenging the discount rate with reference to comparable market and other third party data, and • assessed whether there had been any changes in the methodology to determine the assumptions since the prior year
Key observations	We are satisfied that management's assumptions in the valuation of the retirement benefit obligation are appropriate with consistent valuation methodology to previous periods

Classification and valuation of capital expenditure in Severn Trent Water Limited

Key audit matter description	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator (Ofwat) and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Severn Trent Water Limited property, plant and equipment ("PPE") external additions in the year were £838.2 million (2018: £663.2 million) of the total additions of £861.4 million (2018: £691.2 million) disclosed in note 18. As the classification of capital expenditure, operating expenditure and infrastructure renewals expenditure directly affects the Group's reported financial performance, we identified a key audit matter relating to an overstatement of capital expenditure, whether caused by changing the Group's capex implementation guidance and/or incorrect application of this guidance. Due to the level of judgment involved, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit Committee also considered this a significant issue as discussed in the Audit Committee report on page 88. Management has included this as a key source of estimation uncertainty in note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	We performed the following procedures to respond to the key audit matter: • reviewed Severn Trent Water Limited's capitalisation policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; • evaluated the design and implementation and operating effectiveness of controls over the application of the policy to expenditure incurred on projects within the Group's capital programme during the year; • tested whether there have been any changes in the application of the policy; and • for a sample of capital projects, assessed the application of the capitalisation policy to the costs incurred by reviewing the business cases and invoices and obtained further explanations and evidence for significant changes in capital expenditure from budget.
Key observations	We are satisfied that the classification and valuation of assets capitalised in the year is appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Materiality	£18 million (2018: £18 million)	£16.2 million (2018: £16.2 million)
Basis for determining materiality	Approximately 4.8% (2018: approximately 5.6%) of profit before tax, exceptional items and fair value movements in derivative financial instruments. Whilst underlying profit has increased, the business has not changed significantly and therefore materiality has been retained at £18 million.	3.0% of net assets (2018: 3.0%) capped at 90% of Group materiality.
Rationale for the benchmark applied	As in 2018, profit before tax, gains/losses on financial instruments and exceptional items has been used in order to focus on the Group's underlying trading performance consistent with the Group's internal and external reporting.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.

Graph removed

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2018: £750,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig which were subject to a full scope audit using a materiality of £15 million and £0.6 million respectively (2018: £15 million and £0.4 million). We have audited a further nine components using statutory materialities which range from £34,000 to £9 million (2018: ten components using statutory materialities which ranged from £44,000 to £9 million). Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

This represents over 95% (2018: over 90%) of the Group's net operating assets and profit before tax, gains/losses on financial instruments and exceptional items.

Independent Auditor's report to the members of Severn Trent Plc continued

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures

Other information

The Directors are responsible for the other information The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that

- fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit, or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee, or
- Directors statement of compliance with the UK Corporate Governance Code – the parts of the Directors statement required under the Listing Rules relating to the Company s compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9 8 10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

In preparing the financial statements, the Directors are responsible for assessing the Group s and the parent company s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below

A further description of our responsibilities for the audit of the financial statements is located on the FRC s website at www frc org uk/auditorsresponsibilities This description forms part of our Auditor's report

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance,
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud,
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations,
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, and financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas valuation of the provision for trade receivables in Severn Trent Water Limited, classification and valuation of capital expenditure in Severn Trent Water Limited, and accuracy of wholesale revenue for wholesale customers in the non-household retail market, and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group The key laws and regulations we *considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation*

Audit response to risks identified

As a result of performing the above, we identified valuation of the provision for trade receivables in Severn Trent Water Limited and, classification and valuation of capital expenditure in Severn Trent Water Limited as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Accuracy of wholesale revenue for wholesale customers in the non-household retail market has remained a significant risk due to fraud whilst no longer being a key audit matter. In response to the risk identified, we have:

- evaluated the design and implementation of key management controls around the accuracy of the wholesale revenue for wholesale customers in the non-household market;
- performed an analytical review of total wholesale revenue by calculating an expectation based on prior year revenue, adjusted for tariff changes;
- completed substantive testing of the consumption uplift model in order to obtain assurance over the accuracy and completeness of the MOSL data populated within the model; and
- challenged whether the refinements to the model, including removing the adjustment relating to large and intermediate customers, are appropriate.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgments made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Company at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years, covering the years ending 31 March 2006 to 31 March 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kari Hale, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
20 May 2019

Consolidated income statement
For the year ended 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Turnover	5,6	**1,767.4**	1,696 4
Other income		**19.9**	3 9
Operating costs before charge for bad and doubtful debts, amortisation of acquired intangible assets and exceptional items		**(1,188.1)**	(1,134 7)
Charge for bad and doubtful debts		**(25.6)**	(25 8)
Operating costs before amortisation of acquired intangible assets and exceptional items		**(1,213.7)**	(1,160 5)
Amortisation of acquired intangible assets		**(0.7)**	–
Exceptional items	8	**(9.6)**	(12 6)
Total operating costs		**(1,224.0)**	(1,173 1)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items		**573.6**	539 8
Amortisation of acquired intangible assets		**(0.7)**	–
Exceptional items	8	**(9.6)**	(12.6)
Profit before interest and tax		**563.3**	527 2
Finance income	10	**68.9**	67 7
Finance costs	11	**(263.1)**	(287 2)
Net finance costs		**(194.2)**	(219 5)
Net gains/(losses) on financial instruments	12	**16.0**	(6 7)
Share of net (loss)/profit of joint ventures accounted for using the equity method	19	**(0.4)**	0 2
Profit on ordinary activities before taxation		**384.7**	301 2
Current tax	13	**(31.8)**	(32 9)
Deferred tax	13	**(37.6)**	(28 7)
Taxation on profit on ordinary activities	13	**(69.4)**	(61 6)
Profit for the year from continuing operations		**315.3**	239 6
Profit for the year from discontinued operations		–	13 2
Profit for the year		**315.3**	252 8

Earnings per share (pence)

	Note	2019	2018 (restated)
From continuing operations			
Basic	15	**133.4**	101 8
Diluted	15	**133.2**	101 5
From continuing and discontinued operations			
Basic	15	**133.4**	107 4
Diluted	15	**133.2**	107 1

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 (restated see note 2 a) £m
Profit for the year	**315.3**	252 8
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement		
Net actuarial gains	**57.9**	29 1
Tax on net actuarial gains	**(9.8)**	(7 6)
	48.1	21 5
Items that may be reclassified to the income statement		
(Losses)/gains on cash flow hedges	**(8.6)**	5 8
Deferred tax on losses/gains on cash flow hedges	**1.5**	(1 0)
Amounts on cash flow hedges transferred to the income statement	**8.2**	8 2
Deferred tax on transfer to the income statement	**(1.3)**	(1 4)
Exchange movement on translation of overseas results and net assets	**–**	(1 6)
Cumulative exchange gains taken to the income statement	**–**	(29 8)
	(0.2)	(19 8)
Other comprehensive income for the year	**47.9**	1 7
Total comprehensive income for the year	**363.2**	254 5

Consolidated statement of changes in equity
For the year ended 31 March 2019

	Equity attributable to owners of the company				
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
As at 1 April 2017 as previously reported	234.7	112.5	121.8	454.3	923.3
Restatement	–	–	–	4.1	4.1
As at 1 April 2017 restated	234.7	112.5	121.8	458.4	927.4
Profit for the year	–	–	–	252.8	252.8
Gains on cash flow hedges	–	–	5.8	–	5.8
Deferred tax on gains on cash flow hedges	–	–	(1.0)	–	(1.0)
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.4)	–	(1.4)
Exchange movement on translation of overseas results and net assets	–	–	(1.6)	–	(1.6)
Cumulative exchange gains transferred to income statement	–	–	(29.8)	–	(29.8)
Net actuarial gains	–	–	–	29.1	29.1
Tax on net actuarial gains	–	–	–	(7.6)	(7.6)
Transfer between reserves	–	–	(9.0)	9.0	–
Total comprehensive income/(loss) for the year	–	–	(28.8)	283.3	254.5
Share options and LTIPs					
– proceeds from shares issued	0.4	5.2	–	–	5.6
– value of employees' services	–	–	–	6.9	6.9
Current tax on share based payments	–	–	–	0.8	0.8
Deferred tax on share based payments	–	–	–	(1.3)	(1.3)
Dividends paid	–	–	–	(197.0)	(197.0)
As at 31 March 2018 restated	235.1	117.7	93.0	551.1	996.9
As at 1 April 2018 as previously reported	235.1	117.7	93.0	547.9	993.7
Restatement (see note 2 a)	–	–	–	3.2	3.2
As at 1 April 2018 restated	235.1	117.7	93.0	551.1	996.9
Profit for the year	–	–	–	315.3	315.3
Losses on cash flow hedges	–	–	(8.6)	–	(8.6)
Deferred tax on losses on cash flow hedges	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	–	–	(1.3)	–	(1.3)
Net actuarial gains	–	–	–	57.9	57.9
Tax on net actuarial gains	–	–	–	(12.2)	(12.2)
Total comprehensive income/(loss) for the year	–	–	(0.2)	361.0	360.8
Share options and LTIPs					
– proceeds from shares issued	0.8	10.3	–	–	11.1
– value of employees' services	–	–	–	8.1	8.1
– own shares purchased	–	–	–	(1.1)	(1.1)
Current tax on share based payments	–	–	–	0.2	0.2
Dividends paid	–	–	–	(211.9)	(211.9)
As at 31 March 2019	**235.9**	**128.0**	**92.8**	**707.4**	**1,164.1**

Consolidated balance sheet
At 31 March 2019

	Note	2019 £m	2018 (restated see note 2 a) £m
Non-current assets			
Goodwill	16	**90.9**	62.2
Other intangible assets	17	**124.2**	88.4
Property, plant and equipment	18	**9,085.6**	8,471.9
Investments in joint ventures	19	**37.0**	37.6
Derivative financial instruments	20	**68.4**	36.0
Trade and other receivables	21	**204.0**	185.3
Retirement benefit surplus	28	**18.6**	18.2
		9,628.7	8,899.6
Current assets			
Inventory		**20.8**	18.5
Trade and other receivables	21	**513.5**	456.4
Derivative financial instruments	20	**0.1**	0.2
Cash and cash equivalents	22	**41.0**	51.1
		575.4	526.2
Current liabilities			
Borrowings	23	**(197.0)**	(308.7)
Trade and other payables	26	**(496.7)**	(462.6)
Current tax payable		**(9.3)**	(8.6)
Provisions for liabilities	29	**(32.2)**	(40.6)
		(735.2)	(820.5)
Net-current liabilities		**(159.8)**	(294.3)
Non-current liabilities			
Borrowings	23	**(5,857.2)**	(5,259.1)
Derivative financial instruments	25	**(126.5)**	(116.0)
Trade and other payables	26	**(1,082.9)**	(1,009.4)
Deferred tax	27	**(747.5)**	(675.2)
Retirement benefit obligations	28	**(471.5)**	(538.0)
Provisions for liabilities	29	**(19.2)**	(10.7)
		(8,304.8)	(7,608.4)
Net assets		**1,164.1**	996.9
Equity			
Called up share capital	30	**235.9**	235.1
Share premium account	31	**128.0**	117.7
Other reserves	32	**92.8**	93.0
Retained earnings		**707.4**	551.1
Total equity		**1,164.1**	996.9

Signed on behalf of the Board who approved the accounts on 20 May 2019

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company Number 02366619

Consolidated cash flow statement
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash generated from operations	40	**826.3**	773 3
Tax received	40	–	8 0
Tax paid	40	**(21.3)**	(14 5)
Net cash generated from operating activities		**805.0**	766 8
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired	38	**(50.9)**	(0 2)
Investments in associates and joint ventures		**(6.2)**	–
Purchases of property, plant and equipment		**(782.1)**	(608 5)
Purchases of intangible assets and goodwill		**(35.1)**	(27 3)
Contributions and grants received		**46.5**	36 8
Proceeds on disposal of subsidiaries net of cash disposed	39	–	25.1
Proceeds on disposal of property, plant and equipment		**1.4**	8 0
Net loans advanced to joint ventures and associates		–	(26 6)
Interest received		**0.8**	6 4
Net cash from investing activities		**(825.6)**	(586 3)
Cash flow from financing activities			
Interest paid		**(158.0)**	(183 4)
Interest element of finance lease payments		**(4.4)**	(5 1)
Dividends paid to shareholders of the parent		**(211.9)**	(197 0)
Repayments of borrowings		**(166.5)**	(552 6)
Repayments of obligations under finance leases		**(1.7)**	(1 8)
New loans raised		**554.2**	789 2
Issues of shares		**11.1**	5 6
Swap termination payment		–	(40 0)
Purchase of own shares		**(1.1)**	–
Net cash flow from financing activities		**21.7**	(185 1)
Net movement in cash and cash equivalents		**1.1**	(4 6)
Net cash and cash equivalents at the beginning of the year		**38.5**	44 6
Effect of foreign exchange rates		–	(1 5)
Net cash and cash equivalents at end of year		**39.6**	38 5
Cash and cash equivalents	22	**41.0**	34 7
Bank overdrafts		**(1.4)**	(12 6)
Short-term deposits		–	16 4
		39.6	38 5

Notes to Group financial statements
For the year ended 31 March 2019

1. General information

The Severn Trent Group has a number of operations These are described in the segmental analysis in note 5

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts

Severn Trent Plc is listed on the London Stock Exchange

2. Accounting policies

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see Strategic report on page 16) under the historical cost convention as modified by the revaluation of certain financial assets and liabilities at fair value

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and IFRIC interpretations issued and effective and ratified by the European Union as at 31 March 2019

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006 The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'

Therefore, the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to statement of cash flows, share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions Where required, equivalent disclosures are given in the consolidated financial statements

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company The profit for the year is disclosed in the statement of comprehensive income, the statement of changes in equity and the balance sheet

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated Where policies are specific to the Group or to the Company this is set out in the relevant policy

(iii) Changes in accounting policies – IFRS 9 and IFRS 15

In the current financial year the Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers

The adoption of IFRS 9 has not resulted in any significant changes to the Group's existing accounting practices for financial instruments

IFRS 9 affects the Group's measurement and disclosure of financial instruments with effect from 1 April 2018 The classification of its financial assets and liabilities has not changed significantly as a result of the adoption of IFRS 9 The Group has not retrospectively applied the hedge accounting criteria of IFRS 9 to hedging relationships established under IAS 39 accounting Existing hedges that qualify for hedge accounting under IAS 39 continue to qualify for hedge accounting under IFRS 9 For new hedges established following adoption of IFRS 9 the Group will determine on a case-by-case basis whether to apply the hedge accounting provisions of IFRS 9

Provisions against trade receivables were calculated under the previous accounting policy using historical collection information and losses expected as a result of future events were not recognised Under IFRS 9 the Group recognises a provision for the lifetime expected credit losses for trade receivables The bad debt charge or provision is not materially different as a result

The Group has elected to restate comparative information for prior periods upon adoption of IFRS 15

The core principle of IFRS 15 is that an entity should recognise revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods and services The impact of the adoption of IFRS 15 on the Group's segments is set out below

Regulated Water and Waste Water

There was no change to the recognition of revenue from charges for water or waste water services The policy for recognition of charges for water and waste water services is set out in note 2 c) The performance obligations are satisfied by the provision of water and waste water services and this was also the basis for recognising revenue under the previous accounting standard

There was no change to the recognition of contributions from developers The policy for recognition of contributions from developers is set out in note 2 k) The performance obligations for this income are satisfied through the ongoing supply of water and waste water services to the relevant property and this was also the basis for recognising revenue under the previous accounting standard

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

a) Basis of preparation continued

(iii) Changes in accounting policies – IFRS 9 and IFRS 15 continued

Business Services

The Operating Services business operates under a series of bespoke contracts with specific performance obligations.
The Group applied the methodology set out in IFRS 15 to each of these contracts in order to identify differences from the previous accounting policy The most significant differences arose in relation to the Group's contract to provide water and waste water services to the Ministry of Defence (MOD) The Group acts as the service provider under the MOD Project Aquatrine Package C – a 25 year contract spanning 1,295 sites across England covering the eastern sea border and from Lancashire in the North West to West Sussex on the South coast

Under this contract the Group maintains and upgrades the MOD infrastructure assets and provides operating services for water and waste water Both the operating services and maintenance and upgrade services are charged under a volumetric tariff, along with standing charges, which are adjusted with inflation as agreed in the contract

Under IFRS 15, the expected revenue over the life of the contract is allocated to the performance obligations based on an expected margin for each performance obligation over the life of the contract under the following headings

- operating and maintaining the MOD infrastructure assets;
- upgrading the MOD infrastructure assets,
- administrating the services received from statutory water and sewerage undertakers, and
- administrating billing services of the MOD s commercial and Non Base Dependent customers

Revenue is recognised in line with the delivery of each performance obligation The expected whole-life revenues and costs on the contract are updated regularly Any changes to revenue relating to performance obligations already delivered are recognised in the period in which they are identified.

