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Severn Trent Plc
Annual Report and Accounts 2020

TAKING CARE OF ONE OF LIFE'S ESSENTIALS

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TAKING CARE OF ONE OF **LIFE'S ESSENTIALS**

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

REGULATED WATER AND WASTE WATER

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

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

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

Turnover (£m)
£1,620.7m +2.4%

Profit before interest and tax (£m)
£511.5m -1.3%

Underlying profit before interest and tax[1] (£m)
£511.5m -2.9%

Households and businesses served
4.6m

Litres of drinking water supplied each day
2.0bn

Litres of waste water treated each day
3.2bn

Employees[2]
5,824 +2.5%

Revenue split

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

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.

BUSINESS SERVICES

Where we operate
Business Services operates in the UK.

There are five parts of Business Services:

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

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

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

– Property Development
Property Development manages the sale of surplus land.

– Other
Developer services and our property searches and affinity partnership businesses.

Turnover (£m)
£240.4m
+19.7%

Profit before interest and tax (£m)
£62.8m
-0.5%

Underlying profit before interest and tax[1] (£m)
£64.9m
+1.2%

Employees[2]
962
+8.2%

1 Alternative Performance Measures are defined in note 44 to the Group financial statements.
2 Average during 2019/20 see note 9 to the Group financial statements

HIGHLIGHTS

Group turnover (£m)

£1,843.5m +4.3%

Dividend per share (p)

100.08p +7.2%

Basic earnings per share (p)

66.7p -50.0%

Underlying basic earnings per share (p)[1]

146.0p +0.1%

Group profit before interest and tax (£m)

£568.2m +0.9%

Group underlying profit before interest and tax (£m)[1]

£570.3m -0.6%

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

Cautionary statement

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

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

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

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TAKING CARE OF ONE OF **LIFE'S ESSENTIALS**

Our Purpose and Values

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

The outcomes we deliver

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

1 A COMPANY **YOU CAN TRUST**	2 A POSITIVE **DIFFERENCE**	3 **LOWEST POSSIBLE** BILLS
4 A SERVICE **FOR EVERYONE**	5 AN OUTSTANDING **EXPERIENCE**	6 GOOD TO **DRINK**
7 WATER **ALWAYS THERE**	8 WASTE WATER **SAFELY TAKEN AWAY**	9 A THRIVING **ENVIRONMENT**

OUR COMMITMENT TO SUSTAINABILITY

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

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

Read more: page 16

BOOSTING EMPLOYABILITY

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

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

SUPPORTING FARMERS TO PROTECT WATER QUALITY

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

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

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

COMMUNITY FUND RESPONSE TO THE COVID-19 OUTBREAK

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

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

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

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

Age UK Nottinghamshire

TRIALLING A REVOLUTIONARY LOW-CARBON TREATMENT PROCESS

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

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

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

SUPPORTING HAFREN DYFRDWY CUSTOMERS

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

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

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

This support is making a real difference to customers:

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

Katie, Hafren Dyfrdwy

RUNNING AN EFFICIENT WATER BUSINESS

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 & RELATIONSHIPS WE RELY ON

RESOURCES

PHYSICAL ASSETS

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

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

Principal Risk: 6

NATURAL RESOURCES

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

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

Principal Risks: 6 and 7

FINANCIAL CAPITAL

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

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

Principal Risks: 9 and 10

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 have met our target to produce the equivalent of 50% of our own energy needs by 2020.

Food waste anaerobic digestion plants generating green energy

GENERATING & PRESERVING LONG-TERM VALUE

PHYSICAL ASSETS

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

Successful delivery of our Birmingham Resilience Programme.

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

NATURAL RESOURCES

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

FINANCIAL CAPITAL

Delivering returns for our investors.

Maintaining an investment grade credit rating.

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

RELATIONSHIPS

OUR CUSTOMERS AND COMMUNITIES

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

We serve 4.6 million households and businesses.

Principal Risks: 1 and 7

OUR PEOPLE AND CULTURE

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

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

Principal Risk: 7

OUR SUPPLIERS AND PARTNERS

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

We work with around 1,700 direct suppliers.

Principal Risk: 7

OUR REGULATORS

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

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

Principal Risks: 2,3 and 5

CUSTOMERS ENJOY OUR SERVICES

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

WASTE WATER IS COLLECTED

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

WASTE WATER IS CLEANED

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

WATER IS RECYCLED TO THE ENVIRONMENT

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

Solar

Wind turbines

Clean gas and green electricity from our sludge anaerobic digestion plants

OUR CUSTOMERS AND COMMUNITIES

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

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

OUR PEOPLE AND CULTURE

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

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

OUR SUPPLIERS AND PARTNERS

Building sustainable relationships that provide mutual benefit.

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

OUR REGULATORS

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

Launched the World Water Innovation Fund.

FULFILLING OUR ROLE IN SOCIETY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Christine Hodgson
Chair

£1,843.5m
Group turnover
2019: £1,767.4m

100.08p
Dividend per share
2019: 93.37p

£568.2m
Group profit before interest and tax
2019: £563.3m

OUR COVID-19 RESPONSE

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

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

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

Our COVID-19 Governance Framework

Key

Informs Reports

1. The Board oversees the Strategic Incident Team's response to the COVID -19 pandemic. The Board receives at least weekly updates on progress and stakeholder impacts.

2. The Strategic Incident Team leads the Company's COVID-19 response and oversees the Tactical Incident Team. The Strategic Incident Team considers how current and developing scenarios will impact in the medium term and plans an effective response to ensure the continued resilience of our operations.