The previous accounting policy for this contract was to recognise revenue billed under the volumetric tariff at the point of billing The expected costs for the upgrade services were recognised on a straight line basis, before adjusting for expected inflation, over the life of the contract The resulting asset was recognised as a financial asset in accordance with IFRIC 12.

The tables below show the effect of the IFRS 15 adoption on the income statement, balance sheet and earnings per share for the year ended 31 March 2018

Consolidated income statement (extract)
Year ended 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Turnover	1,694 1	2 3	1,696 4
Operating costs	(1,165 7)	(3 5)	(1,169 2)
Profit before interest and tax	528 4	(1 2)	527 2
Net finance costs, losses on financial instruments and results of joint ventures	(226 0)	–	(226 0)
Profit on ordinary activities before taxation	302 4	(1 2)	301 2
Taxation on profit on ordinary activities	(61 9)	0 3	(61 6)
Profit for the period from continuing operations	240 5	(0 9)	239 6

Earnings per share
Year ended 31 March 2018

	As previously reported pence	IFRS 15 impact pence	Restated pence
Underlying earnings per share (see note 15)			
Underlying basic earnings per share	121 0	(0 5)	120 5
Underlying diluted earnings per share	120.6	(0 5)	120 1
Earnings per share from continuing operations			
Basic earnings per share	102 2	(0 4)	101 8
Diluted earnings per share	101 9	(0 4)	101 5
Earnings per share from continuing and discontinued operations			
Basic earnings per share	107.8	(0 4)	107 4
Diluted earnings per share	107.5	(0 4)	107 1

Consolidated balance sheet (extract)
As at 31 March 2018

	As previously reported £m	IFRS 15 impact £m	Restated £m
Non-current trade and other receivables	181 3	4 0	185.3
Deferred tax	(674 4)	(0 8)	(675 2)
Retained earnings	547 9	3 2	551.1

2. Accounting policies continued

b) Basis of consolidation
The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries and joint ventures Results are included from the date of acquisition or incorporation and are excluded from the date of disposal

Subsidiaries are consolidated where the Group has the power to control a subsidiary

Joint venture undertakings are accounted for on an equity basis where the Group exercised joint control under a contractual arrangement

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests share of changes in equity since that date

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included within the Group financial statements

Foreign currency denominated assets and liabilities of the Company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end Any exchange differences so arising are dealt with through the income statement

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction All gains and losses on exchange arising during the year are dealt with through the income statement

c) Revenue recognition
Revenue includes turnover and interest income

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided

Turnover is not recognised until the service has been provided to the customer or the goods to which the sale relates have either been despatched to the customer or, where they are held on the customer s behalf, title has passed to the customer and it is probable that it will be received

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information

Operating services revenue is recognised in line with the delivery of each performance obligation Further details of the performance obligations are detailed in note 2 a(iii) The expected turnover over the life of a contract is allocated to each performance obligation based on the expected margin for each obligation Any changes to the revenue relating to performance obligations already delivered are recognised in the period in which they are identified Differences between amounts recognised as revenue and amounts billed are recognised as contract assets or liabilities

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid Green energy incentives are recognised when the Group becomes entitled to them

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable

d) Exceptional items
Exceptional items are income or expenditure, which individually or, if of a similar type, in aggregate should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level

e) Taxation
Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities

f) Goodwill
Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in interests in associates or joint ventures respectively If an acquisition gives rise to negative goodwill this is credited directly to the income statement Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill

Goodwill arising on all acquisitions prior to 1 April 1998 was written off to reserves under UK GAAP and remains eliminated against reserves Following the disposal of the US Operating Services business on 30 June 2017, all acquisitions prior to 1 April 1998 that were included in goodwill have now been sold Purchased goodwill arising on acquisitions of subsidiaries after 31 March 1998 is treated as an intangible fixed asset

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

f) Goodwill continued

Goodwill and indefinite life intangibles are tested for impairment in accordance with the policy set out in note 2 l) below and carried at cost less accumulated impairment losses Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation

g) Other intangible non-current assets

Intangible assets acquired separately are capitalised at cost Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows·

	Years
Software	3 - 10
Other intangible assets	15

Amortisation charged on intangible assets is taken to the income statement through operating costs

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 l) below)

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses Such assets are reviewed for impairment at least annually and where indications of impairment exist

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met

- it is technically feasible to create and make the asset available for use or sale,
- there are adequate resources available to complete the development and to use or sell the asset,
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably

Research expenditure is expensed when it is incurred

h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered

All other costs of obtaining contracts are written off to the income statement as incurred

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation and impairment. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet Fair value is determined based on estimated depreciated replacement cost Where the transfer is in exchange for connection to the network and there is no further obligation, the corresponding credit is recognised immediately in turnover Where the transfer is considered to be linked to the provision of ongoing services the corresponding credit is recorded in deferred income and released to operating costs over the expected useful lives of the related assets

Where assets take a substantial period of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated Assets in the course of construction are not depreciated until commissioned

The estimated useful lives are

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80 - 150
Sewers	150 - 200
Other assets	
Buildings	30 - 80
Fixed plant and equipment	20 - 40
Vehicles and mobile plant	2-15

j) Leased assets

Leases where the Group obtains assets that transfer substantially all the risks and rewards of ownership to the Group are treated as finance leases The lower of the fair value of the leased asset or the present value of the minimum lease payments is capitalised as an asset with a corresponding liability representing the obligation to the lessor Lease payments are treated as consisting of a capital element and a finance charge, the capital element reduces the obligation to the lessor and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding Depreciation is charged over the shorter of the estimated useful life and the lease period

Leases where substantially all the risks and rewards of ownership remain with the lessor are classified as operating leases Rental costs arising under operating leases are expensed on a straight line basis over the term of the lease Leases of land are normally treated as operating leases, unless ownership is transferred to the Group at the end of the lease

2. Accounting policies continued

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to operating costs over the useful economic life of those non-current assets

Grants and contributions, which are given in compensation for expenses incurred with no future related costs, are recognised in operating costs in the period that they become receivable

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm s length transaction between knowledgeable and willing third parties, less costs of disposal Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset

The discount rate used is based on the Group's cost of capital adjusted for the risk profiles of individual businesses

Goodwill is tested for impairment annually Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts

Impairments are recognised in the income statement

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost

n) Inventory

Inventory is stated at the lower of cost and net realisable value For properties held for resale, the cost includes the cost of acquiring and developing the sites

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade receivables For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group s historical experience of trade receivable write-offs

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability

Service cost, representing the cost of employee service in the year, is included in operating costs Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation

Changes in the retirement benefit obligation that arise from

- differences between the return on scheme assets and interest income included in the income statement,
- actuarial gains and losses from experience adjustments, and
- *changes in demographic or financial assumptions,*

are classified as remeasurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

q) Retirement benefits continued

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

(ii) Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due

r) Provisions

Provisions are recognised where·

- there is a present obligation as a result of a past event,
- it is probable that there will be an outflow of economic benefits to settle this obligation, and
- a reliable estimate of this amount can be made

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the Group's independent insurance advisers

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material

s) Purchase of own shares

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings Payments for the purchase of shares are charged to the liability when made

Shares held by the Severn Trent Employee Share Ownership Trust that have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 u)

All other borrowings are initially recognised at fair value less issue costs After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest Fair value is determined using the methodology described in note 34 a) The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument The various accounting policies are described below

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs

(i) Derivatives not designated as hedging instruments

Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

(ii) Derivatives designated as hedging instruments

The Group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations

At the inception of each hedge relationship, the Group documents

- the relationship between the hedging instrument and the hedged item,
- its risk management objectives and strategy for undertaking the hedge transaction, and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in fair values or cash flows (as appropriate) of the hedged item

The Group continues to test and document the effectiveness of the hedge on an ongoing basis

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting

(iii) Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item

2. Accounting policies continued

u) Derivative financial instruments continued

(iv) Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur

(v) Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if

- the risks and characteristics of the embedded derivative are not closely related to those of the contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole

v) Share based payment

The Group operates a number of equity-settled share based compensation plans for employees The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition

Share based compensation plans are satisfied in shares of the parent company Where the fair value of the awards is not recharged to participating Group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition

w) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group s revolving credit facility

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment

x) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures

y) Discontinued operations and assets held for sale

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, then the disposal group is classified as held for sale The disposal group is measured at the lower of the carrying amount and fair value less costs to sell Depreciation is not charged on such assets

Where a group of assets, which comprises operations that can be clearly distinguished operationally and for financial reporting purposes from the rest of the Group (a component), has been disposed of or classified as held for sale, and it

- represents a separate major line of business or geographical area of operations, or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale,

then the component is classified as a discontinued operation.

z) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method The consideration transferred in a business combination is measured at fair value The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that·

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above, and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out under note 2 y) above

Notes to Group financial statements continued
For the year ended 31 March 2019

2. Accounting policies continued

z) Business combinations continued
Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any interest in the acquiree previously held by the Group over the net of the amounts of the assets and liabilities acquired. If the amount of the assets and liabilities acquired exceeds the amount of the consideration, this is immediately recognised in the income statement as a bargain purchase gain.

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3. New accounting policies and future requirements

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective.

IFRS 16 Leases
IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 1 April 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements.

a) Impact of the new definition of a lease
The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset, and
- *the right to direct the use of that asset.*

The Group will apply the definition of a lease and guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

b) Impact on lessee accounting

(i) Operating leases
IFRS 16 will change how the Group accounts for leases *previously classified as operating leases under IAS 17 which* were off balance sheet.

On initial application of IFRS 16, for all leases (except as noted below) the Group will:

- recognise right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments;
- recognise depreciation *of right-of-use assets and interest* on lease liabilities in the consolidated income statement; and
- separate the total amount of cash paid into a principal portion and an interest portion in the consolidated cash *flow statement.*

Lease incentives will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they were recognised as a lease liability *incentive, amortised as a reduction of rental expenses on a* straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 March 2019, the Group has non-cancellable operating lease commitments of £16.9 million.

A preliminary assessment indicates that £16.7 million of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of £23.4 million and a corresponding lease liability of £23.4 million in respect of all these leases. The impact on profit or loss is to decrease operating costs by £2.9 million, to increase depreciation by £2.7 million and to increase interest expense by £0.7 million. There are no lease liability incentives or provision for onerous lease contracts recognised under IAS 17 to be derecognised.

The preliminary assessment indicates that £0.2 million of these arrangements relate to short-term leases and leases of low-value assets.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £2.9 million and to decrease net cash used in financing activities by the same amount.

(ii) Finance leases
The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group *recognises as part of its lease liabilities only the amount* expected to be payable under the residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

3. New accounting policies and future requirements continued

b) Impact on lessee accounting continued

(ii) Finance leases continued

Based on an analysis of the Group's finance leases as at 31 March 2019 on the basis of the facts and circumstances that exist at that date, the Group has assessed that this change will not have a material impact on the amounts recognised in the Group's consolidated financial statements.

c) Impact on lessor accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently However, IFRS 16 has increased the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets

The Group does not believe there to be any impact with regards to the above

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available Although these estimates are based on management s best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates

a) Critical accounting judgments

(i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies

b) Sources of estimation uncertainty

(i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets The estimates are based on engineering data and the Group's experience of similar assets Details are set out in note 2 i) The average useful life of property, plant and equipment is around 46 years A five year change in the average useful lives would result in a £38 million change in the depreciation charge

(ii) Retirement benefit obligations

Determining the amount of the Group s retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries Details of the assumptions made and associated sensitivities are set out in note 28

5. Segmental analysis

The Group is organised into two main business segments

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig

Business Services includes the Group s Operating Services businesses in the UK & Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including affinity and searches

In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services These activities are now managed as a single Bioresources business within Business Services

On 30 November 2018 the Group completed the acquisition of Agrivert Holdings Limited This business has been included in the Business Services segment with effect from that date Further details of the acquisition are set out in note 38

Surplus land in the regulated business is, in certain cases, sold to group companies outside the regulatory ring-fence where its full development potential can be realised The profits of this activity are shared between the regulated and non-regulated businesses through the initial transfer price and overage agreements relating to the development potential In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other All of these activities are now managed and reported as a single business within Business Services

Comparative information for the new segmentation is not available and the cost to develop it would be excessive Therefore, the current period results have been presented on both the old and new basis of segmentation, in accordance with IFRS 8

The disposal of the Group s Operating Services businesses in Italy and the USA were classified as discontinued operations in the prior year These transactions were completed on 23 February and 30 June 2017 respectively

Notes to Group financial statements continued
For the year ended 31 March 2019

5. Segmental analysis continued

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above. Details of Regulated Water and Waste Water's operations are described on pages 34 to 45 of the Strategic Review and those of Business Services on pages 46 to 47.

Results from interests in joint ventures and associates are not included in the segmental reports reviewed by STEC.

The measure of profit or loss that is reported to STEC for the segments is underlying PBIT (see note 45). A segmental analysis of turnover and underlying PBIT is presented below.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

a) Segmental results

The tables below show the changes from the old to the new segmentation for turnover and underlying PBIT for the year ended 31 March 2019.

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Regulated Water and Waste Water (new basis) £m
External turnover	1,637.6	(54.5)	–	1,583.1
Inter-segment turnover	–	–	–	–
Total turnover	1,637.6	(54.5)	–	1,583.1
Profit before interest, tax and exceptional items	544.3	(8.7)	(8.6)	527.0
Exceptional items	(8.9)	–	–	(8.9)
Profit before interest and tax	535.4	(8.7)	(8.6)	518.1

Business Services	Business Services (old basis) £m	Bioresources[1] £m	Property Development[2] £m	Business Services (new basis) £m
External turnover	128.9	54.5	–	183.4
Inter-segment turnover	17.5	–	–	17.5
Total turnover	146.4	54.5	–	200.9
Profit before interest, tax, amortisation of acquired intangible assets *and exceptional items*	35.5	8.7	19.9	64.1
Exceptional items and amortisation of acquired intangible assets	(1.0)	–	–	(1.0)
Profit before interest and tax	34.5	8.7	19.9	63.1

Corporate and other	Corporate and other (old basis) *£m*	Property Development[2] *£m*	Corporate and other (new basis) *£m*
External turnover	–	–	–
Inter-segment turnover	0.4	–	0.4
Total turnover	0.4	–	0.4
Profit before interest, tax and exceptional items	3.1	(11.3)	(8.2)
Exceptional items	(0.4)	–	(0.4)
Profit before interest and tax	2.7	(11.3)	(8.6)

1 In 2017/18 and prior years, the sludge treatment activities of the Bioresources business were managed by, and included in, Regulated Water and Waste Water. The renewable energy generating activities of the Bioresources business were managed by, and included in, Business Services. These combined activities are now managed as a single Bioresources business within Business Services.

2 In 2017/18 and prior years, the gains from the property development activity attributable to the regulated business were reported in Regulated Water and Waste Water and those relating to the non-regulated business were reported in Corporate and other. All of these activities are now managed and reported as a single business within Business Services.

5. Segmental analysis continued

a) Segmental results continued

The following table shows the segmental turnover and PBIT on the old segmentation

Year ended 31 March	2019 Regulated Water and Waste Water £m	2019 Business Services £m	2018 (restated) Regulated Water and Waste Water £m	2018 (restated) Business Services £m
External turnover	**1,637.6**	**128.9**	1,574.1	122.2
Inter-segment turnover	**–**	**17.5**	0.5	18.8
Total turnover	**1,637.6**	**146.4**	1,574.6	141.0
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**544.3**	**35.5**	514.9	34.8
Exceptional items (see note 8) and amortisation of acquired intangible assets	**(8.9)**	**(1.0)**	(11.1)	(1.8)
Profit before interest and tax	**535.4**	**34.5**	503.8	33.0

The reportable segments' turnover is reconciled to Group turnover as follows

Year ended 31 March	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	**1,583.1**	**1,637.6**	1,574.6
Business Services	**200.9**	**146.4**	141.0
Corporate and other	**0.4**	**0.4**	9.0
Consolidation adjustments	**(17.0)**	**(17.0)**	(28.2)
	1,767.4	**1,767.4**	1,696.4

Included in revenues of Regulated Water and Waste Water of £1,637.6 million (2018: £1,574.6 million) is £335.0 million (2018: £354.9 million) which arose from sales to Water Plus Select Limited. No other single customer contributed 10% or more to the Group's revenue for either 2019 or 2018.