3. The Tactical Incident Team is focused on ensuring that the Company maintains normal business operations, mitigates risks to core services, protects the health and wellbeing of our people and protects the health of our customers.

4. Internal controls and processes are continually reviewed and updated to enable efficient delivery throughout, and beyond, the pandemic. Read more about our system of internal control on page 94.

5. Stakeholder impacts, and wider societal benefits, are considered at all levels of our COVID-19 response, including the consequences of our decisions on them. Our stakeholder engagement process enables us to carefully consider all the relevant factors and select the best course of action. Read more about our approach to stakeholders in our s.172 statement on page 28 and stakeholder engagement section on page 24.

Business and stakeholder impacts	Our COVID-19 response	
SUPPORTING OUR CUSTOMERS	**Maintaining normal business operations for our customers**	- Our teams continue to work tirelessly to provide a great experience for our customers – keeping them on supply and taking their waste safely away. We've received some wonderful feedback from customers recognising the dedication of our teams at this time. - Our priority remains the safety and wellbeing of our customers and people. We've implemented revised working practices, with virtual remote technicians, at-home network monitoring, and kept small teams together, to ensure we keep people as safe as possible while delivering essential services. - We have kept customers reassured and informed throughout the COVID-19 period through regular content across a number of channels, including emails, social media, TV and radio.
	Protecting our vulnerable customers	- Making sure our vulnerable customers know we are there for them with targeted communications and support through our Priority Services Register. - We continue to partner and support Local Resilience Forums by providing advice and guidance in respect of vulnerable customers and ensuring that they have access to the most up to date information to support vulnerable people in our region.
	Supporting customers who are struggling to pay	- We have a range of initiatives for those struggling to pay their bills, including the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. - Making £3.5 million available as part of our Severn Trent Trust Fund for those who may be unable to pay their household bills at this time. - These schemes have historically helped thousands of people when they needed our support the most. At this critical time for many, we have redoubled our efforts to raise awareness of these schemes for customers.
TAKING CARE OF OUR COLLEAGUES	**Caring for our colleagues**	- Our priority remains the safety and wellbeing of our people and customers. We are supporting our key workers with the processes, personal protective equipment and other equipment they need to continue to deliver our essential services. Our IT infrastructure has proved to be stable and resilient which has allowed over half our workforce to work safely from home so we can be there for our customers 24 hours a day, seven days a week. - We will not be making any redundancies or furloughing any of our employees as a result of COVID-19 and we are maintaining our all-employee bonus in recognition of our colleagues' hard work over the last year. We have agreed an annual pay increase of 2.3% for our colleagues for the next three years to provide certainty and security for them and their families. - Launched a 'Caring for our Colleagues' campaign, providing support on mental and physical wellbeing, and agreed individual care plans for our colleagues living in a vulnerable situation.
	Key workers	- Around 50% of our workforce meet the Government's definition of key worker. As a major employer and provider of essential frontline services, the health and safety of our colleagues is paramount and additional safety protocols have been implemented. - As described above, our priority remains protecting the health and safety of our people.
HELPING TO MAKE A DIFFERENCE TO OUR COMMUNITIES	**Social responsibility**	- In addition to helping our customers directly, we have established a COVID-19 £1 million emergency fund to support charities and community projects at the forefront of the region's COVID-19 response, with over £500k already donated to 200 organisations. - We launched a virtual education zone to help parents with home-schooling – through activities, games and stories to inspire the next generation of water users. - We've prioritised our services to ensure that schools serving key workers and hospitals have access to uninterrupted services. - Our Chair, CEO and CFO have asked the Company to donate 25% of their salaries for three months to local charities in our region which are helping the response to COVID-19.
WORKING WITH OUR SUPPLIERS AND CONTRACTORS	**Supporting our supply chain**	- We're helping our SME suppliers by moving to immediate processing of payments for at least three months – in April we paid £38 million to our smaller suppliers early. - We're working closely and collaboratively with our whole supply chain to provide support in respect of their underlying COVID-19 plans and continuing to invest in our capital construction projects when it is safe to do so. This is an important focus given their roles as key employers in our region.
ENSURING THE LONG-TERM SUCCESS OF OUR COMPANY	**Financial resources and assumptions** Read more on page 66	- The Board and Strategic Incident team have continually monitored the situation to ensure early detection of any deteriorating trends. We have modelled plausible and extreme scenarios to determine expected impacts and test the Group's financial resilience. Our strong financial position means that we are well placed to withstand the economic shocks that COVID-19 might bring. Read more in our viability statement on page 66.
	Risk management Read more on page 57	- We continue to monitor the impact of the COVID-19 pandemic across all areas of our business as part of our established Enterprise Risk Management ('ERM') processes and a detailed COVID-19 statement can be found on page 64.
	Final dividend	- Our strong financial position was a factor in our decision to declare a final dividend in line with our AMP6 dividend policy of growth of RPI plus at least 4% per annum. Read more in Liv's Chief Executive's review on page 12.

ADAPTING TO OUR EVER-CHANGING WORLD

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

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

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

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

£568.2m
Group profit before interest and tax
2019: £563.3m

£1,843.5m
Group turnover
2019: £1,767.4m

COVID-19 – THE IMPACT ON SEVERN TRENT

Protecting our people

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

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

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

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

Helping our customers and communities

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

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

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

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

The financial impact of COVID-19

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

Final dividend

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

7.2%
Dividend increase
2019: 7.9%

£570.3m
Underlying Group PBIT[1]
2019: £573.6m

£35.9m
Net ODI reward[2]
2019: Net penalty of £4.5m

1 Alternative Performance Measures are defined in note 44 of the Group financial statements
2 Group Outcome Delivery Incentives ('ODI') quoted pre-tax in 2012/13 prices.

OUR NEW **PURPOSE AND VALUES**

CHIEF EXECUTIVE'S REVIEW
FOR YEAR ENDED 31 MARCH 2020

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

Our new Purpose and Values

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

We know first-hand that having a strong culture, built around a highly engaged workforce, not only ensures we continue to deliver great performance but also that we continue to make Severn Trent a truly awesome place to work. This is borne out by our excellent engagement score of 8.1 out of 10, putting us in the top 5% of utility companies globally, and by the reviews that Severn Trent employees leave on Glassdoor, placing us consistently at four out of five. We also see it through the commitment our employees make to our Community Champions volunteering scheme, where our employees volunteered over 10,000 hours of their time over the year to improve the local environment and help communities thrive in our patch. We cleaned up rivers, looked after our visitor sites, planted trees and picked up rubbish. This is testament to the enthusiasm and loyalty our workforce has for the area that they work and live in.

Sustainability at our Core

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

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

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

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

This includes some fantastic and unique commitments, for example:

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

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

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

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

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

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

Our performance

We know that building a lasting legacy for our customers today and for future generations is one of our most important responsibilities. That's why I have to start my review of our performance by referring to the completion of our capital programme, including our £300 million programme to improve resilience for Birmingham's water supply, £280 million to improve the health of rivers in our region as part of the Water Framework Directive, and £150 million on sewer flooding improvements, including a strategic upgrade of the waste water network in Newark which should protect homes and businesses from sewer flooding for decades to come. It was a massive effort to make sure we delivered these schemes on time and to quality. We knew that these improvements were so important to our customers, that we had a number of AMP6 customer ODIs covering the capital programme – which I am now pleased to confirm we have delivered.

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

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

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

Looking to the future – Delivering our AMP7 plan

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

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

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

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

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

Liv Garfield
Chief Executive

1 Assumes suitable specialist vehicles such as tankers become available within that time window.

SUSTAINABILITY AT THE HEART OF OUR APPROACH

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

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

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

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

OUR PURPOSE
TAKING CARE OF ONE OF LIFE'S ESSENTIALS

TAKING CARE OF THE **ENVIRONMENT**

Ensuring a sustainable water cycle

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

Enhancing our natural environment

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

Making the most of our resources

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

Mitigating climate change

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

Linked SDGs[1]

HELPING PEOPLE TO **THRIVE**

Delivering an affordable service for everyone

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

Providing a fair, inclusive and safe place to work

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

Investing in skills and knowledge

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

Making a positive difference in the community

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

Linked SDGs[1]

BEING A COMPANY **YOU CAN TRUST**

Living our values

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

Balancing the interests of all our stakeholders

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

Running our company for the long term

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

Being open about what we do and sharing what we know

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

Linked SDGs[1]

1 United Nation's Sustainable Development Goals.

SUSTAINABILITY PERFORMANCE HIGHLIGHTS

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

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

GRI index is available at: severntrent.com

	Theme	Performance	2020-25 commitments and long-term ambitions
TAKING CARE OF THE ENVIRONMENT			
Ensuring a sustainable water cycle	**Leakage**	2019/20: Reduced leakage by 4% Reduced leakage by over 8% over last five years, exceeding 6% commitment	ODI target: 15% reduction by 2025 *Long-term ambition: 50% reduction by 2045*
	Per capita consumption	2019/20: Average per capita consumption in our region is around 130 litres per head per day Our water efficiency programme has delivered around 25 Ml/d of water savings over five years	ODI target: Reduce per capita water consumption by 3.5% by 2025 *Long-term ambition: Installing 500,000 water meters by 2025*
	Water Quality improvement against Water Framework Directive ('WFD')	Over the past five years we have delivered 33 water and 246 waste WFD points, improving 1,600 km of river	ODI target: Improve 211 WFD points by 2025 Improve the quality of a further 2,100 km of river by 2025, meaning over half the rivers in our region will have improved by the end of AMP7
	Catchment management	Catchment management approach implemented in 26 catchments over five years, engaging with over 5,000 farmers in our region	ODI target: Implement catchment management in 16 catchments *Long-term ambition: Engage with 9,000 farmers (63% of those in our region) across 44 catchments to reduce pollutants from agriculture*
Enhancing our natural environment	**Biodiversity**	Improved biodiversity in over 244 hectares of SSSI-designated land over the last five years	ODI target: Improve 1,090 hectares of biodiversity by 2025 *Long-term ambition: Improve the biodiversity of 5,000 hectares of habitat, not just SSSIs, across our region by 2027*
	Pollutions	2019/20: 288 Category 3 (minor incidents) 12% reduction on 2018/19 and our best performance over the last decade	ODI target: 29% reduction in pollution incidents by 2025 to 19.5 incidents per 10,000 km of waste network *Long-term ambition: Reduce total number of pollution incidents 50% by 2025*
Making the most of our resources	**Biosolids**	In the 2019 calendar year we recycled over 115,000 tonnes of dry solids to agricultural land	ODI target: 100% satisfactory sludge use and disposal Maximise the conversion of sludge into biogas and other useful resources
	Waste diverted	2019/20: Waste audit completed providing better visibility of waste streams, with some waste streams as high as 99% diverted from landfill	*Long-term ambition: We are actively working to set clear targets across all waste streams, with an ambition of zero waste to landfill*
Mitigating climate change	**Carbon Footprint**	2019/20: 141 tCO_2 net operational green house gas emissions of Severn Trent per £m turnover 7% reduction on 2018/19 and 45% reduction on 2014/15	Triple Carbon Pledge: Net zero carbon emissions by 2030 Commitment to set and report against Science-Based Targets
	Electric vehicles	2019/20: Implemented policy to only purchase *electric cars from now on and only electric vans* from 2023	Triple Carbon Pledge: 100% electric vehicles *by 2030 (where specialist vehicles such as tankers* become available within that time window)
	Renewable energy	2019/20: From 1 April 2020 we have purchased the remainder of our energy needs from renewable sources, achieving our 100% renewable energy commitment 10 years earlier than planned	Triple Carbon Pledge: 100% energy from renewables by 2030
	Energy Consumption	2019/20: Total energy consumption of 2,037 GWh or 1.11 GWh per million of Group revenue	We continually invest in improving energy efficiency and we have a dedicated energy management team focused on driving operational change to reduce energy
	Renewable energy generation	2019/20: Self-generation of renewable energy by Severn Trent Group increased to the equivalent of 51% of Severn Trent Water's energy needs We delivered 491 GWh of renewable energy across our sites	Continuing to invest in energy generation opportunities