Segmental underlying PBIT is reconciled to the Group's profit before tax as follows

Year ended 31 March	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Regulated Water and Waste Water	**527.0**	**544.3**	514.9
Business Services	**64.1**	**35.5**	34.8
Corporate and other	**(8.2)**	**3.1**	(9.7)
Consolidation adjustments	**(9.3)**	**(9.3)**	(0.2)
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**573.6**	**573.6**	539.8
Exceptional items and amortisation of acquired intangible assets			
Regulated Water and Waste Water	**(8.9)**	**(8.9)**	(11.1)
Business Services	**(1.0)**	**(1.0)**	(1.8)
Corporate and other	**(0.4)**	**(0.4)**	0.3
Net finance costs	**(194.2)**	**(194.2)**	(219.5)
Net gains/(losses) on financial instruments	**16.0**	**16.0**	(6.7)
Share of (loss)/profit of joint ventures	**(0.4)**	**(0.4)**	0.2
Profit before tax	**384.7**	**384.7**	301.2

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a Group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

5. Segmental analysis continued

b) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC The balance sheet measure reviewed by STEC on a segmental basis is capital employed The tables below show the changes from the old to the new segmentation for capital employed as at 31 March 2019

Regulated Water and Waste Water	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Property Development £m	Regulated Water and Waste Water (new basis) £m
Operating assets	9,501.9	(287.5)	–	9,214.4
Goodwill	63.5	–	–	63.5
Segment assets	9,565.4	(287.5)	–	9,277.9
Segment operating liabilities	(1,993.4)	7.1	–	(1,986.3)
Capital employed	7,572.0	(280.4)	–	7,291.6

Business Services	Business Services (old basis) £m	Bioresources £m	Property Development £m	Business Services (new basis) £m
Operating assets	314.7	287.5	20.1	622.3
Goodwill	28.7	–	–	28.7
Interests in joint ventures and associates	37.0	–	–	37.0
Segment assets	380.4	287.5	20.1	688.0
Segment operating liabilities	(55.2)	(7.1)	(6.4)	(68.7)
Capital employed	325.2	280.4	13.7	619.3

Corporate and other	Corporate and other (old basis) £m	Property Development £m	Corporate and other (new basis) £m
Segment operating assets	24.1	(20.1)	4.0
Segment operating liabilities	(68.7)	6.4	(62.3)
Capital employed	(44.6)	(13.7)	(58.3)

The following table shows segmental capital employed on the old basis

	2019		2018 (restated)	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	9,501.9	314.7	8,900 8	200 6
Goodwill	63.5	28.7	63 5	–
Interests in joint ventures and associates	–	37.0	–	37 6
Segment assets	9,565.4	380.4	8,964 3	238 2
Segment operating liabilities	(1,993.4)	(55.2)	(1,957 6)	(42 7)
Capital employed	7,572.0	325.2	7,006 7	195 5

Operating assets comprise other intangible assets, property, plant and equipment, retirement benefit surpluses, inventory and trade and other receivables

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

5. Segmental analysis continued

b) Segmental capital employed continued

The reportable segments' assets are reconciled to the Group's total assets as follows

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Segment assets			
Regulated Water and Waste Water	**9,277.9**	**9,565.4**	8,964 3
Business Services	**688.0**	**380.4**	238 2
Corporate and other	**4.0**	**24.1**	60 5
Other financial assets	**109.5**	**109.5**	87 3
Loan receivable from joint venture	**142.0**	**142.0**	135 6
Consolidation adjustments	**(17.3)**	**(17.3)**	(60 1)
Total assets	**10,204.1**	**10,204.1**	9,425 8

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets

The reportable segments liabilities are reconciled to the Group's total liabilities as follows

	2019 (new basis) £m	2019 (old basis) £m	2018 (restated) £m
Segment liabilities			
Regulated Water and Waste Water	**(1,986.3)**	**(1,993.4)**	(1,957 6)
Business Services	**(68.7)**	**(55.2)**	(42 7)
Corporate and other	**(62.3)**	**(68.7)**	(74 6)
Other financial liabilities	**(6,180.7)**	**(6,180.7)**	(5,683 4)
Current tax	**(9.3)**	**(9.3)**	(8 6)
Deferred tax	**(747.3)**	**(747.3)**	(674 3)
Consolidation adjustments	**14.6**	**14.6**	12 3
Total liabilities	**(9,040.0)**	**(9,040.0)**	(8,428 9)

The consolidation adjustments comprise elimination of intra-group creditors

The following table shows the additions to other intangible assets and property, plant and equipment·

	2019		2018	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**36.1**	**2.3**	25 6	2 8
Property, plant and equipment	**851.1**	**10.3**	680 4	10 1

c) Geographical areas

The Group s sales from continuing operations were derived from the following countries

	2019 £m	2018 (restated) £m
UK	**1,762.8**	1,692 1
Other	**4.6**	4 3
	1,767.4	1,696 4

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2019 and 2018

6. Revenue

Revenue recognised from contracts with customers is analysed by type of revenue and by business below

Year ended 31 March 2019

New basis	Regulated Water and Waste Water £m	Operating Services £m	Green Power £m	Bioresources £m	Other £m	Group £m
Water and waste water services	1,581.7	–	–	54.5	–	1,636.2
Operating services	–	57.1	–	–	–	57.1
Renewable energy	–	–	26.4	29.0	–	55.4
Other sales	1.4	–	–	–	17.3	18.7
	1,583.1	57.1	26.4	83.5	17.3	1,767.4

Old basis	Regulated Water and Waste Water £m	Business Services £m	Group £m
Water and waste water services	1,636.2	–	1,636.2
Operating services	–	57.1	57.1
Renewable energy	–	55.4	55.4
Other sales	1.4	17.3	18.7
	1,637.6	129.8	1,767.4

Year ended 31 March 2018 (restated)

	Regulated Water and Waste Water £m	Business Services £m	Group £m
Water and waste water services	1,568 9	–	1,568 9
Operating services	–	63 0	63 0
Renewable energy	–	41 6	41 6
Other sales	5 2	17 7	22 9
	1,574 1	122 3	1,696 4

Income from diversions of £8 4 million (2017/18 £9 5 million), which is reimbursement of costs for diversions, is included within infrastructure maintenance expenditure within operating costs

7. Net operating costs

	2019			2018 (restated)		
	Before amortisation of acquired intangible assets and exceptional costs £m	**Amortisation of acquired intangible assets and exceptional costs £m**	**Total £m**	Before amortisation of acquired intangible assets and exceptional costs £m	Amortisation of acquired intangible assets and exceptional costs £m	Total £m
Wages and salaries	**252.2**	–	**252.2**	237.2	0.6	237.8
Social security costs	**25.5**	–	**25.5**	23.2	–	23.2
Pension costs	**23.6**	**9.6**	**33.2**	20.8	(8.3)	12.5
Share based payments	**8.1**	–	**8.1**	6.9	–	6.9
Total employee costs	**309.4**	**9.6**	**319.0**	288.1	(7.7)	280.4
Power	**90.3**	–	**90.3**	79.2	–	79.2
Carbon Reduction Commitment	**5.2**	–	**5.2**	5.9	–	5.9
Raw materials and consumables	**60.6**	–	**60.6**	55.1	–	55.1
Rates	**80.8**	–	**80.8**	82.4	–	82.4
Charge for bad and doubtful debts	**25.6**	–	**25.6**	25.8	–	25.8
Services charges	**35.2**	–	**35.2**	34.3	–	34.3
Depreciation of tangible fixed assets	**315.4**	–	**315.4**	308.2	16.8	325.0
Amortisation of intangible fixed assets	**29.8**	**0.7**	**30.5**	20.5	–	20.5
Hired and contracted services	**242.1**	–	**242.1**	227.7	3.5	231.2
Operating lease rentals						
– land and buildings	**2.3**	–	**2.3**	0.6	–	0.6
– other	**1.6**	–	**1.6**	1.1	–	1.1
Hire of plant and machinery	**6.8**	–	**6.8**	5.5	–	5.5
Research and development expenditure	**–**	–	**–**	2.1	–	2.1
Loss/(profit) on disposal of tangible fixed assets	**0.6**	–	**0.6**	(3.4)	–	(3.4)
Exchange losses	**0.1**	–	**0.1**	1.1	–	1.1
Infrastructure maintenance expenditure	**141.6**	–	**141.6**	135.2	–	135.2
Ofwat licence fees	**5.1**	–	**5.1**	3.6	–	3.6
Other operating costs	**43.2**	–	**43.2**	48.0	–	48.0
Other operating income	**(3.3)**	–	**(3.3)**	(3.0)	–	(3.0)
	1,392.4	**10.3**	**1,402.7**	1,318.0	12.6	1,330.6
Release from deferred credits	**(14.7)**	–	**(14.7)**	(14.3)	–	(14.3)
Own work capitalised	**(164.0)**	–	**(164.0)**	(143.2)	–	(143.2)
	1,213.7	**10.3**	**1,224.0**	1,160.5	12.6	1,173.1

Further details of exceptional costs are given in note 8. Adjusting costs are amortisation of acquired intangible assets.

During the year the following fees were charged by the auditor:

	2019 £m	2018 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	**0.2**	0.2
– the audit of the Company's subsidiary accounts	**0.4**	0.4
Total audit fees	**0.6**	0.6
Fees payable to the Company's auditor and its associates for other services to the Group		
– audit related assurance services	**0.1**	0.1
– other assurance services	**0.1**	0.1
Total non-audit fees	**0.2**	0.2

Details of Directors' remuneration are set out in the Directors' remuneration report on pages 97 to 122.

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

Notes to Group financial statements continued
For the year ended 31 March 2019

7. Net operating costs continued

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit Committee report on pages 85 to 92 No services were provided pursuant to contingent fee arrangements

8. Exceptional items before tax

	2019 £m	2018 (restated) £m
Regulated Water and Waste Water		
Restructuring costs	–	(18 8)
Gain arising on pension exchange arrangement	–	7 7
GMP equalisation costs	**(8.9)**	–
	(8.9)	(11 1)
Business Services		
Restructuring costs	–	(2 1)
Gain arising on pension exchange arrangement	–	0 3
GMP equalisation costs	**(0.3)**	–
	(0.3)	(1 8)
Corporate and other		
Gain arising on pension exchange arrangement	–	0 3
GMP equalisation costs	**(0.4)**	–
	(0.4)	0 3
	(9.6)	(12 6)

9. Employee numbers

Average number of employees (including Executive Directors) during the year

	2019 Number	*Continuing* operations number	*Discontinued* operations number	2018 Total number
By type of business				
Regulated Water and Waste Water	**5,680**	5,660	–	5,660
Business Services	**889**	596	368	964
Corporate and other	**11**	9	–	9
	6,580	6,265	368	6,633

10. Finance income

	2019 £m	2018 £m
Interest income earned on bank deposits	**0.2**	0 5
Other financial income	**7.7**	5 2
Total interest receivable	**7.9**	5 7
Interest income on defined benefit scheme assets	**61.0**	62 0
	68.9	67 7

11. Finance costs

	2019 £m	2018 £m
Interest expense charged on		
Bank loans and overdrafts	**21.3**	19 2
Other loans	**153.0**	183 4
Finance leases	**4.4**	4 4
Total borrowing costs	**178.7**	207 0
Other financial expenses	**9.6**	2 7
Interest cost on defined benefit scheme liabilities	**74.8**	77 5
	263.1	287 2

Borrowing costs of £33 2 million (2018 £26 2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 3 40% (2018 3 89%) Tax relief of £5 5 million (2018 £5 0 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £4 9 million (2018 £4 5 million)

12. Gains/(losses) on financial instruments

	2019 £m	2018 £m
Gain/(loss) on swaps used as hedging instruments in fair value hedges	**0.3**	(1 1)
Gain arising on debt in fair value hedges	**0.5**	–
Exchange (loss)/gain on other loans	**(8.1)**	12 7
Loss on cash flow hedges transferred from equity	**(8.2)**	(8 2)
Hedge ineffectiveness on cash flow hedges	**1.9**	1 4
Gain/(loss) arising on swaps where hedge accounting is not applied	**28.5**	(12 6)
Amortisation of fair value adjustment on debt	**1.1**	1 1
	16.0	(6 7)

The net gain/(loss) on financial assets and liabilities mandatorily measured at fair value through profit or loss was £28 8 million (2018 loss of £13 7 million) There were no financial assets or liabilities designated as at fair value through the profit or loss (2018 nil)

The Group s hedge accounting arrangements are described in note 36

13. Taxation

a) Analysis of tax charge/(credit) in the year

	2019 £m	2018 (restated) £m
Current tax at 19% (2018: 19%)		
Current year	**41.2**	36 8
Prior years	**(9.4)**	(3 9)
Total current tax	**31.8**	32 9
Deferred tax		
Origination and reversal of temporary differences		
Current year	**30.1**	21 1
Prior years	**7.5**	7 6
Total deferred tax	**37.6**	28 7
	69.4	61 6

Notes to Group financial statements continued
For the year ended 31 March 2019

13. Taxation continued

b) Factors affecting the tax charge/(credit) in the year

The tax expense for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 (restated) £m
Profit before taxation	**384.7**	301.2
Tax at standard rate of corporation tax in the UK 19% (2018: 19%)	**73.1**	57.2
Tax effect of depreciation on non-qualifying assets	**1.1**	1.8
Other permanent differences	**0.6**	1.4
Current year impact of rate change	**(3.5)**	(2.5)
Adjustments in respect of prior years	**(1.9)**	3.7
Total tax charge	**69.4**	61.6

	2019 £m	2018 (restated) £m
Profit before taxation	**384.7**	301.2
Tax at standard rate of corporation tax in the UK 19% (2018: 19%)	**73.1**	57.2
Tax effect of depreciation on non-qualifying assets	**1.1**	1.8
Other permanent differences	**0.6**	1.4
Tax effect of accelerated capital allowances	**(29.5)**	(19.7)
Other timing differences	**(4.1)**	(3.9)
Adjustments in respect of prior years	**(9.4)**	(3.9)
Total current tax charge	**31.8**	32.9

c) Tax charged/(credited) directly to other comprehensive income or equity

In addition to the amount charged/(credited) to the income statement, the following amounts of tax have been charged/(credited) to other comprehensive income or equity:

	2019 £m	2018 £m
Current tax		
Tax on share based payments	**(0.2)**	(0.8)
Tax on pension contributions in excess of income statement charge	**(9.5)**	(9.3)
Total current tax credited to other comprehensive income or equity	**(9.7)**	(10.1)
Deferred tax		
Tax on actuarial gain	**21.7**	16.9
Tax on cash flow hedges	**(1.5)**	1.0
Tax on share based payments	**–**	1.3
Tax on transfers to the income statement	**1.3**	1.4
Total deferred tax charged to other comprehensive income or equity	**21.5**	20.6

14. Dividends

Amounts recognised as distributions to owners of the Company in the period:

	2019		2018	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2018 (2017)	**51.92**	**122.9**	48.90	115.2
Interim dividend for the year ended 31 March 2019 (2018)	**37.35**	**89.0**	34.63	81.8
Total dividends paid	**89.27**	**211.9**	83.53	197.0
Proposed final dividend for the year ended 31 March 2019	56.02	135.0		

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

15. Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all *dilutive potential ordinary shares*

Basic and diluted earnings per share from continuing and discontinued operations are calculated on the basis of profit from continuing and discontinued operations attributable to the equity holders of the Company

The calculation of basic and diluted earnings per share is based on the following data

(i) Earnings for the purpose of basic and diluted earnings per share from continuing operations

	2019 £m	2018 (restated) £m
Profit for the year	**315.3**	252 8
Adjusted for profit from discontinued operations (see note 39)	–	(13 2)
Profit for the year from continuing operations	**315.3**	239 6

(ii) Number of shares

	2019 £m	2018 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**236.3**	235 3
Effect of dilutive potential ordinary shares		
– share options and LTIPs	**0.4**	0 8
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**236.7**	236 1

b) Underlying earnings per share

	2019 pence	2018 (restated) pence
Underlying basic earnings per share	**145.8**	120 5
Underlying diluted earnings per share	**145.6**	120 1

Underlying earnings per share figures are presented for continuing operations. These exclude the effects of exceptional items before tax, current tax related to exceptional items, amortisation of acquired intangible assets, net gains/losses on financial instruments, current tax on net gains/losses on financial instruments and deferred tax The Directors consider that the adjusted figures provide a useful additional indicator of performance The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above