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

BEING A COMPANY **YOU CAN TRUST**

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

LIVING OUR VALUES

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

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

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

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

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

"WE'RE ABLE TO PULL EACH OTHER UP ON SOMETHING THAT'S NOT QUITE RIGHT, WHETHER IT'S INTENTIONAL OR NOT."

Stacie, Waste Water Recycling

"SOME CALL IT NOSEY BUT BEING CURIOUS HAS GIVEN ME SO MANY NEW EXPERIENCES."

Angela, CDC South East Infra Team

"OUR VALUES HELP US TO PROUDLY REPRESENT SEVERN TRENT OUTSIDE THE BUSINESS TO EXTERNAL CUSTOMERS."

Ed, Liquid Commercial Waste Team

Our values:

"I'M REALLY PROUD THAT THE JOB I DO ALLOWS ME TO TAKE ACTIONS TO HELP PROTECT THE ENVIRONMENT."

Colton, Senior Technician, Bioresources

"TO ENSURE WE GO HOME SAFE AT THE END OF EACH DAY IT'S IMPORTANT WE CARE ABOUT THE HEALTH AND SAFETY OF OURSELVES AND EACH OTHER."

Sam, Senior Technician, Non Infra

THIS IS ME

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

ENCOURAGING SOCIAL MOBILITY

Hossam
Trainee Solicitor

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

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

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

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

APPRENTICESHIPS – FEMALE ENGINEER

Evie
Apprentice

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

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

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

SUPPORTING LGBTQ+

Carl
Design Technician

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

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

OUR EMPLOYABILITY PROGRAMME

Quinncy
Procurement support

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

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

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

Aiden, Network Technician, Waste Infra

SUPPORTING OUR PEOPLE DURING COVID-19

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

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

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

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

Providing a fair and inclusive place to work

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

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

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

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

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

Creating opportunities within our region

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STAKEHOLDER ENGAGEMENT **IS CENTRAL TO OUR STRATEGY**

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

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

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

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

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

70%
of line managers trained in mental health

230
of our employees met our new Chair, Christine Hodgson, during her induction

CUSTOMERS

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

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

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

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

Link to our Business Model
Our customers and communities

Link to our Principal Risks
Risks 1 and 7

COMMUNITIES

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

What matters to them
- Operational impact and disruption
- Local employment
- Economic contribution
- Protection of the environment

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

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

Link to our Business Model
Natural resources
Our customers and communities

Link to our Principal Risks
Risk 7

SHAREHOLDERS AND INVESTORS

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

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

What matters to them
- *Strategy and business model*
- *Financial performance and returns*
- *Reputation*
- *Sustainability performance*
- *Financial risk management*
- *Strong leadership*

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

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

Link to our Business Model
Financial capital

Link to our Principal Risks
Risks 9 and 10

EMPLOYEES

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

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

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

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

Link to our Business Model
Our people and culture

Link to our Principal Risks
Risk 7

SUPPLIERS AND CONTRACTORS

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

What matters to them
- Fair engagement and payment terms
- Collaboration
- Responsible supply chain

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

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

Link to our Business Model
Physical assets
Our suppliers and partners

Link to our Principal Risks
Risks 9 and 10

REGULATORS AND GOVERNMENT

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

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

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

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

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

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

Link to our Business Model
Our regulators

Link to our Principal Risks
Risks 2, 3 and 5

SECTION 172 STATEMENT

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

Our s.172 Approach

Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success. The needs of our different stakeholders as well as the consequences of any decision in the long term are well-considered by the Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on the competing priorities of stakeholders. Our stakeholder engagement processes enable our Board to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the high standards of business conduct and success of Severn Trent in the long term. Our approach to s.172 is set out below and provides examples of decisions taken by the Board and how stakeholder views and inputs as well as other s.172 considerations have been considered in its decision making.

Leadership and management receive training on Directors' duties to ensure awareness of the Board's responsibilities

Board papers include a table setting out s 172 factors and relevant information relating to them

Our Board continually engages with stakeholders. Read more on page 24

BOARD INFORMATION

s.172 factors considered in the Board's discussions on strategy, including how they underpin long-term value creation and the implications for business resilience

Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

BOARD STRATEGIC DISCUSSION

Chair ensures decision making is sufficiently informed by s.172 factors

The Board performs due diligence in relation to the quality of the information presented and receives assurance where appropriate

BOARD DECISION

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

Actions taken as a result of Board engagement

SOCIAL TARIFFS AND PRIORITY SERVICES FOR CUSTOMERS

Section 172 Considerations

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

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

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

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

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

Outcomes and Actions

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

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

Key	Read more:		s.172 reflected in our governance documentation: www.severntrent.com
likely consequences of decisions in the long term			
the interests of the Company's workforce			
the need to foster relationships with suppliers, customers and others	- Stakeholder Engagement	p.24	- Matters Reserved to the Board
impact of operations on the community and environment	- Culture	p.20	- Committee Terms of Reference
high standards of business conduct	- Values	p.20	- Doing the Right Thing
the need to act fairly between members of the Company			

TECHNICAL SKILLS DEVELOPMENT AND THE SEVERN TRENT ACADEMY

Section 172 Considerations

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

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

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

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

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

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

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

Outcomes and Actions

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

AMP7 DIVIDEND POLICY

Section 172 Considerations

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

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

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

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

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

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

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

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

Outcomes and Actions

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

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

DRINKING WATER QUALITY

Section 172 Considerations

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

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

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

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

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

Outcomes and Actions

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

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

ACHIEVING OUR AMP6 STRATEGIC OBJECTIVES

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

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

EMBED CUSTOMERS AT THE HEART OF ALL WE DO

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

Areas of focus for 2019/20

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

Our progress in 2019/20

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

DRIVE OPERATIONAL EXCELLENCE AND CONTINUOUS INNOVATION

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

Areas of focus for 2019/20

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

Our progress in 2019/20

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

BUILDING BLUE GREEN FLOOD-RISK INFRASTRUCTURE IN PARTNERSHIP

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

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

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

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

INVEST RESPONSIBLY FOR SUSTAINABLE GROWTH

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

Areas of focus for 2019/20
- Promoting a more sustainable way of working which looks beyond traditional end-of-pipe solutions (including our partnership working and sustainable sewage treatment commitments).
- Developing the World Water Innovation Fund to help find new ways of working and to leave a lasting water legacy for future generations.
- Continuing to progress our understanding of the impact of climate change on our long-term service delivery, using the UK Climate Projections 2018 published by the Met Office.

Our progress in 2019/20
- We have outperformed our target for partnership working on flooding, completing 26 schemes over the AMP and have delivered two innovative approaches to improve sewage treatment capacity – setting new precedents for sustainable ways of working in AMP7. This includes being the first waste treatment company in Europe to pioneer the technology.
- The World Water Innovation Fund continues to go from strength to strength, with two new members joining this year and seven live trials underway.
- Following the publication of the latest climate scenarios (UKCP18), we have updated our future water resource scenarios and are on track to deliver our next report on climate change adaption to Defra in the Autumn of 2020.

CHANGE THE MARKET FOR THE BETTER

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

Areas of focus for 2019/20
- Working progressively with Ofwat to finalise the PR19 outcome.
- Delivering our ambition of 50% self-generation.
- Progressing the development of regional water trading solutions, including the North to South interconnector.

Our progress in 2019/20
- We continued to work with Ofwat as it concluded the PR19 process and formally accepted the outcome in January and February 2020 for both our licensed companies.
- At 51%, we exceeded our ambition of generating the equivalent of 50% of our energy needs. We've also delivered the first of our commitments from the Triple Carbon Pledge with 100% of our energy coming from renewable sources.
- We continued to progress development of the North to South interconnector and welcomed the inclusion of these important feasibility stages in Ofwat's final PR19 decisions.

CREATE AN AWESOME PLACE TO WORK

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

Areas of focus for 2019/20
- Delivering an improvement in our safety performance through focused interventions.
- Maintaining our commitment to the wellbeing of our colleagues.
- Continuing to implement improvements identified by our QUEST engagement.
- Developing an exciting and innovative syllabus for our new Training Academy.

Our progress in 2019/20
- We have continued to focus on colleague health, safety and wellbeing. In each quarter of the year we have focused on one of the four key hazards that causes the most harm and have seen success in this approach with a 25% reduction in all driving accidents from the preceding nine months.
- We're constantly looking at new and innovative ways of raising awareness and delivering training such as virtual reality manual handling.
- We continue to provide mental health awareness training.
- We've continued to implement feedback identified by our QUEST engagement and have seen like-for-like engagement scores go up from 62% to 71% in the year. For example, we've made our pay and reward structure much more transparent we've also built on our work on diversity and inclusion with the continued growth of our Allies programme.
- We have made significant progress in the development of our new, immersive, learning solutions using virtual reality capability. This will be a vital complement to our hands-on technical and experiential skills training in the new training Academy.

KEY PERFORMANCE INDICATORS

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

A COMPANY YOU CAN TRUST

Employee engagement (Score out of 10)

This year we introduced a new employee engagement survey which saw an amazing 92% of our colleagues giving feedback.

We had a fantastic level of engagement with Severn Trent scoring 8.1 and Hafren Dyfrdwy 8.0 out of 10. Year-on-year this is around a 9% improvement.

The results put us in the upper quartile of all companies in the UK and, even better, in the top 5% of utilities across the world.