The adjustments to earnings that are made in calculating underlying earnings per share are as follows

	2019 £m	2018 (restated) £m
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**315.3**	239 6
Adjustments for		
– exceptional items before tax	**9.6**	12 6
– current tax related to exceptional items	–	(0 7)
– amortisation of acquired intangible assets	**0.7**	–
– net (gains)/losses on financial instruments	**(16.0)**	6 7
– current tax on net gains/losses on financial instruments	**(2.6)**	(3 3)
– deferred tax	**37.6**	28 7
Earnings for the purpose of underlying basic and diluted earnings per share	**344.6**	283 6

Notes to Group financial statements continued
For the year ended 31 March 2019

16. Goodwill

	2019 £m	2018 £m
Cost		
At 1 April	**62.2**	81 0
Acquisition of subsidiary (note 38)	**28.7**	–
Disposal of subsidiaries	–	(14 4)
Exchange adjustments	–	(0 6)
Additional consideration in respect of acquisition	–	0 2
Adjustment to provisional fair values on acquisition	–	(4 0)
At 31 March	**90.9**	62 2

Goodwill is allocated to the Group s cash-generating units (CGUs) identified according to operating segment. A summary of the *carrying amount of goodwill by CGU is presented below*

	2019 £m	2018 £m
Regulated Water and Waste Water	**62.2**	62 2
Agrivert	**28.7**	–
	90.9	62 2

Regulated Water and Waste Water also has an intangible asset with an indefinite useful life amounting to £4.3 million (2018 £4 3 million)

a) Regulated Water and Waste Water

On 1 July 2018 Instruments of Appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is now allocated to the Regulated Water and Waste Water cash-generating unit

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2 The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a level 3 valuation, in the current year. The assessment of the valuation technique was reassessed in the year to align the valuation to reflect the capital intensive nature of the business and in line with IAS 36 to ensure that the valuation is the higher of value in use or fair value less costs to sell

The fair value determined using a discounted cash flow calculation for the Regulated Water and Waste Water segment is based on the most recent financial projections available for the business, which cover the remainder of the current AMP period to 2020 and the following AMP period, which runs to 31 March 2025 As a regulated water company, the revenues and costs within the Regulated Water and Waste Water segment are significantly influenced by the regulatory settlement for each AMP period so management considers it appropriate for the detailed projections to be coterminous with the AMP period

The key assumptions underlying these projections are

	%
Discount rate	6 5
RPI inflation	3 0
CPI inflation	2 0
Growth rate in the period beyond the detailed projections	1 5

The discount rate was an estimate for the weighted average cost of capital at the year end date based on the nominal pre-tax WACC detailed in the Ofwat PR19 methodology adjusted to reflect the actual gearing of the Regulated Water and Waste Water operating segment The rate disclosed above is the equivalent pre-tax nominal rate

Inflation has been included in the detailed projections at 3% and 2% for RPI and CPI respectively based on the Bank of England's target rate for CPI

Cash flows beyond the end of the six-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base

The fair value less costs to sell for the CGU exceeded its carrying value by £4,248 million An increase in the discount rate to 7 6% or a reduction in the growth rate in the period beyond the detailed projections to 0 7% would reduce the recoverable amount to the carrying amount of the goodwill

16. Goodwill continued

b) Agrivert

On 30 November 2018, Agrivert Holdings and its subsidiary undertakings were acquired by Severn Trent Group resulting in *provisional goodwill of £28 7 million This goodwill has been allocated to the Agrivert Group cash-generating unit which is* determined to be the lowest level of independent cash flows relating to the goodwill Agrivert Group is included within the Green Power part of the Business Services segment

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2 The carrying value of the Agrivert Group CGU was determined on the basis of a value in use calculation

The fair value determined using a discounted cash flow calculation for the Agrivert Group CGU is based on the most recent financial projections available for the business to 2024

The key assumptions underlying these projections are

	%
Discount rate	11 3
RPI inflation	2 1
Growth rate in the period beyond the detailed projections	2 0

The discount rate was based on the post-tax internal rate of return for the acquisition and benchmarked against market data for green energy transactions in 2018 This rate was then converted to the equivalent pre-tax rate disclosed above

Cash flows beyond the end of the five year period are extrapolated using an assumed growth of 2 0% in the Agrivert's free cash flows

The value in use for the CGU exceeded its carrying value by £15 million An increase in the discount rate to 12 1% or reduction in the growth rate in the period beyond the detailed projections to 1 2% would reduce the recoverable amount to the carrying amount of the goodwill

17. Other intangible assets

	Computer software				
	Internally generated £m	Purchased £m	Capitalised development costs and patents £m	Other intangible assets £m	Total £m
Cost					
At 1 April 2017	202 7	113 8	13 9	–	330 4
Additions	9 8	18 2	0 4	–	28 4
Disposals	(0 7)	–	(1 5)	–	(2 2)
Adjustment to provisional fair values	–	–	–	4 3	4 3
Disposals of subsidiaries	–	(7 2)	–	–	(7 2)
Exchange adjustments	(0 1)	(0 1)	–	–	(0 2)
At 1 April 2018	211 7	124 7	12 8	4 3	353 5
Additions	23 8	11 3	–	–	35 1
Disposals	(0 3)	(1 0)	–	–	(1 3)
Acquisition of subsidiaries (note 38)	–	–	–	31 5	31 5
At 31 March 2019	**235.2**	**135.0**	**12.8**	**35.8**	**418.8**
Amortisation					
At 1 April 2017	(166 2)	(70 6)	(12 7)	–	(249 5)
Amortisation for the year	(8 0)	(12 6)	(0 1)	–	(20 7)
Disposals	0 6	–	–	–	0 6
Disposals of subsidiaries	–	4 3	–	–	4 3
Exchange adjustments	–	0 2	–	–	0 2
At 1 April 2018	(173 6)	(78 7)	(12 8)	–	(265 1)
Amortisation for the year	(14 5)	(15 3)	–	(0 7)	(30 5)
Disposals	0 2	0 8	–	–	1 0
At 31 March 2019	**(187.9)**	**(93.2)**	**(12.8)**	**(0.7)**	**(294.6)**
Net book value					
At 31 March 2019	**47.3**	**41.8**	–	**35.1**	**124.2**
At 31 March 2018	38 1	46 0	–	4 3	88 4

Other intangible assets includes the Instrument of Appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert

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18. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2017	3,313 0	5,114 2	4,052 3	73 9	630 5	13,183 9
Additions	9 1	60 5	16 4	0 9	604 3	691 2
Transfers on commissioning	69 4	52 2	136 5	4 4	(262 5)	–
Disposals	(2 0)	(0 3)	(12 4)	(2 9)	(0 8)	(18 4)
Adjustment to provisional fair values	–	0 8	–	–	–	0 8
Disposal of subsidiary undertaking	–	–	(15.2)	(19 2)	–	(34 4)
Reclassifications	(3 0)	6 5	(10 7)	(0 3)	7 5	–
Exchange adjustments	–	–	(0 9)	(1 2)	–	(2 1)
At 1 April 2018	3,386 5	5,233 9	4,166 0	55 6	979 0	13,821 0
Additions	77 9	146 8	110 3	11 5	514 9	861 4
Transfers on commissioning	54 4	26 5	124 9	2 8	(208 6)	–
Disposals	(0 9)	(0 1)	(2 4)	(4 0)	(1 3)	(8 7)
Acquisition of subsidiary undertaking (note 38)	63 2	–	6 0	0 2	–	69 4
At 31 March 2019	**3,581.1**	**5,407.1**	**4,404.8**	**66.1**	**1,284.0**	**14,743.1**
Depreciation						
At 1 April 2017	(1,197 0)	(1,298 9)	(2,520 6)	(51 0)	–	(5,067 5)
Charge for the year	(84 5)	(31 5)	(188 0)	(4 8)	–	(308 8)
Disposals	1 7	–	12 9	2 7	–	17 3
Disposal of subsidiary undertaking	–	–	10 2	14 8	–	25 0
Reclassifications	4 1	(1 5)	(3 0)	0 4	–	–
Exceptional depreciation	(10 1)	–	(6 7)	–	–	(16 8)
Exchange adjustments	–	–	0 7	1 0	–	1 7
At 1 April 2018	(1,285 8)	(1,331 9)	(2,694 5)	(36 9)	–	(5,349 1)
Charge for the year	(85 7)	(36 8)	(188 4)	(4 5)	–	(315 4)
Disposals	0 7	–	2 4	3 9	–	7 0
At 31 March 2019	**(1,370.8)**	**(1,368.7)**	**(2,880.5)**	**(37.5)**	**–**	**(5,657.5)**
Net book value						
At 31 March 2019	**2,210.3**	**4,038.4**	**1,524.3**	**28.6**	**1,284.0**	**9,085.6**
At 31 March 2018	2,100 7	3,902 0	1,471 5	18 7	979 0	8,471 9

The carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases

	Infrastructure assets £m	Fixed plant and equipment £m	Total £m
Net book value			
At 31 March 2019	**114.8**	**4.0**	**118.8**
At 31 March 2018	115 8	6 4	122 2

The depreciation charge includes £nil (2018 £16 8 million) in respect of the write-off of redundant plant and equipment

19. Interests in joint ventures

Particulars of the Group's principal joint venture undertaking at 31 March 2019 were

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Limited	Joint venture	Great Britain	Ordinary B	50%

The results and net assets of the principal joint venture are shown below

	Interests in joint venture	
	2019 £m	2018 £m
Group's share of carrying value	**37.0**	37 6
Group's share of (loss)/profit and comprehensive (loss)/income	**(0.4)**	0 2

All results are from continuing operations in both the current and preceding year

As at 31 March 2019 and 2018 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than is set out below, the Group did not have any significant contingent liabilities in relation to its interests in the joint venture The Group had no capital commitments in relation to its interests in the joint venture at 31 March 2019 or 2018

The parent company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited The guarantee in respect of liabilities to wholesalers is capped at £58 1 million (2018 £42 5 million) and the guarantee for the Severn Trent Water loan is for the amount due

The registered office of Water Plus is Two Smithfield, Leonard Coates Way, Stoke-On-Trent, ST1 4FD

20. Categories of financial assets

	Note	**2019 £m**	2018 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**18.0**	5 8
Interest rate swaps – not hedge accounted		**26.1**	11 4
		44.1	17 2
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**19.1**	18 7
Energy hedges – cash flow hedges		**5.3**	0 3
		24.4	19 0
Total derivative financial assets		**68.5**	36 2
Financial assets at amortised cost			
Net trade receivables	21	**221.5**	191 0
Net accrued income	21	**223.3**	215 2
Contract assets	21	**35.1**	39 1
Other amounts receivable	21	**64.6**	44 2
Loan receivable from joint venture	21	**142.0**	135 6
Short term deposits	22	**–**	16 4
Cash at bank and in hand	22	**41.0**	34 7
Total financial assets at amortised cost		**727.5**	676 2
Total financial assets		**796.0**	712 4
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**68.4**	36 0
Trade and other receivables		**47.6**	3 9
Loan receivable from joint venture		**142.0**	135 6
		258.0	175 5
Current assets			
Derivative financial assets		**0.1**	0 2
Trade and other receivables		**496.9**	440 9
Cash at bank and in hand		**41.0**	51 1
		538.0	492 2
		796.0	667 7

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21. Trade and other receivables

	2019 £m	2018 £m
Current assets		
Net trade receivables	**221.5**	191 0
Other amounts receivable	**48.9**	38 7
Contract assets	**3.2**	4 0
Prepayments	**16.6**	11 5
Net accrued income	**223.3**	211 2
	513.5	456 4
Non-current assets		
Other amounts receivable	**15.7**	1 5
Prepayments	**14.4**	9 1
Contract assets	**31.9**	35 1
Loan receivable from joint venture	**142.0**	135 6
	204.0	181 3
	717.5	637 7

The carrying values of trade and other receivables are reasonable approximations of their fair values

Contract assets

Contract assets arise on the MOD contract when the value of work performed is greater than the amounts billed Amounts billed are determined based on a volumetric tariff for water supplied

Movements on the contract assets were as follows·

	2019 £m	2018 £m
At 1 April	**39.1**	36 6
Amounts billed	**(46.1)**	(44 7)
Revenue recognised	**42.1**	47 2
At 31 March	**35.1**	39 1

During the year no revenue was recognised from performance obligations satisfied in previous periods.

The total transaction price allocated to the remaining performance obligations represents the contracted revenue to be earned by the Group for distinct services which the Group has promised to deliver to its customer These include promises which are partially satisfied at the period end. In deriving the transaction price, any element of variable revenue is estimated at a value that is highly probable not to reverse in the future

The total transaction price allocated to remaining performance obligation is £509 6 million, with £43 5 million receivable in 2020, £43 9 million receivable in 2021 and £422 2 million receivable in 2022 onwards

21. Trade and other receivables continued

Bad debt provision

Movements on the bad debt provision were as follows

	2019 £m	2018 £m
At 1 April	**129.0**	130 5
Charge for bad and doubtful debts (continuing and discontinued operations)	**25.6**	27 3
Acquisition	–	–
Disposal of subsidiary undertaking	–	(1 2)
Amounts written off during the year	**(34.4)**	(27 6)
At 31 March	**120.2**	129 0

The aged analysis of receivables that are specifically provided for is as follows

	2019 £m	2018 £m
Trade receivables		
Up to 90 days	–	0 5
91 – 365 days	–	1 2
1 – 2 years	**0.1**	5 2
2 – 3 years	**0.6**	2 5
More than 3 years	**12.3**	5 6
	13.0	15 0

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made This is calculated based on historical experience of bad debt write-offs For the year ended 31 March 2018 there is no material difference between the bad debt provision under IAS 39 and the provision for the lifetime expected credit losses under IFRS 9

Debts are written off when there is no realistic expectation of further collection

The aged analysis of expected credit loss provisions for receivables past due not individually provided for is as follows

	2019 £m	2018 £m
Up to 90 days	**58.5**	43 6
91 – 365 days	**88.0**	80 0
1 – 2 years	**60.3**	57 5
2 – 3 years	**38.7**	40 7
More than 3 years	**74.9**	77 4
	320.4	299 2

21. Trade and other receivables continued

The amounts above are reconciled to gross and net debtors in the table below

	2019 Gross £m	2019 Provision £m	2019 Net £m	2018 Gross £m	2018 Provision £m	2018 Net £m
Accrued income – not due	**225.2**	**(1.9)**	**223.3**	215 2	(1 2)	214 0
Trade receivables						
Not due	**6.4**	–	**6.4**	5 8	–	5 8
Overdue not specifically provided	**320.4**	**(105.3)**	**215.1**	299.2	(112 8)	186 4
Overdue and specifically provided	**13.0**	**(13.0)**	–	15 0	(15 0)	–
	565.0	**(120.2)**	**444.8**	535 2	(129 0)	406 2

Credit risk

Trade receivables

Credit control policies and procedures are determined at the individual business unit level By far the most significant business unit of the Group is Severn Trent Water Limited, which represents 93% of Group turnover and 90% of net trade receivables Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region

The expected credit loss rate is 1 9%

Water Plus

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 44

22. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	**41.0**	34 7
Short-term deposits	–	16 4
	41.0	51 1

Short-term bank deposits are held as security deposits for insurance obligations, which are not available for use by the Group
In addition, £14 7 million (2018 £9 8 million) of cash at bank and in hand is restricted for use on the MOD contract and is not available for use by the Group

23. Borrowings

	2019 £m	2018 £m
Current liabilities		
Bank overdraft	**1.4**	12 6
Bank loans	**188.7**	287 9
Other loans	**2.8**	5 3
Finance leases	**4.1**	2 9
	197.0	308 7
Non-current liabilities		
Bank loans	**931.4**	929 5
Other loans	**4,817.7**	4,218 6
Finance leases	**108.1**	111.0
	5,857.2	5,259 1
	6,054.2	5,567 8

24. Finance leases

Obligations under finance leases are due as follows

	2019 £m	2018 £m
Within 1 year	**7.3**	6.5
1 – 2 years	**7.8**	7.0
2 – 5 years	**26.3**	24.3
After more than 5 years	**103.7**	113.1
Gross obligations under finance leases	**145.1**	150.9
Less future finance charges	**(32.9)**	(37.0)
Present value of lease obligations	**112.2**	113.9

Net obligations under finance leases fall due as follows

	2019 £m	2018 £m
Within 1 year	**4.1**	2.9
1 – 2 years	**4.1**	3.2
2 – 5 years	**16.1**	13.7
After more than 5 years	**87.9**	94.1
Included in non-current liabilities	**108.1**	111.0
	112.2	113.9

The remaining terms of finance leases ranged from 1 to 13 years at 31 March 2019. Interest terms are set at the inception of the leases. The leases bear fixed interest at a weighted average rate of 5.34% (2018: 5.34%). The lease obligations are secured against the related assets.