Lost time incidents (per 100,000 hours worked)

We strive to ensure that all of our colleagues can return home safely at the end of the day. The aim is always Goal Zero, bringing the number of colleagues who are unable to work because of injuries down to zero.

Despite one of our biggest years of capital investment, and some of the most difficult operating conditions on our networks, we've seen a 33% improvement year-on-year

But this isn't the end of our journey to Goal Zero and we'll continue to make changes to our approach and behaviours to ensure all of our colleagues return home safely at the end of the day.

LOWEST POSSIBLE BILLS

Value for money[2] (Percentage)

For the last decade we've had the lowest bills in the industry – and in 2019/20 we had the lowest bills in both England and Wales. But low bills don't always mean we're considered as offering value for money.

This metric tracks our customers' opinions of the service we offer through quarterly surveys, undertaken by independent experts. Value for money is a combination of the bill level, the customers' perception of the service they receive and the way we contribute to wider society. This year we've seen a 3% improvement in this metric, and a huge 9% improvement over the last five years. We're committed to continue to measure value for money until at least 2025.

A POSITIVE DIFFERENCE

Public sewer flooding[2] (No. incidents)

This year we have introduced a new measure for our customers in England which expands our coverage of sewer flooding to include public open spaces and highways. We believe we are the first water company in England to measure sewer flooding in this way.

We introduced the measures following feedback from our customers who told us to look more at our wider impact on society and seek ways to address this.

This is the first year we have focused our activities on this area and we've seen a 25% reduction year-on-year.

Education Programme (No. of people reached)

Our performance has remained on track against our ODI targets for 2018/19 and 2019/20, and we exceeded our five-year target by more than 15%.

We also introduced our more immersive Wonderful Water Tour in 2019/20 that is targeted at Key Stage 2 children in schools. It was introduced in preparation for the new AMP7 ODI target that measures the number of behaviour commitments instead of number of engagements.

The number of engagements has decreased slightly year-on-year because the Wonderful Water Tour is more in-depth and resource intensive.

A SERVICE FOR EVERYONE

Help When You Need It[2] (No. of customers)

Sometimes our customers need our help to balance their bills – when they do we offer a wide range of support schemes which are collectively measured by our 'Help when you need it' indicator.

Our help includes payment matching, payment holidays, bill reviews and the Severn Trent Trust Fund. Each scheme is designed to meet the needs of different customers and their unique challenges.

We aim to significantly expand the scheme further over the next five years and we have made an early start this year, as seen by an increase in the number of customers helped by 33%.

Priority Services Register (PSR)[2] (No. of customers)

We understand that our vulnerable customers need more support and help in different ways and we make sure we understand how to do this most effectively using our Priority Services Register ('PSR'). We are working with colleagues in the energy sector to share PSR data in order to increase our awareness of vulnerability within our region, and continue to run social media and bespoke campaigns to highlight our services to all of our customers.

During the last year we have grown our PSR by over 12,600 customers to 1.2% of our customer base. Over the next five years we are looking to increase this further and support over 400,000 customers by 2025.

AN OUTSTANDING EXPERIENCE

Customer Measure of Satisfaction (Index)

For 2020/21, Ofwat has introduced a new measure of satisfaction for customers.

It combines both quantitative performance metrics and a qualitative element based on customer surveys.

The metric is reported as an index out of 100, with financial incentives based on our relative position to the median company and the frontier or laggard company.

The measures has been run as a shadow measure for 2019/20 and we expect to outturn around the median for Severn Trent Water.

Developer Measure of Satisfaction (Index)

For 2020/21 Ofwat has introduced a new measure of satisfaction for developers. It combines both quantitative performance metrics and a qualitative element based on customer surveys.

The metric is reported as an index out of 100, with financial incentives based on our relative position to the median company and the frontier or laggard company.

The measures has been run as a shadow measure for 2019/20 but the final position has not yet been confirmed. However, we expect to outturn in the upper quartile for the industry.

GOOD TO DRINK

Compliance Risk Index[2] (Index)

The Compliance Risk Index (CRI) is the new measure of water quality as measured by the Drinking Water Inspectorate. It has replaced the previous measure, mean zonal compliance (MZC).

Our final position in England for 2019/20 has not yet been confirmed, however, we expect to see around a 40% improvement year-on-year.

This improvement has been driven by an end-to-end review of our process to identify and remove higher risk points of failure. Where we do have issues, we also ensure our response is robust to protect customers and learn lessons for the future.

Drinking water quality[2] (No. of complaints)

Over the past five years we have been transforming our approach to improve the quality of our water's appearance, taste and odour. This measure focuses on the number of complaints we receive from our customers in line with the Drinking Water Inspectorate's reporting.

We've seen a fantastic 14% improvement in the year, this is in addition to the 18% improvement we've already seen over the last two years. Much of the improvement is a result of the improved cleansing and flushing programme as well as improved raw water quality.

We haven't quite delivered the standards our customers expect this AMP, so we're retaining this measure until at least 2025.

WATER ALWAYS THERE

Supply interruptions[2] (No. of minutes)

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

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

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

Leakage[2] (Megalitres per day)

Leakage is one of our most important measures – how we perform can greatly influence our customers' perception of us. We report leakage as the average volume of water we lose from the network each day.

Over the last five years we had a commitment to reduce leakage by 6% in our English operating area. In the last year alone we've reduced leakage by 4%, resulting in a fantastic 10% reduction over the period.

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

WASTE WATER TAKEN SAFELY AWAY

Internal sewer flooding[2] (No. of incidents)

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

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

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

External sewer flooding[2] (No. of incidents)

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

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

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

A THRIVING ENVIRONMENT

Pollutions incidents[2] (No. of incidents)

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

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

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

Biodiversity[2] (No. of hectares of SSSIs)

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

This year is the culmination of a five-year programme to improve over 200 hectares of land within our English operating area.

Looking forward we have a big ambition to improve the biodiversity of 5,000 hectares of land, not just SSSIs, by 2027.

OUR FINANCIAL KPIs

Group underlying PBIT[3]

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

Group underlying EPS[3]

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

Gearing

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

Return on Regulated Equity ('RoRE')

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

Performance is measured in three areas:

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

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

Notes

1 A number of our operational KPIs contribute to more than one of our Business Plan outcomes.

2 Performance commitments relate to Severn Trent Water as it operates today, following the realignment of the England – Wales boundary.

3 Alternative performance measures are defined in note 44 to the Group financial statements.

MARKET AND INDUSTRY **OVERVIEW**

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

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

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

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

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

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

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

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

Ready for AMP7
While COVID-19 emerged as a critical issue in the final quarter, uncertainty around Brexit had dominated much of the national conversation over the first three-quarters of the year, culminating in a General Election in December. For the water industry, this meant further political debate about ownership models.

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

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

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

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

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

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

WORKING WITH OUR REGULATORS AND STAKEHOLDERS

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

Our regulators' areas of responsibility

POLICY	The Department for the Environment, Food and Rural Affairs ('Defra') in England, and the Welsh Government in Wales provide strategic and policy direction for the industry and our regulators.
REGULATION AND REPRESENTATION	The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.
	Ofwat is the economic regulator for the industry in England and Wales. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges ('price reviews') every five years.
	The Drinking Water Inspectorate ('DWI') independently checks that water supplies in England and Wales are safe and that drinking water quality is acceptable to consumers.
	The Environment Agency ('EA') allows us to collect water from reservoirs, rivers and aquifers and return it to the environment after it has been used by our customers and treated by us.
	Natural England advises the Government on the natural environment in England and helps to protect nature and the landscape, especially for plant and animal life in both fresh water and the sea.
	Natural Resources Wales is the environmental regulator in Wales. It oversees how the country's natural resources are maintained, improved and used, both now and in the future.

We also work with a range of other regulators including:

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

OUR BUSINESS PLAN FOR 2020-25

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

2015

START OF AMP6

2018

SEPT: BUSINESS PLANS SUBMITTED

2019

JAN: OFWAT'S INITIAL ASSESSMENT
APR: FAST TRACK DRAFT DETERMINATIONS
JUL: SLOW TRACK DRAFT DETERMINATIONS
DEC: FINAL DETERMINATION

2020
AMP7

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

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

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

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

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

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

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

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

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

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

OUR BUSINESS PLAN FOR 2020-25

9%
average bill reductions

15%
reduction in leakage (and a further commitment to achieve 50% by 2045)

43%
reduction in supply interruptions

2,100 km
of rivers improved

1%
of profits donated to charities and community groups

£6.8bn
Totex allowance

195,000
financially vulnerable customers supported a year by 2024/25

21%
reduction in internal sewer flooding

GOING FURTHER FOR SUSTAINABILITY

Triple
Carbon Pledge

5,000
hectares of biodiversity improved

50%
reduction in pollutions

REGULATED WATER AND WASTE WATER REVIEW

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2 A POSITIVE **DIFFERENCE** Page 40

3 **LOWEST POSSIBLE** BILLS Page 41

4 A SERVICE **FOR EVERYONE** Page 42

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9 A THRIVING **ENVIRONMENT** Page 48

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

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

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

A COMPANY **YOU CAN TRUST**

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

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

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

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

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

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

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

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

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

A POSITIVE DIFFERENCE

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

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

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

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

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

LAUNCHING OUR £10 MILLION COMMUNITY FUND
The new Severn Trent Community Fund is providing grants to projects that support the wellbeing of communities across three categories – people, place and environment. Funded from 1% of Severn Trent Water's profits, the grants range from £2,000 for smaller local projects to £250,000 for inspirational projects that have the potential to transform communities.

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

LOWEST POSSIBLE BILLS

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

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

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

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

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

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

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

A SERVICE FOR EVERYONE

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

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

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

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

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

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

c.70,000
customers benefited from financial support and advice this year

£3.5m
annual donation to the Severn Trent Trust Fund

200
charities and community groups helped by our COVID-19 emergency fund

AN OUTSTANDING **EXPERIENCE**

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

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

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

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

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

GOOD TO DRINK

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

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

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

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

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

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

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

WATER ALWAYS THERE

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

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

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

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

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

SECURING BIRMINGHAM'S WATER SUPPLY FOR THE NEXT 100 YEARS
The Birmingham Resilience Programme provides a second supply option for 1.2 million customers in our nation's second biggest city.

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

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

WASTE WATER SAFELY TAKEN AWAY

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

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

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

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

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

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

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

A THRIVING ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

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

BUSINESS SERVICES

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

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

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

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

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

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

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

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

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

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

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

CHIEF FINANCIAL OFFICER'S REVIEW

James Bowling
Chief Financial Officer

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

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

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

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

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

Turning now to our core business, we have built on good financial performance in the first half of the year to deliver another good set of results for 2019/20. Although underlying PBIT (see note 44) in our Regulated Water and Waste Water business was slightly lower than the previous year, this was expected as we chose to defer customer ODI rewards worth £78 million into AMP7, taking £22 million less in revenue than in the previous year, and increased our planned IRE programme to deliver remaining AMP6 commitments, offsetting the £22 million comparative benefit of hot weather costs in the previous year. In Business Services, stronger performance in the second half of the year in Operating Services and Bioresources produced growth in both revenues and PBIT for the full year. There were no individually significant land sales in 2019/20 but the £6.9 million earned this year means we remain on track to deliver £100 million of PBIT from property sales over the 10 years to 2027.