There were no contingent rents, escalation clauses or material renewal or purchase options. The terms of the finance leases do not impose restriction on dividend payments, additional debt or further leasing.

Notes to Group financial statements continued
For the year ended 31 March 2019

25. Categories of financial liabilities

	Note	2019 £m	2018 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**94.1**	98 8
Inflation swaps – not hedge accounted		**6.2**	2 8
		100.3	101 6
Derivatives designated as hedging instruments			
Interest rate swaps – cash flow hedges		**25.8**	13 6
Energy hedges – cash flow hedges		**0.4**	0 8
		26.2	14 4
Total derivative financial liabilities		**126.5**	116 0
Other financial liabilities			
Borrowings	23	**6,054.2**	5,567 8
Trade payables	26	**32.2**	18 9
Other payables		**29.9**	21 6
Total other financial liabilities		**6,116.3**	5,608 3
Total financial liabilities		**6,242.8**	5,724 3
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**126.5**	116 0
Other payables		**8.4**	–
Borrowings		**5,857.2**	5,259 1
		5,992.1	5,375 1
Current liabilities			
Borrowings		**197.0**	308 7
Trade payables		**32.2**	18 9
Other payables		**21.5**	21 6
		250.7	349 2
		6,242.8	5,724 3

26. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	**32.2**	18 9
Social security and other taxes	**11.5**	6 9
Other payables	**21.5**	21 6
Accruals	**412.6**	400 3
Deferred income	**18.9**	14 9
	496.7	462 6
Non-current liabilities		
Other payables	**8.4**	–
Accruals	**0.4**	0 4
Deferred income	**1,074.1**	1,009 0
	1,082.9	1,009 4
	1,579.6	1,472 0

27. Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2017	758 9	(78 7)	(46 1)	(10 4)	623 7
Charge/(credit) to income	24 5	(0 3)	1 6	3 2	29 0
Charge for adjustments to provisional fair values	0 1	–	–	1 0	1 1
Charge to equity	–	16 9	2 4	1 3	20 6
At 1 April 2018	783 5	(62 1)	(42 1)	(4 9)	674 4
Restatement	–	–	–	0 8	0 8
At 1 April 2018 restated	783 5	(62 1)	(42 1)	(4 1)	675 2
Charge/(credit) to income	36 3	(2 3)	5 2	(1 6)	37 6
Acquired on acquisition	3 8	–	–	9 4	13 2
Charge/(credit) to equity arising from rate change	–	21 7	(0 2)	–	21 5
At 31 March 2019	**823.6**	**(42.7)**	**(37.1)**	**3.7**	**747.5**

Deferred tax assets and liabilities have been offset The offset amounts, which are to be recovered/settled after more than 12 months, are as follows

	2019 £m	2018 (restated) £m
Deferred tax asset	**(79.8)**	(108 4)
Deferred tax liability	**827.3**	783 6
	747.5	675 2

28. Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual The defined benefit pension schemes cover increases in accrued benefits arising from inflation and pension increases Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries A formal actuarial valuation of each scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the scheme rules

The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows

	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2016
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2016
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2017

The STPS is by far the largest of the Group s UK defined benefit schemes, comprising over 90% of the Group s overall defined benefit obligations

Notes to Group financial statements continued
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28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2019 £m	2018 £m
Fair value of assets	**2,418.9**	2,339 8
Present value of the defined benefit obligations	**(2,871.8)**	(2,859 6)
	(452.9)	(519 8)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**18.6**	18 2
Retirement benefit obligation – funded schemes in deficit	**(462.9)**	(529.3)
Retirement benefit obligation – unfunded schemes	**(8.6)**	(8 7)
	(471.5)	(538 0)
Net retirement benefit obligation	**(452.9)**	(519 8)

Fair value of scheme assets	2019 £m	2018 £m
Equities	**356.6**	360 4
Diversified growth funds	–	5 3
Corporate bonds	**899.2**	825 7
Liability-driven investment funds ('LDIs')	**746.0**	783 1
Property	**228.2**	180 7
Emerging markets multi-asset funds	–	3 9
High-yield bonds	**31.3**	3 4
Hedge funds	–	0 6
Cash	**157.6**	176 7
	2,418.9	2,339 8

The majority of the assets have quoted prices in active markets, but there are a small proportion of the equity and LDI investments which are unquoted

Movements in the fair value of the scheme assets were as follows

	2019 £m	2018 £m
Fair value at 1 April	**2,339.8**	2,352 8
Interest income on scheme assets	**61.0**	62 0
Contributions from the sponsoring companies	**34.9**	35 2
Contributions from scheme members	**0.1**	0.1
Return on plan assets (excluding amounts included in finance income)	**95.9**	(1 3)
Scheme administration costs	**(2.3)**	(1 8)
Benefits paid	**(110.5)**	(107 2)
Fair value at 31 March	**2,418.9**	2,339 8

Movements in the present value of the defined benefit obligations were as follows

	2019 £m	2018 £m
Present value at 1 April	**(2,859.6)**	(2,927 4)
Service cost	**(0.2)**	(0 5)
Exceptional past service (cost)/credit	**(9.6)**	8 3
Interest cost	**(74.8)**	(77 5)
Contributions from scheme members	**(0.1)**	(0 1)
Actuarial gains arising from changes in demographic assumptions	**55.7**	21 6
Actuarial (losses)/gains arising from changes in financial assumptions	**(132.7)**	6 9
Actuarial gains arising from experience adjustments	**39.0**	1 9
Benefits paid	**110.5**	107 2
Present value at 31 March	**(2,871.8)**	(2,859 6)

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes continued

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £8.6 million (2018: £8.7 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that is has an unconditional right to a refund of any surplus assets in each of the schemes following settlement of all obligations to scheme members and therefore the surplus in DVWS has been recognised in full.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2019 £m	2018 £m
Amounts (charged)/credited to operating costs:		
Current service cost	**(0.2)**	(0.5)
Exceptional past service (cost)/credit	**(9.6)**	8.3
Scheme administration costs	**(2.3)**	(1.8)
	(12.1)	6.0
Amounts charged to finance costs:		
Interest cost	**(74.8)**	(77.5)
Amounts credited to finance income:		
Interest income on scheme assets	**61.0**	62.0
Total amount credited to the income statement	**(25.9)**	(9.5)

The actual return on scheme assets was a gain of £156.9 million (2018: £60.7 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

On 26 October 2018, the High Court issued a judgment in a claim involving Lloyds Banking Group's defined benefit pension schemes. This judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment have a potential consequence for the schemes. The Group has estimated the cost of equalising benefits, and has allowed for this cost within the exceptional past service cost item in 2018/19. Any subsequent changes to this amount in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

(iv) Actuarial risk factors

The schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The Group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long-term then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each plan's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach reference is made to both the maturity of liabilities and the funding level of that plan. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the plan has a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the plan liabilities, we consider it appropriate to invest a portion of the plan assets in equity securities and in real estate to leverage the return generated by the fund.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Notes to Group financial statements continued
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28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(iv) Actuarial risk factors continued

Longevity risk

The Group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement If scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows.

	2019 %	2018 %
Price inflation – RPI	**3.2**	3 1
Price inflation – CPI	**2.2**	2 1
Discount rate	**2.5**	2 7
Pension increases in payment	**3.2**	3 1
Pension increases in deferment	**3.2**	3 1

The assumption for price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts

In setting our discount rate, we construct a yield curve Short-dated yields are taken from market rates for AA corporate bonds Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate based on this constructed yield curve

The mortality assumptions are based on those used in the latest triennial funding valuations The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 65 implied by the assumptions are as follows for the STPS·

	2019		2018	
	Men	**Women**	Men	Women
Mortality table used	**S2NMA**	**S2NFA**	S2NMA	S2NFA
Mortality table compared with standard table	**95%**	**99%**	95%	99%
Mortality projections	**CMI 2018**	**CMI 2018**	CMI 2017	CMI 2017
Future improvement per annum	**1.0%**	**1.0%**	1 0%	1 0%
Remaining life expectancy for members currently aged 65 years	**21.9**	**23.6**	22 4	24 1
Remaining life expectancy at age 65 for members currently aged 45 years	**22.9**	**24.8**	23 4	25 3

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate[1]	Increase/decrease by 0 1% pa	Decrease/increase by £46/£47 million
Price inflation[2]	Increase/decreased by 0 1% pa	Increase/decrease by £40/£39 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £106 million

1 A change in discount rate is likely to occur as a result of changes in bond yield and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions

3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation The above analysis does not take into account the effect of these interrelationships Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

28. Retirement benefit schemes continued

a) Defined benefit pension schemes continued

(i) Effect on future cash flows

Contribution rates are set in consultation with the trustees for each scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 16 years for STPS and STMIPS (2018: 17 years) and 15 years for DVWS (2018: 16 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2016 for the STPS and STMIPS schemes and 31 March 2017 for DVWS. As a result of the STPS and STMIPS actuarial valuations, deficit reduction contributions of £25 million were paid in the year ended 31 March 2017 and £10 million for each of the subsequent financial years ending 31 March 2019 were agreed. Payments of £8 million per annum through an asset-backed funding arrangement will continue to 31 March 2032. Further inflation-linked payments of £15 million per annum are being made through an additional asset-backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £23.4 million (2018: £20.3 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2019 no contributions (2018: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

29. Provisions for liabilities

	Restructuring £m	Insurance £m	Other £m	Total £m
At 1 April 2018	0.8	23.3	27.2	51.3
Charged to income statement	–	5.2	7.0	12.2
Utilisation of provision	(0.5)	(5.1)	(7.2)	(12.8)
Unwinding of discount	–	–	0.2	0.2
Acquisition of subsidiary	–	–	0.5	0.5
At 31 March 2019	**0.3**	**23.4**	**27.7**	**51.4**

	2019 £m	2018 £m
Included in:		
Current liabilities	**32.2**	40.6
Non-current liabilities	**19.2**	10.7
	51.4	51.3

The restructuring provision reflects costs to be incurred in respect of committed restructuring programmes. The associated outflows are estimated to arise over a period of up to two years from the balance sheet date.

Insurance includes provisions in respect of Derwent Insurance Limited and Lyra Insurance Guernsey Limited, captive insurance companies, which are wholly owned subsidiaries of the Group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

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For the year ended 31 March 2019

30. Share capital

	2019 £m	2018 £m
Total issued and fully paid share capital		
240,943,929 ordinary shares of 97[17]/19p (2018 240,222,617)	**235.9**	235 1

At 31 March 2019, 3,774,921 treasury shares were held (2018 3,948,599)

Changes in share capital were as follows

	Number	£m
Ordinary shares of 97[17]/19p		
At 1 April 2017	239,793,915	234 7
Shares issued under the Employee Sharesave Scheme	428,702	0.4
At 1 April 2018	240,222,617	235 1
Shares issued under the Employee Sharesave Scheme	721,312	0 8
At 31 March 2019	**240,943,929**	**235.9**

31. Share premium

	2019 £m	2018 £m
At 1 April	**117.7**	112 5
Share premium arising on issue of shares for Employee Sharesave Scheme	**10.3**	5 2
At 31 March	**128.0**	117 7

32. Other reserves

	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Total £m
At 1 April 2017	157 1	40 4	(75 7)	121 8
Total comprehensive (loss)/income for the year	–	(31 4)	11 6	(19 8)
Transfer to retained earnings	–	(9 0)	–	(9 0)
At 1 April 2018	157 1	–	(64 1)	93 0
Total comprehensive loss for the year	–	–	(0 2)	(0 2)
At 31 March 2019	**157.1**	**–**	**(64.3)**	**92.8**

The capital redemption reserve arose on the redemption of B shares

The translation reserve arises from exchange differences on translation of the results and financial position of foreign subsidiaries

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1

33. Capital management

The Group's principal objectives in managing capital are

- to access a broad range of sources of finance to obtain both the quantum required and lowest cost compatible with the need for continued availability,
- to manage exposure to movements in interest rates to provide an appropriate degree of certainty as to its cost of funds;
- to minimise exposure to counterparty credit risk,
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure,
- to maintain an investment grade credit rating, and
- *to maintain a flexible and sustainable balance sheet structure*

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds

The Group has continued to carefully monitor market conditions and our interest rate exposure Given the low, flat yield curve we believe it is the right time to start reducing our exposure to floating interest rates At 31 March 2019, 22% of our gross debt portfolio was at floating rates, with a further 25% of index linked debt and 53% of fixed rate debt

The Group's dividend policy is a key tool in achieving its capital management objectives This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders The Board has decided to set the 2018/19 dividend at 93 37 pence, an increase of 7 9% compared to the total dividend for 2017/18 of 86 55 pence Our policy is to grow the dividend annually at no less than RPI plus 4% until March 2020

The Group's capital at 31 March was

	2019 £m	2018 £m
Net cash and cash equivalents	**39.6**	38 5
Bank loans	**(1,120.1)**	(1,217 4)
Other loans	**(4,820.5)**	(4,223 9)
Finance leases	**(112.2)**	(113 9)
Cross currency swaps	**37.1**	24 5
Loans due from joint ventures and associated undertakings	**142.0**	135 6
Net debt	**(5,834.1)**	(5,356 6)
Equity attributable to owners of the Company	**(1,164.1)**	(996 9)
Total capital	**(6,998.2)**	(6,353 5)

34. Fair values of financial instruments

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1-3 based on the degree to which the fair value is observable The Group's valuation techniques include Levels 2 and 3 given the wide range of financial instruments below

	2019 £m	2018 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**37.1**	24 5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate
Interest rate swaps			Discounted cash flow
Assets	**26.1**	11 4	Future cash flows are estimated based on forward interest rates from
Liabilities	**(119.9)**	(112.4)	observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Energy swaps			Discounted cash flow
Assets	**5.3**	0 3	Future cash flows are estimated based on forward electricity prices from
Liabilities	**(0.4)**	(0 8)	observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties
Inflation swaps			Discounted cash flow
Liabilities	**(6.2)**	(2.8)	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique
Contingent consideration	**(3.0)**	-	Management estimate of the amount that is likely to be payable This is considered to be a Level 3 valuation technique The contingent consideration arose on the acquisition of Agrivert (note 38)

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows

	Inflation swaps £m	Contingent consideration £m
At 1 April 2017	-	-
Losses recognised in profit or loss	(2 8)	-
At 31 March 2018	(2 8)	-
Losses recognised in profit or loss	(3 4)	-
Recognised on acquisition of subsidiary	-	(3 0)
At 31 March 2019	**(6.2)**	**(3.0)**

34. Fair values of financial instruments continued

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of cash and short term deposits, bank overdrafts, loans receivable from joint ventures, trade receivables and trade payables approximate their fair values. The carrying values and estimated fair values of other financial instruments are set out below.

	2019		2018	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**818.1**	**818.3**	917.1	918.6
Currency bonds	**37.9**	**37.9**	38.2	38.2
Floating rate notes	**147.7**	**148.0**	147.7	153.0
	1,003.7	**1,004.2**	1,103.0	1,109.8
Fixed rate debt				
Bank loans	**184.1**	**183.3**	185.3	185.0
Sterling bonds	**2,591.1**	**2,956.8**	2,357.0	2,700.2
Fixed rate notes	**673.3**	**707.4**	343.4	347.6
Other loans	**2.8**	**2.8**	5.3	5.3
Finance leases	**112.2**	**119.6**	113.9	122.5
	3,563.5	**3,969.9**	3,004.9	3,360.6
Index-linked debt				
Bank loans	**117.9**	**126.7**	115.0	124.9
Sterling bonds	**1,279.1**	**2,104.4**	1,244.1	2,057.1
Other loans	**88.6**	**67.2**	88.2	87.1
	1,485.6	**2,298.3**	1,447.3	2,269.1
	6,052.8	**7,272.4**	5,555.2	6,739.5

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate sterling and currency bonds are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked bonds are rarely traded and therefore quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 3 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models, which is a Level 3 valuation technique.

35. Risks arising from financial instruments

The Group's activities expose it to a variety of financial risks

- market risk (including interest rate risk, exchange rate risk and other price risk),
- credit risk,
- liquidity risk, and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ('Group Treasury') under policies approved by the Board The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group s operating units The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group s exposure to changes in market interest rates Further details are set out in section a) (i) and note 36 b) (i)

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies Further details are set out in section a) (ii) and 36 a) (i)

Energy swaps are held to mitigate the Group s exposure to changes in electricity prices Further details are provided in note 36 b) (ii)

Severn Trent Water, the Group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by RPI In order to mitigate the risks to cash flow and earnings arising from fluctuations in RPI, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI

a) Market risk

The Group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the Group has taken to manage them are described below

(i) Interest rate risk

The Group's income and its operating cash flows are substantially independent of changes in market interest rates The Group's interest rate risk arises from long-term borrowings

Borrowings issued at variable rates expose the Group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the Group to the risk of interest costs above the market rate when interest rates decrease

35. Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

The Group s policy is to maintain 40% to 70% of its interest bearing liabilities in fixed rate instruments during AMP6 In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on Details of the adjustments made are set out below

	2019 £m	2018 £m
Net debt (note 40)	**5,834.1**	5,356 6
Cash and short term deposits	**41.0**	51 1
Loan receivable from joint ventures and associates	**142.0**	135 6
Cross currency swaps included in net debt at fair value	**37.1**	24 5
Fair value hedge accounting adjustments	**(28.8)**	(30 4)
Exchange on currency debt not hedge accounted	**(16.7)**	(8 5)
Interest bearing financial liabilities	**6,008.7**	5,528 9

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps Under these swaps the Group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts In practice the swaps are settled by transferring the net amount These swaps have the economic effect of converting borrowings from variable rates to fixed rates The Group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis

The net principal amount of unhedged swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest

2019	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Total £m**
Overdrafts	(1 4)	–	–	(1 4)
Bank loans	(818 1)	(184 1)	(117 9)	(1,120 1)
Other loans	(169 1)	(3,238 3)	(1,367 6)	(4,775 0)
Finance leases	–	(112 2)	–	(112 2)
	(988.6)	**(3,534.6)**	**(1,485.5)**	**(6,008.7)**
Impact of swaps not matched against specific debt instruments	(348 4)	348 4	–	–
Interest bearing financial liabilities	**(1,337.0)**	**(3,186.2)**	**(1,485.5)**	**(6,008.7)**
Proportion of interest bearing financial liabilities that are fixed		**53%**		
Weighted average interest rate of fixed debt		**4.19%**		
Weighted average period for which interest is fixed (years)		**8.8**		

2018	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdrafts	(12 6)	–	–	(12 6)
Bank loans	(917 1)	(185 3)	(115 0)	(1,217 4)
Other loans	(167 6)	(2,685 0)	(1,332 3)	(4,184 9)
Finance leases	–	(113 9)	–	(113 9)
	(1,097 3)	(2,984 2)	(1,447 3)	(5,528 8)
Impact of swaps not matched against specific debt instruments	(349 6)	349 6	–	–
Interest bearing financial liabilities	(1,446 9)	(2,634 6)	(1,447 3)	(5,528 8)
Proportion of interest bearing financial liabilities that are fixed		48%		
Weighted average interest rate of fixed debt		4 30%		
Weighted average period for which interest is fixed (years)		8 8		

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For the year ended 31 March 2019

35. Risks arising from financial instruments continued

a) Market risk continued

(i) Interest rate risk continued

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £19 7 million (2018 £7 9 million) in the income statement

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2019 %	2018 %	2019 £m	2018 £m	2019 £m	2018 £m
Pay fixed rate interest						
2 - 5 years	**4.98**	–	**(150.0)**	–	**(25.8)**	–
5 - 10 years	**5.14**	5 06	**(150.0)**	(300.0)	**(34.9)**	(65 6)
10 - 20 years	**5.45**	5 46	**(75.0)**	(73 7)	**(33.5)**	(32 6)
	5.13	5 16	**(375.0)**	(373 7)	**(94.2)**	(98 2)
Receive fixed rate interest						
5 - 10 years	**3.36**	3 36	**225.0**	225 0	**15.8**	11 4
10 - 20 years	**2.75**	2 75	**400.0**	400 0	**10.4**	(0 6)
	2.97	3 01	**625.0**	625 0	**26.2**	10 8
			250.0	251 3	**(68.0)**	(87 4)

Interest rate sensitivity analysis

The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows

	2019		2018	
	+1.0% £m	-1.0% £m	+1 0% £m	-1 0% £m
Profit or loss	**(48.5)**	**54.3**	(47 7)	53 9
Cash flow	**(10.8)**	**10.8**	(11 5)	(11 5)
Equity	**(48.5)**	**54.3**	(47 7)	53 9

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions Substantially all of the Group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the Group s results to changes in exchange rates is not material

Certain of the Group's subsidiaries enter into transactions in currencies other than the functional currency of the operation Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency These contracts led to a no charge (2018 nil) in the income statement

In order to meet its objective of accessing a broad range of sources of finance, the Group has raised debt denominated in currencies other than sterling In order to mitigate the Group's exposure to exchange rate fluctuations, cross currency swaps were entered into at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges The notional values and fair values of these swaps are shown in note 36 a)

The Group also has cross currency swaps with a sterling value of £98 3 million (2018 £98 3 million) which are not accounted for as fair value hedges Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency, but they are not designated hedges under IFRS 9 This has led to a credit of £12 2 million (2018 charge of £17 7 million) in the income statement which is partly offset by the exchange loss of £8 6 million (2018 exchange gain of £12 7 million) on the underlying debt

35. Risks arising from financial instruments continued

a) Market risk continued

(ii) Exchange rate risk continued

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings

2019	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(20.1)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	(0.2)	–	–

2018	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(20 2)	(150 0)	(2 0)
Cross currency swaps – hedge accounted	19 9	–	2 0
Cross currency swaps – not hedge accounted	–	150 0	–
Net currency exposure	(0 3)	–	–

b) Credit risk

Operationally the Group has no significant concentrations of credit risk It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, whose operating licences oblige them to supply domestic customers even in cases where bills are not paid Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 21

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board The Group has policies that limit the amount of credit exposure to any one financial institution

Credit risk analysis

At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short-term deposits were as follows

	Credit limit		Amount deposited	
	2019 £m	2018 £m	2019 £m	2018 £m
Double A range	105.0	105 0	–	–
Single A range	700.0	650 0	–	11 1
Triple B range	–	10 0	–	5 3
	805.0	765 0	–	16 4

The fair values of derivative assets analysed by credit ratings of counterparties were as follows

	Derivative assets	
	2019 £m	2018 £m
Double A range	1.4	–
Single A range	67.1	36 2
	68.5	36 2

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35. Risks arising from financial instruments continued

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained, adequate committed facilities to be available, and the ability to close out market positions Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows

	2019 £m	2018 £m
2 – 5 years	**885.0**	710 0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's non-derivative net financial liabilities The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flows including principal and interest.

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2019

Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(202 2)	(122 8)	(28 8)	(32 2)	(386 0)
1 – 2 years	(14 4)	(276 4)	(30 9)	–	(321 7)
2 – 5 years	(352 3)	(1,165 6)	(321 6)	–	(1,839 5)
5 – 10 years	(469 2)	(1,359 6)	(412 3)	–	(2,241 1)
10 – 15 years	(50 8)	(1,206 0)	(217 9)	–	(1,474 7)
15 – 20 years	–	(246 1)	(145 6)	–	(391 7)
20 – 25 years	–	(413 4)	(176 3)	–	(589 7)
25 – 30 years	–	–	(208 5)	–	(208 5)
30 – 35 years	–	–	(652 7)	–	(652 7)
35 – 40 years	–	–	(3,248 6)	–	(3,248 6)
40 – 45 years	–	–	(22 8)	–	(22 8)
45 – 50 years	–	–	(358 6)	–	(358 6)
Total	**(1,088.9)**	**(4,789.9)**	**(5,824.6)**	**(32.2)**	**(11,735.6)**

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	496 9	41 0	537 9
1 – 2 years	142 0	47 6	–	189 6
Total	**142.0**	**544.5**	**41.0**	**727.5**

35. Risks arising from financial instruments continued

c) Liquidity risk continued

(ii) Cash flows from non-derivative financial instruments continued

2018

Undiscounted amounts payable	Floating rate £m	Fixed rate £m	Index-linked £m	Trade payables £m	Payments on financial liabilities £m
Within 1 year	(311.4)	(136.0)	(27.8)	(18.9)	(494.1)
1 – 2 years	(10.3)	(116.1)	(29.4)	–	(155.8)
2 – 5 years	(41.3)	(982.6)	(325.7)	–	(1,349.6)
5 – 10 years	(785.3)	(1,333.6)	(199.9)	–	(2,318.8)
10 – 15 years	(52.7)	(1,056.0)	(436.2)	–	(1,544.9)
15 – 20 years	–	(60.9)	(139.0)	–	(199.9)
20 – 25 years	–	(298.8)	(167.7)	–	(466.5)
25 – 30 years	–	–	(199.2)	–	(199.2)
30 – 35 years	–	–	(649.7)	–	(649.7)
35 – 40 years	–	–	(2,273.6)	–	(2,273.6)
40 – 45 years	–	–	(1,068.1)	–	(1,068.1)
45 – 50 years	–	–	(374.2)	–	(374.2)
Total	*(1,201.0)*	*(3,984.0)*	*(5,890.5)*	*(18.9)*	*(11,094.4)*

Undiscounted amounts receivable	Loans due from joint ventures £m	Trade receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	–	191.0	51.1	242.1
1 – 2 years	126.3	–	–	126.3
5 – 10 years	12.5	–	–	12.5
Total	***138.8***	***191.0***	***51.1***	***380.9***

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in the RPI. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

35. Risks arising from financial instruments continued

c) Liquidity risk continued

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2019	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Interest rate swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	(28.6)	–	–	16.7	0.1	6.2	(3.2)	(8.8)
1 – 2 years	(15.6)	–	–	0.3	0.6	6.2	(3.2)	(11.7)
2 – 5 years	(44.9)	(0.3)	(0.4)	0.6	4.7	18.3	(9.7)	(31.7)
5 – 10 years	(31.8)	(1.7)	–	0.4	–	164.7	(144.1)	(12.5)
10 – 15 years	(7.5)	(2.5)	–	(0.1)	–	16.9	(8.6)	(1.8)
15 – 20 years	–	10.4	–	–	–	–	–	10.4
	(128.4)	**5.9**	**(0.4)**	**17.9**	**5.4**	**212.3**	**(168.8)**	**(56.1)**

	Derivative liabilities			Derivative assets				
						Cross currency swaps		
2018	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Interest rate swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(14.9)	–	–	5.1	0.2	1.1	(0.2)	(8.7)
1 – 2 years	(14.3)	–	–	1.7	–	1.1	(0.3)	(11.8)
2 – 5 years	(47.5)	0.2	(0.8)	3.5	0.1	3.4	(1.1)	(42.2)
5 – 10 years	(35.8)	0.8	–	3.9	–	23.3	(13.0)	(20.8)
10 – 15 years	(13.0)	1.6	–	–	–	17.5	(8.8)	(2.7)
15 – 20 years	–	(6.7)	–	–	–	–	–	(6.7)
	(125.5)	(4.1)	(0.8)	14.2	0.3	46.4	(23.4)	(92.9)

d) Inflation risk

The Group's principal operating subsidiary, Severn Trent Water Limited, operates under a regulatory environment where its prices are linked to inflation measured by RPI. Its operating profits and cash flows are therefore exposed to changes in RPI. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in RPI during the life of the debt instrument ('index-linked debt'). The amount of index-linked debt at the balance sheet date is shown in section a) (i) interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) cash flows from non-derivative financial instruments.

Ofwat has announced its plans to move towards an economic regulatory model linked to inflation measured on the CPIH index over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £250 million (2018: £150 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

Inflation rate sensitivity analysis

The finance cost of the Group's index-linked debt instruments varies with changes in RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in RPI is set out in the following table. This analysis relates to financial instruments only and excludes any RPI impact on Severn Trent Water's revenues and Regulatory Capital Value, or accounting for defined benefit pension schemes.

	2019		2018	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(10.6)**	**10.6**	(11.7)	11.7
Equity	**(10.6)**	**10.6**	(11.7)	11.7

36. Hedge accounting

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR in order to mitigate the Group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount		Fair value	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Euro	**11.4**	11.4	**10.1**	10.4
US dollar	**23.2**	–	**0.2**	–
Yen	**8.5**	8.5	**8.8**	8.3
	43.1	19.9	**19.1**	18.7

b) Cash flow hedges

(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2019 %**	2018 %	**2019 £m**	2018 £m	**2019 £m**	2018 £m
5 – 10 years	**2.63**	2.63	**135.2**	135.2	**(10.9)**	(8.6)
10 – 20 years	**1.83**	1.83	**298.0**	298.0	**(14.8)**	(5.0)
	2.08	2.08	**433.2**	433.2	**(25.7)**	(13.6)

36. Hedge accounting continued

b) Cash flow hedges continued

(ii) Energy swaps

The Group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2025.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2019 £/MWh**	2018 £/MWh	**2019 MWh**	2018 MWh	**2019 £m**	2018 £m
Less than 1 year	**48.6**	47.6	**21,955**	43,680	**0.1**	0.2
1 – 2 years	**44.7**	48.6	**372,240**	21,955	**2.0**	–
2 – 5 years	**43.7**	40.5	**788,280**	547,460	**2.7**	(0.7)
5 – 10 years	**47.7**	–	**43,680**	–	**0.1**	–
	44.2	41.3	**1,226,155**	613,095	**4.9**	(0.5)

37. Share based payment

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £8.1 million (2017/18: £6.9 million) related to equity settled share based payment transactions.

The weighted average share price during the year was £19.27 (2017/18: £21.25).

At 31 March 2019, there were no options exercisable (2018: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan

Under the Long Term Incentive Plan ('LTIP'), conditional awards of shares may be made to Executive Directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2015, 2016, 2017 and 2018 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated Equity in excess of the level included in the Severn Trent Water AMP6 business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2018: 100%).

(ii) Awards outstanding

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Opening at 1 April 2017	517,474
Granted during the year	203,035
Vested during the year	(139,829)
Lapsed during the year	(31,906)
Outstanding at 1 April 2018	548,774
Granted during the year	272,057
Vested during the year	(159,463)
Lapsed during the year	(35,945)
Outstanding at 31 March 2019	**625,423**

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	**Normal date of vesting**	**2019**	2018
July 2015	2018	–	160,028
July 2016	2019	**175,543**	188,131
July 2017	2020	**181,070**	200,615
July 2018	2021	**268,810**	
		625,423	548,774

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 97 to 122.

37. Share based payment continued

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in the Company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

(i) Options outstanding

Details of changes in the number of options outstanding during the year are set out below

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2017	3,106,607	1,572p
Granted during the year	1,087,376	1,652p
Forfeited during the year	(46,715)	1,636p
Cancelled during the year	(134,768)	1,665p
Exercised during the year	(428,702)	1,306p
Lapsed during the year	(8,867)	1,367p
Outstanding at 1 April 2018	3,574,931	1,625p
Granted during the year	1,331,044	1,474p
Forfeited during the year	(58,285)	1,663p
Cancelled during the year	(405,861)	1,654p
Exercised during the year	(721,312)	1,532p
Lapsed during the year	(6,000)	1,575p
Outstanding at 31 March 2019	**3,714,517**	**1,585p**

Sharesave options outstanding at 31 March were as follows

			Number of awards	
Date of grant	Normal date of exercise	Option price	2019	2018
January 2013	2018	1,241p	–	110,447
January 2014	2017 or 2019	1,331p	**144,212**	151,528
January 2015	2018 or 2020	1,584p	**227,212**	846,002
January 2016	2019 or 2021	1,724p	**556,447**	621,971
January 2017	2020 or 2022	1,663p	**662,545**	781,782
January 2018	2021 or 2023	1,652p	**804,957**	1,063,201
January 2019	2022 or 2024	1,474p	**1,319,144**	–
			3,714,517	3,574,931

c) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black-Scholes method The principal assumptions and data are set out below

	2019			2018		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	**1,884**	**1,849**	**1,849**	2,341	2,138	2,138
Option life (years)	**3**	**3.5**	**5.5**	3	3 5	5 5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18 2	18 2	18 2
Expected dividend yield (%)	**4.0**	**4.0**	**4.0**	4 1	4 1	4 1
Risk free rate (%)	**n/a**	**0.6**	**0.8**	n/a	0 5	0 8
Fair value per share (pence)	**1,866**	**303**	**284**	2,328	375	351

Expected volatility is measured over the three years prior to the date of grant of the awards or share options Volatility has been calculated based on historical share price movements

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant

Notes to Group financial statements continued
For the year ended 31 March 2019

38. Acquisitions

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited for the total consideration of £61 3 million and the assumption of £59 7 million of existing debt

Agrivert's UK operations have been added to Severn Trent Green Power's existing business and will complement our two operating food waste anaerobic digestion plants at Coleshill and Roundhill and one under construction in Derby The acquisition has added 105 GWh of energy generation per annum, increasing the Group s energy generating capacity by around 30%

The acquisition has been accounted for using the acquisition method Goodwill of £28 7 million has been capitalised attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition

No goodwill related to this acquisition is expected to be deductible for tax purposes

The residual excess over the net assets acquired has been recognised as goodwill

	£m
Provisional fair values on acquisition	
Intangible assets	31 5
Property, plant and equipment	69 4
Inventory	0 6
Trade and other receivables	9.4
Cash and cash equivalents	3 3
Borrowings	(63 0)
Trade and other payables	(4 9)
Provisions for liabilities	(0 5)
Deferred tax	(13 2)
Net assets acquired	32 6
Goodwill	28 7
Total consideration	61 3
Satisfied by	
Cash	54.2
Deferred consideration	4 1
Contingent consideration	3 0
	61 3
Net cash flows arising on acquisition:	
Cash consideration	(54 2)
Cash and cash equivalents acquired	3 3
	(50 9)
Agrivert Group Limited for the period since acquisition to 31 March 2019:	
Revenue	9 2
Profit before tax	0 9
Severn Trent Group for the year ended 31 March 2019 if acquisition happened on 1 April 2018:	
Revenue	1,793 7
Profit before tax	385 7

As outlined by IFRS 3, management has until the earliest of the date at which all information required is received or one year from the acquisition date in order to satisfy the measurement period criteria The fair values are provisional

Acquisition-related costs amounting to £3 6 million were recognised as an expense in the income statement No other acquisition costs were recognised

Contingent consideration is payable if the vendor obtains an extension to a lease agreement relating to one of the acquired Group's operating sites within two years of the acquisition date The range of amounts payable is nil to £3 million

See note 16 for the reconciliation of goodwill recognised for the Group

39. Discontinued operations

Operating Services US

The disposal of the Group's US business (Operating Services, US), which formed part of the Business Services segment, to US investors PPC Enterprises LLC and Alston Capital Partners LLC, was completed on 30 June 2017

The results of discontinued operations are disclosed separately in the income statement and comprise

	2019 £m	2018 £m
Turnover	–	42 1
Total operating costs	–	(42 2)
Loss before interest and tax	–	(0 1)
Net finance income	–	–
Loss before tax	–	(0 1)
Attributable tax expense	–	0 3
Gain on disposal of discontinued operations	–	13 0
Profit for the period attributable to owners of the Company	–	13 2

Basic and diluted earnings per share from discontinued operations are as follows

	2019			2018		
	Profit attributable to owners of the Company £m	**Weighted average number of shares m**	**Per share amount pence**	Profit attributable to owners of the Company £m	Weighted average number of shares £m	Per share amount pence
Basic earnings per share	–	–	–	13 2	235 3	5 6
Diluted earnings per share	–	–	–	13 2	236 1	5 6

Net cash flows arising from the discontinued operations in the year were

	2019 £m	2018 £m
Net cash flows attributable to		
operating activities	–	1 9
investing activities	–	(0 6)
financing activities	–	–
	–	1 3

The net gain on disposals is calculated as follows

	2018 Operating Services US £m
Consideration	47 8
Net assets attributable to owners of the Company	(45 5)
	2 3
Tax on gain on disposal	(0 7)
Disposal costs and provisions on disposal	(18 4)
Foreign exchange gain recycled from reserves	29 8
Net gain on disposal	13 0

The net assets of the business at the date of disposal, all of which were attributable to the owners of the Company, were

	2018 Operating Services US £m
Goodwill	14 4
Other intangible assets	2 9
Property, plant and equipment	9 4
Inventory	0 6
Trade and other receivables	28 2
Cash and bank balances	9 9
Trade and other payables	(19 9)
Net assets attributable to owners of the Company	45 5

39. Discontinued operations continued

The net cash flows arising from disposals were:

	2018 £m
Consideration received in cash and cash equivalents	39.3
Disposal costs paid in cash and cash equivalents	(4.3)
Cash and bank balances disposed of	(9.9)
	25.1

40. Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2019 £m	2018 (restated) £m
Profit before interest and tax from continuing operations	563.3	527.2
Profit before interest and tax from discontinued operations	–	13.6
Profit before interest and tax	**563.3**	540.8
Depreciation of property, plant and equipment	315.4	308.8
Amortisation of intangible assets	30.5	20.8
Pension service cost	9.8	(7.8)
Defined benefit pension scheme administration costs	2.3	1.8
Defined benefit pension scheme contributions	(34.9)	(35.2)
Share based payment charge	8.1	6.9
Loss/(profit) on sale of property, plant and equipment and intangible assets	0.6	(7.3)
Exceptional depreciation – property, plant and equipment	–	16.8
Profit on disposal of businesses	–	(13.7)
Deferred income credit to the income statement	(14.7)	(14.3)
Provisions charged to the income statement	12.2	13.8
Utilisation of provisions for liabilities	(12.8)	(5.4)
Operating cash flows before movements in working capital	**879.8**	826.0
Increase in inventory	(1.7)	(2.9)
Increase in amounts receivable	(60.0)	(58.4)
Increase in amounts payable	8.2	8.6
Cash generated from operations	**826.3**	773.3
Tax received	–	8.0
Tax paid	(21.3)	(14.5)
Net cash generated from operating activities	**805.0**	766.8

b) Non-cash transactions

No additions to property, plant and equipment during the year were financed by new finance leases (2018: nil). Assets transferred from developers at no cost were recognised at their fair value of £42.1 million (2018: £35.3 million).

c) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Finance leases £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 1 April 2018	38.5	(1,217.4)	(4,223.9)	(113.9)	24.5	135.6	(5,356.6)
Cash flow	(2.2)	163.5	(551.8)	2.3	–	6.0	(382.2)
Fair value adjustments	–	–	1.6	–	12.6	–	14.2
RPI uplift on index-linked debt	–	(2.9)	(36.8)	–	–	–	(39.7)
Debt acquired on acquisition	3.3	(62.4)	–	(0.6)	–	–	(59.7)
Foreign exchange	–	–	(8.1)	–	–	–	(8.1)
Other non-cash movements	–	(0.9)	(1.5)	–	–	0.4	(2.0)
As at 31 March 2019	**39.6**	**(1,120.1)**	**(4,820.5)**	**(112.2)**	**37.1**	**142.0**	**(5,834.1)**

Liabilities from financing activities comprise bank loans, other loans and finance leases.

41. Contingent liabilities

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business No liability (2018 nil) is expected to arise in respect of either bonds or guarantees

42. Financial and other commitments

a) Investment expenditure commitments

	2019 £m	2018 £m
Contracted for but not authorised in the financial statements	**359.2**	395 0

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by Ofwat and to provide for growth in demand for water and waste water services

b) Leasing commitments

At the balance sheet date the Group had outstanding operating commitments for future minimum operating lease payments under non-cancellable operating leases, which fall due as follows

	2019 £m	2018 £m
Within 1 year	**2.8**	1 1
1 – 5 years	**4.2**	2 4
After more than 5 years	**10.5**	4 8
	17.5	8 3

Operating lease payments represent rentals by the Group for certain of its office property, plant and equipment

43. Post balance sheet events

Following the year end the Board of Directors have proposed a final dividend of 56.02 pence per share. Further details of this are shown in note 14

44. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note Trading transactions between the Group and its joint venture, Water Plus, are disclosed below

	Water Plus	
	2019 £m	2018 £m
Sale of services	**335.0**	354 9
Net interest income	**3.8**	2 4
	338.8	357 3

Outstanding balances between the Group and the joint venture as at 31 March were as follows

	Water Plus	
	2019 £m	2018 £m
Trade and other receivables due from related parties	**2.3**	44.9
Loans receivable from joint ventures	**142.0**	135.6
	144.3	180 5

The retirement benefit schemes operated by the Group are considered to be related parties Details of transactions and balances with the retirement benefit schemes are disclosed in note 28

Notes to Group financial statements continued
For the year ended 31 March 2019

44. Related party transactions continued

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year

The remuneration of the Directors is included within the amounts disclosed below Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on pages 117 to 122

	2019 £m	2018 £m
Short-term employee benefits	6.5	6.4
Share based payment	2.9	3 5
	9.4	9 9

45. Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group Since the Group defines its own APMs, these might not be directly comparable with other companies' APMs These measures are not intended to be a substitute for, or superior to, IFRS measurements

a) Exceptional items

Exceptional items are income or expenditure which individually or, if of a similar type, in aggregate should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view In this context, materiality is assessed at the segment level

b) Underlying PBIT

Underlying profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement and amortisation of intangible assets recognised on acquisition of subsidiaries This provides a measure of operating performance excluding distortions caused by exceptional items and reflecting the operational performance of the acquired subsidiaries Following the acquisition of Agrivert this APM was updated to include adjustment of amortisation on acquired intangible assets The calculation of this APM is shown on the face of the income statement and in note 5 for reportable segments

c) Underlying earnings per share

Underlying earnings per share figures are presented for continuing operations These exclude the effects of exceptional items, amortisation of acquired intangible assets, net gains/losses on financial instruments, current tax on exceptional items and on net gains/losses on financial instruments and deferred tax. The Directors consider that the underlying figures provide a useful additional indicator of performance and remove non-performance related distortions See note 15

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures See note 40

e) Effective interest rate

The effective interest rate is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year

$$\frac{\textit{(net finance costs - net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2019 £m	2018 £m
Net finance costs	194.2	219 5
Net finance costs from pensions	(13.8)	(15 5)
Capitalised interest	33.2	26 2
	213.6	230 2
Average net debt	5,547.7	5,134 4
Effective interest rate	3.9%	4 5%

This APM is used as it shows the average interest rate that is attributable to the net debt of the business

45. Alternative performance measures continued

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest rate except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally RPI adjustments on index-linked debt)

$$\frac{\text{(net finance costs – net finance costs from pensions – RPI interest + capitalised finance costs)}}{\text{(monthly average net debt)}}$$

	2019 £m	2018 £m
Net finance costs	**194.2**	219 5
Net finance costs from pensions	**(13.8)**	(15 5)
RPI interest	**(38.0)**	(54 1)
Capitalised interest	**33.2**	26 2
	175.6	176 1
Average net debt	**5,547.7**	5,134 4
Effective cash cost of interest	**3.2%**	3 4%

This is used as it shows the average cash interest rate based on the net debt of the business

g) PBIT interest cover

The ratio of items underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions

$$\frac{\text{underlying PBIT}}{\text{(net finance costs – net finance costs from pensions)}}$$

	2019 £m	2018 (restated) £m
Underlying PBIT	**573.6**	539 8
Net finance costs	**194.2**	219 5
Net finance costs from pensions	**(13.8)**	(15 5)
Net finance costs excluding finance costs from pensions	**180.4**	204 0
PBIT interest cover ratio	**3.2**	2 6

This is used to show how the underlying PBIT of the business covers the financing costs associated only with net debt on a consistent basis

45. Alternative performance measures continued

h) EBITDA and EBITDA interest cover

The ratio of profit from continuing operations before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\text{(underlying PBIT + depreciation + amortisation)}}{\text{(net finance costs - net finance costs from pensions)}}$$

	2019 £m	2018 (restated) £m
Underlying PBIT	**573.6**	539.8
Depreciation	**315.4**	308.2
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**29.8**	20.5
EBITDA	**918.8**	868.5
Net finance costs	**194.2**	219.5
Net finance costs from pensions	**(13.8)**	(15.5)
Net finance costs excluding finance costs from pensions	**180.4**	204.0
EBITDA interest cover ratio	**5.1**	4.3

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis

i) Underlying effective current tax rate

Current tax charge for the year on continuing operations, excluding prior year charges, current tax on exceptional items and on financial instruments, divided by profit from continuing operations before tax, net gains/losses on financial instruments, exceptional items, and share of net profit of joint ventures accounted for using the equity method.

$$\frac{\text{(current year current tax charge in the income statement - tax on exceptional items - tax on financial instruments)}}{\text{(PBT - share of net profit of JVs - exceptional items - net losses on financial instruments)}}$$

	2019 £m	2019 Current tax theron £m	2018 (restated) £m	2018 (restated) Current tax theron £m
Profit before tax	**384.7**	**(41.2)**	301.2	(36.8)
Adjustments				
Share of net loss/(profit) of joint ventures	**0.4**	**–**	(0.2)	–
Exceptional items	**9.6**	**–**	12.6	(0.7)
Net (gains)/losses on financial instruments	**(16.0)**	**(2.6)**	6.7	(3.3)
	378.7	**(43.8)**	320.3	(40.8)
Underlying effective current tax rate		**11.6%**		12.7%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of underlying earnings per share in note 15. Share of net profit of joint ventures is excluded from the calculation because this is included after tax and the tax on joint venture profits is therefore not included in the current tax charge.

46. Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2019 are given below Details of the joint venture are set out in note 19 All subsidiary undertakings have been included in the consolidation

Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Severn Trent Investment Holdings Limited	United Kingdom	100%	Ordinary

The following subsidiary undertakings all operate and are incorporated in the United Kingdom The percentage of share capital held is 100% and the class of share capital held is ordinary

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent Green Power Composting Limited
Charles Haswell and Partners Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent LCP Limited
Dee Valley Services Limited	Severn Trent Leasing Limited
Dee Valley Water (Holdings) Limited	Severn Trent Metering Services Limited
East Worcester Water Limited	Severn Trent MIS Trustees Limited
Etwall Land Limited	Severn Trent Overseas Holdings Limited
Gunthorpe Fields Limited	Severn Trent Pension Scheme Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent PIF Trustees Limited
Midlands Land Portfolio Limited	Severn Trent Power Generation Limited
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent Corporate Holdings Limited	Severn Trent Services Defence Limited
Severn Trent Data Portal Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Draycote Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Holdings Limited
Severn Trent Finance Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Financing and Investments Limited	Severn Trent Services International Limited
Severn Trent General Partnership Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services Purification Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (CW) Limited	Severn Trent Systems Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (North London) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (RBWM) Limited	Severn Trent Utility Services Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Water Limited
Severn Trent Green Power (West London) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services Limited

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Derwent Insurance Limited	Gibraltar	100%	Ordinary
Energy Supplies UK Limited	United Kingdom	100%	A and B Ordinary
Lyra Insurance Guernsey Limited	Guernsey	100%	Ordinary
Severn Trent Africa (Pty) Ltd	South Africa	100%	Ordinary
Severn Trent Carsington Limited	United Kingdom	100%	A and B Ordinary
Severn Trent Response Limited	Ireland	60%	Ordinary

Notes to Group financial statements continued
For the year ended 31 March 2019

46. Subsidiary undertakings continued

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John s Street, Coventry, CV1 2L Z, United Kingdom

Company	Registered office
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
Severn Trent Africa (Pty) Ltd	2 Elgin Road, Sunninghill, Johannesburg, South Africa
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Green Power (Ardley) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Bridgend) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Cassington) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (CW) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Hertfordshire) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (North London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (RBWM) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Wallingford) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (West London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Biogas Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Composting Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Group Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Holdings Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Response Limited	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2019 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act

Company	Company Number
Charles Haswell and Partners Limited	2416605
Chester Water Limited	2888872
Dee Valley Group Limited	4316684
Dee Valley Limited	2902525
Dee Valley Water (Holdings) Limited	4421854
East Worcester Water Limited	2757948
Etwall Land Limited	7559793
Gunthorpe Fields Limited	4240764
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Corporate Holdings Limited	4395566
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent Financing and Investments Limited	6312635
Severn Trent General Partnership Limited	SC416614
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Power Generation Limited	2651131
Severn Trent Reservoirs Limited	3115315
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International Limited	2387816
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services Purification Limited	2409826
Severn Trent Services UK Limited	8120387
Severn Trent Systems Limited	2394552
Severn Trent Trimpley Limited	10690056
Severn Trent Utility Services Limited	4125386

Company statement of comprehensive income
For the year ended 31 March 2019

	2019 £m	2018 £m
Profit for the year	**216.5**	182 4
Other comprehensive income/(loss)		
Items that will not be reclassified to the income statement		
Net actuarial losses	**(0.1)**	(9 1)
Tax on net actuarial losses	**–**	1 5
Other comprehensive loss for the year	**(0.1)**	(7 6)
Total comprehensive income for the year	**216.4**	174 8

Company statement of changes in equity
For the year ended 31 March 2019

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2017	234 7	112 5	160 7	2,973 7	3,481 6
Profit for the year	–	–	–	182 4	182 4
Net actuarial losses	–	–	–	(9.1)	(9 1)
Tax on net actuarial losses	–	–	–	1 5	1 5
Total comprehensive income for the year	–	–	–	174 8	174 8
Share options and LTIPs					
– proceeds from shares issued	0 4	5 2	–	–	5 6
– value of employees' services	–	–	–	6 9	6 9
Dividends paid	–	–	–	(197 0)	(197 0)
At 31 March 2018	235 1	117 7	160 7	2,958 4	3,471 9
Profit for the year	–	–	–	216 5	216 5
Net actuarial losses	–	–	–	(0 1)	(0 1)
Tax on net actuarial losses	–	–	–	–	–
Total comprehensive income for the year	–	–	–	216 4	216 4
Share options and LTIPs					
– proceeds from shares issued	0 8	10 3	–	–	11 1
– value of employees services	–	–	–	7 2	7 2
Dividends paid	–	–	–	(211 9)	(211 9)
At 31 March 2019	**235.9**	**128.0**	**160.7**	**2,970.1**	**3,494.7**

Included in retained earnings are profits of £1,221.2 million that arose from Group restructuring arrangements in previous years and are therefore not distributable

Company balance sheet
For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible fixed assets	2	**0.1**	0 2
Tangible fixed assets	3	**0.5**	0 2
Investments in subsidiaries	4	**3,337.9**	3,330 0
Deferred tax asset	5	**1.6**	1 5
Trade and other receivables	6	**659.8**	527 6
		3,999.9	3,859 5
Current assets			
Trade and other receivables	6	**23.8**	44 3
Current tax receivable		**25.2**	15 9
Cash and cash equivalents		**1.9**	–
		50.9	60 2
Current liabilities			
Borrowings	7	**(4.5)**	(17 2)
Trade and other payables	8	**(147.1)**	(137 0)
Provisions	9	**(3.6)**	(6 0)
		(155.2)	(160 2)
Net current liabilities		**(104.3)**	(100 0)
Total assets less current liabilities		**3,895.6**	3,759 5
Non-current liabilities			
Borrowings	7	**(88.3)**	(85 4)
Trade and other payables	8	**(298.9)**	(189 0)
Retirement benefit obligations		**(8.6)**	(8 7)
Provisions	9	**(5.1)**	(4 5)
		(400.9)	(287 6)
Net assets		**3,494.7**	3,471 9
Capital and reserves			
Called up share capital	10	**235.9**	235 1
Share premium account	11	**128.0**	117 7
Other reserves	12	**160.7**	160 7
Retained earnings		**2,970.1**	2,958 4
Total capital and reserves		**3,494.7**	3,471 9

The profit for the year is £216.5 million (2018 £182 4 million)

Signed on behalf of the Board who approved the accounts on 20 May 2019

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

Company number 02366619

Notes to Company financial statements
For the year ended 31 March 2019

1. Employee numbers

The average number of employees during the year was 11 (2018: 9)

2. Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2018	1.1
Disposals	(0.9)
As at 31 March 2019	**0.2**
Amortisation	
At 1 April 2018	(0.9)
Amortisation for the year	-
Disposals	0.8
At 31 March 2019	**(0.1)**
Net book value	
At 31 March 2019	**0.1**
At 31 March 2018	0.2

3. Tangible fixed assets

	Land and buildings £m	Office fixtures and equipment £m	Assets under construction £m	Total £m
Cost				
At 1 April 2018	0.1	0.6	–	0.7
Additions	–	–	0.5	0.5
Disposals	(0.1)	(0.6)	–	(0.7)
As at 31 March 2019	**–**	**–**	**0.5**	**0.5**
Depreciation				
At 1 April 2018	–	(0.5)	–	(0.5)
Disposals	–	0.5	–	0.5
At 31 March 2019	**–**	**–**	**–**	**–**
Net book value				
At 31 March 2019	**–**	**–**	**0.5**	**0.5**
At 31 March 2018	0.1	0.1	–	0.2

4. Investments in subsidiaries

	£m
As at 1 April 2018	3,330.0
Additions	8.1
Impairment	(0.2)
As at 31 March 2019	**3,337.9**

Details of principal subsidiaries of the Company are given in note 46 to the Group financial statements

5. Deferred tax asset

	Accelerated tax *depreciation* £m	Retirement benefit *obligations* £m	Fair value of financial *instruments* £m	*Other* £m	*Total* £m
At 1 April 2017	0 1	–	0 1	(0 1)	0 1
(Charge)/credit to income	(0 1)	–	(0 1)	0 1	(0 1)
Credit to equity	–	1 5	–	–	1 5
At 1 April 2018	–	1 5	–	–	1 5
Credit to income	0 1	–	–	–	0 1
At 31 March 2019	**0.1**	**1.5**	**–**	**–**	**1.6**

6. Trade and other receivables

	2019 £m	2018 £m
Current assets		
Other amounts receivable	**6.5**	4 4
Prepayments	**0.4**	0 5
Amounts owed by group undertakings	**16.9**	39 4
	23.8	44 3
Non-current assets		
Other amounts receivable	–	1 6
Loan receivable	**32.4**	26 4
Amounts owed by group undertakings under loan agreements	**627.4**	499 6
	659.8	527 6
	683.6	571 9

7. Borrowings

	2019 £m	2018 £m
Current liabilities		
Bank overdraft	**4.5**	17 2
Non-current liabilities		
Other loans	**88.3**	85 4
	92.8	102 6

Non-current borrowings comprise the Company's RPI linked retail bond issued in July 2012 The bond carries a coupon of 1 3% on the principal amount which is uplifted by RPI The bond is repayable in July 2022

At the balance sheet date the Company had £100 million (2018 £100 million) of undrawn borrowing facilities

8. Trade and other payables

	2019 £m	2018 £m
Current liabilities		
Trade payables	**0.3**	0 5
Social security and other taxes	**0.1**	0 5
Other payables	**4.0**	2 8
Accruals	**3.4**	4 0
Amounts due to group undertakings	**139.3**	129 2
	147.1	137 0
Non-current liabilities		
Amounts due to group undertakings	**298.9**	189 0
	446.0	326 0

Notes to Company financial statements continued
For the year ended 31 March 2019

9. Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2018	5.6	4.9	10.5
Charged to income statement	–	0.1	0.1
Utilisation of provision	(0.6)	(1.3)	(1.9)
At 31 March 2019	**5.0**	**3.7**	**8.7**

	2019 £m	*2018* £m
Included in:		
Current liabilities	**3.6**	6.0
Non-current liabilities	**5.1**	4.5
	8.7	10.5

The claim outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

10. Share capital

	2019 £m	2018 £m
Total issued and fully paid share capital		
240,943,929 ordinary shares of 97 17/19p (2018: 240,222,617)	**235.9**	235.1

At 31 March 2019, 3,774,921 treasury shares were held (2018: 3,948,599).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19p		
At 1 April 2017	239,793,915	234.7
Shares issued under the Employee Sharesave Scheme	428,702	0.4
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 31 March 2019	240,943,929	235.9

11. Share premium

	2019 £m	2018 £m
At 1 April	**117.7**	112.5
Share premium arising on issue of shares for Employee Sharesave Scheme	**10.3**	5.2
At 31 March	**128.0**	117.7

12. Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2017, 31 March 2018 and 2019	**157.1**	**3.6**	**160.7**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

13. Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 37 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

14. Pensions

Defined benefit schemes

The Group operates defined benefit pension schemes, of which some employees of the Company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited The scheme closed to future accrual on 31 March 2015 The cost of contributions to the Group schemes amount to £0.4 million (2018 £0.6 million). There were no amounts outstanding for contributions to the defined benefit schemes (2018 nil).

The Company has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap This unfunded scheme is part of the Severn Trent Pension Scheme

Information about the schemes as a whole is disclosed in note 28 to the Group financial statements

15. Related party transactions

The retirement benefit schemes operated by the Group are considered to be related parties Details of transactions and balances with the retirement benefit schemes are disclosed in note 28

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market and its loan from Severn Trent Water Limited The guarantee in respect of liabilities to wholesalers is capped at £58 1 million (2018 £42 5 million) and the guarantees for the Severn Trent Water loan is for the amount due

16. Contingent liabilities

a) Bonds and guarantees

The Company has entered into bonds and guarantees in the normal course of business No liabilities are expected to arise in respect of either the bonds or guarantees

b) Bank offset arrangements

The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings Under these arrangements participating companies guarantee each others overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies As at 31 March 2019, the Company had no contingent liabilities (2018 nil).

17. Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 56 02 pence per share.

18. Dividends

For details of the dividends paid in the years ended 31 March 2019 and 31 March 2018 see note 14 in the Group financial statements

Five year summary

Continuing operations	2019 £m	2018 (restated)[1] £m	2017 £m	2016 £m	2015 £m
Turnover	**1,767.4**	1,696 4	1,638 0	1,753 7	1,801 3
Profit before interest, tax and exceptional items	**573.6**	539 8	520 1	503 4	540 3
Net exceptional items before tax	**(9.6)**	(12.6)	16 6	1 0	(18 7)
Amortisation of acquired intangible assets	**(0.7)**	–	–	–	–
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	**(194.2)**	(219 5)	(205 1)	(209 3)	(240 0)
Gains/(losses) on financial instruments	**16.0**	(6 7)	(1 8)	7 7	(133 5)
Results of associates and joint ventures	**(0.4)**	0 2	(1 8)	0.1	0 1
Profit on ordinary activities before taxation	**384.7**	301 2	328 0	302 9	148 2
Current tax on profit on ordinary activities	**(31.8)**	(32 9)	(36 3)	(51 3)	(37 8)
Deferred tax	**(37.6)**	(28 7)	(22 4)	(13 7)	5 1
Exceptional tax	**–**	–	52 2	78 6	–
Profit on ordinary activities after taxation	**315.3**	239 6	321 5	316 5	115 5
Results from discontinued operations	**–**	13 2	21 1	14 8	4 7
Profit for the year	**315.3**	252 8	342 6	331 3	120 2
Net assets employed					
Fixed assets	**9,337.7**	8,660 1	8,315 7	7,810 8	7,620 0
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(992.6)**	(956 0)	(916 8)	(798 4)	(799 0)
Derivative financial instruments[2]	**(95.1)**	(104 3)	(161.1)	(166 3)	(177 7)
Net retirement benefit obligation	**(452.9)**	(519 8)	(574 6)	(309 5)	(468 9)
Provisions for liabilities and deferred tax	**(798.9)**	(726 5)	(657 5)	(694 7)	(725 4)
Net assets held for sale	**–**	–	–	–	72 6
	6,998.2	6,353 5	6,005.7	5,841 9	5,521 6
Financed by					
Called up share capital	**235.9**	235 1	234 7	234 3	233 7
Reserves	**928.2**	761 8	688 6	783 1	521 9
Total shareholders' funds	**1,164.1**	996 9	923 3	1,017 4	755 6
Non-controlling interests	**–**	–	–	1 1	13 4
Net debt[3]	**5,834.1**	5,356 6	5,082 4	4,823 4	4,752 6
	6,998.2	6,353.5	6,005 7	5,841 9	5,521 6
Statistics					
Earnings per share (continuing) – pence	**133.4**	101 8	136 8	133 5	48 3
Underlying earnings per share – pence	**145.8**	120 5	115 7	102 1	107 2
Dividends per share (excluding special dividend) – pence	**93.4**	86 6	81 5	80 7	84 9
Dividend cover (before exceptional items and deferred tax)	**1.6**	1 4	1 4	1 3	1 3
Gearing[4] – %	**83.3**	84 4	84 6	82 6	86 1
Ordinary share price at 31 March – pence	**1,976.0**	1,844 0	2,382 0	2,173 0	2,059 0
Average number of employees					
– Regulated Water and Waste Water	**5,680**	5,660	5,273	5,236	5,532
– Other	**900**	605	596	2,122	1,910

1 Restated as set out in note 2 to the Group financial statements
2 Excludes instruments hedging foreign currency debt
3 Includes instruments hedging foreign currency debt
4 Gearing has been calculated as net debt divided by the sum of equity and net debt

Information for shareholders

Severn Trent shareholder helpline

The Company's registrar is Equiniti Equiniti s main responsibilities include maintaining the shareholder register and making dividend payments

If you have any queries relating to your Severn Trent Plc shareholding you should contact Equiniti

Registrar contact details·

Online: www shareview co uk from here you will be able to securely email Equiniti with your query

Telephone: 0371 384 2967*

Overseas enquiries: +44 121 415 7044

Text phone: 0371 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

Corporate website

Shareholders are encouraged to visit our website www severntrent com which provides

- company news and information,
- links to our operational businesses' websites,
- details of our governance arrangements,
- details of our strategy,
- details of the Group s business models and business plan, and
- the Company s approach to operating responsibly

There is also a dedicated investors' section on the website which contains up-to-date information for shareholders including

- comprehensive share price information,
- financial results,
- a history of dividend payment dates and amounts, and
- access to current and historical shareholder documents such as the Annual Report and Accounts

Electronic communications

By registering to receive shareholder documentation from Severn Trent Plc electronically shareholders can benefit from being able to

- view the Annual Report and Accounts on the day it is published,
- receive an email alert when shareholder documents are available,
- cast their AGM vote electronically, and
- manage their shareholding quickly and securely online, through Shareview

Electronic shareholder communications also enable the Company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs

For further information and to register for electronic shareholder communications visit www shareview co uk

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account

The benefits of doing this are that you will

- receive cleared funds in your bank account on the payment date,
- avoid postal delays, and
- remove the risk of your cheques getting lost in the post

To take advantage of this service or for further details contact Equiniti or visit www shareview co uk

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited

Telephone: 0371 384 2268*

Telephone number from outside the UK: +44 121 415 7173

* Lines are open 8 30am to 5 30pm Monday to Friday (excluding public holidays in England and Wales)

Information for shareholders
Continued

Buying and selling shares in the UK

If you wish to buy or sell certificated Severn Trent Plc shares, you may need to use a stockbroker or high street bank which trades on the London Stock Exchange There are also many telephone and online services available to you

If you are selling, you will need to present your share certificate at the time of sale Details of low-cost dealing services can be obtained from www shareview co uk or 0345 603 7037**

Share price information

Shareholders can find share price information on our website and in most national newspapers For a real-time buying or selling price, you should contact a stockbroker

Shareholder security

Fraudsters use persuasive and high pressure tactics to lure investors into scams They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money

How to avoid share fraud

- Keep in mind that firms authorised by the Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue with an offer to buy or sell shares
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www fca org uk to see if the person and firm contacting you is authorised by the FCA
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details
- Use the firm's contact details listed on the Register if you want to call it back
- Call the Freephone FCA Consumer helpline on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at www fca org uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice before you hand over any money
- Remember, if it sounds too good to be true, it probably is

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www fca org uk/scams, where you can find out more about investment scams.

You can also call the Freephone FCA Consumer helpline on 0800 111 6768

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040

Unsolicited mail

The Company is legally obliged to make its share register available to the general public Consequently some shareholders may receive unsolicited mail If you wish to limit the amount of unsolicited mail you receive please contact

The Mailing Preference Service ('MPS'), Freepost 29 LON20771, London, W1E 0ZT

Alternatively, register online at www mpsonline org uk or call the MPS Registration line on 0345 0700 705

American Depositary Receipts

Severn Trent has a sponsored Level 1 American Depositary *Receipt ('ADR') programme, for which The Bank of New York* Mellon acts as Depositary

The Level 1 ADR programme trades on OTCQX which is the premier tier of the US over the counter ('OTC') market under the symbol STRNY (it is not listed on a US stock exchange) Each ADR represents one Severn Trent Ordinary Share

If you have any enquiries regarding Severn Trent ADRs please contact The Bank of New York Mellon

By post: BNY Mellon Shareowners Services, PO Box 30170, College Station, TX 77842-3170, US

By telephone:
If calling from within the US (888) 269 2377 (toll-free)

If calling from outside the US· +1 201 680 6825

By email: shrrelations@cpushareownerservices com

Website: *www mybnymdr com*

** Lines are open 8 00am to 4 30pm Monday to Friday for dealing, and until 6 00pm for enquiries

Financial calendar

Ex dividend date – final dividend	13 June 2019
Record date to be eligible for the final dividend	14 June 2019
AGM	17 July 2019
Interim management statement – Q1 year ending 31 March 2020	17 July 2019
Final dividend payment date	19 July 2019
Interim results announcement – year ending 31 March 2020	21 November 2019
Ex dividend date – interim dividend	28 November 2019
Record date to be eligible for the interim dividend	29 November 2019
Interim dividend payment date	3 January 2020

All dates are indicative and are subject to change

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