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

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

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

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

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

Regulated Water and Waste Water

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

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

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

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

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

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

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

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

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

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

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

Return on Regulated Equity ('RoRE')

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

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

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

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

2 Calculated in accordance with Ofwat guidance set out in RAG 4.07.

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

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

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

Business Services

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

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

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

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

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

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

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

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

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

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

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

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

Gains/losses on financial instruments
We use financial derivatives solely to hedge risks associated with our normal business activities including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Profit for the year and earnings per share
Total profit for the year was £158.8 million (2018/19: £315.3 million).

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

Cash flow

	2020 £m	2019 £m
Operational cash flow	**888.5**	826.3
Cash capex	**(799.5)**	(769.3)
Net interest paid	**(184.2)**	(161.6)
Purchase of subsidiaries net of cash acquired	**–**	(50.9)
Payments for swap terminations	**(16.8)**	–
Proceeds from swap terminations	**16.5**	–
Net tax paid	**(33.9)**	(21.3)
Free cash flow	**(129.4)**	(176.8)
Dividends	**(228.4)**	(211.9)
Issue of shares	**9.6**	11.1
Purchase of own shares	**–**	(1.1)
Change in net debt from cash flows	**(348.2)**	(378.7)
Debt acquired in subsidiaries	**–**	(63.0)
Non-cash movements	**(49.2)**	(35.8)
Change in net debt	**(397.4)**	(477.5)
Opening net debt	**(5,834.1)**	(5,356.6)
Closing net debt	**(6,231.5)**	(5,834.1)

	2020 £m	2019 £m
Bank loans	**(1,251.9)**	(1,120.1)
Other loans	**(5,058.5)**	(4,820.5)
Lease liabilities	**(122.7)**	(112.2)
Net cash and cash equivalents	**48.6**	39.6
Cross currency swaps	**60.4**	37.1
Loans due from joint ventures	**92.6**	142.0
Net debt	**(6,231.5)**	(5,834.1)

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

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

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

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

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

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

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

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

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

Our long-term credit ratings are:

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

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

Pensions

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

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

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

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

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

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

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

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

The movements in the net deficit during the year were:

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

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

Dividends

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

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

OUR APPROACH TO RISK

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

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

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

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

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

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

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

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

Our Enterprise Risk Management process
We use an established ERM process across the Group to assess and manage our significant risks. The process is controlled by the Central ERM team and underpinned by a standardised methodology to ensure consistency. ERM champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Criteria are used to consider the likelihood of occurrence and potential financial and reputational impacts.

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

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

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

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

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

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

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

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

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

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

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

OUR PRINCIPAL RISKS

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

1 CUSTOMER PERCEPTION

WHAT IS THE RISK?

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

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 reward or penalties under Ofwat's new Customer Experience ('C-MeX') measure, and associated ODI outturn.

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

We recognise there is work to do to continue to improve our C-MeX performance which replaces the previous AMP6 Service Incentive Mechanism ('SIM') from March 2020. Shadow year for C-MeX indicates our overall performance is ahead of forecast. Our retail performance remains strong. We have a full programme to deliver the required improvements.

The Retail Transformation Programme continues to deliver a number of initiatives focused on customer experience. Future initiatives include further 'Customer First' interventions for customers with a complaint and those whose situation makes them vulnerable. Customers continue to tell us they are delighted when we are able to complete issues for them at point of contact and we will continue the work to improve our point of contact resolution.

Our drive to digital strategy focuses on continued demand reduction and a shift to digital channels making it easy for customers to self-serve through a channel of their choice. Future initiatives look to broaden the remit of our award winning chat-bot 'Juno', increase the number of paperless communications we make to customers as well as open new digital customer channels. More than 2 million customers are now signed up to our online offerings and, during the last year, our web self-serve platform handled more than 2.3 million transactions.

We have accelerated our programmes in light of COVID-19 and picked up additional activity to support a new population of vulnerable customers.

2 LEGAL AND REGULATORY ENVIRONMENT

WHAT IS THE RISK?

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

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 in Ofwat's new strategy, there remains a risk that additional future changes could have a significant impact on Severn Trent. The renationalisation of the water industry could remain a central policy of the Opposition, and, therefore remains a possibility in the event of a change of Government. In the event of renationalisation, there is a possibility that the Group's regulated businesses (Severn Trent Water and Hafren Dyfrdwy) are acquired at below the value currently implied in Severn Trent Plc's share price.

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

With the acceptance of our PR19 Final Determination we now have more certainty about the next five-year AMP period running from 2020-25.

The impact of COVID-19 has seen a number of changes in relation to the business retail market. We continue to engage proactively with Ofwat and MOSL to ensure that they do not materially change the risk profile of our wholesale business and support the retail market.

Alongside retail market engagement, we will continue to be an active participant in conversations about the future shape of the regulatory regime to best serve our customers in the future.

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

Key

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

3 LEGAL AND REGULATORY ENVIRONMENT

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

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

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

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

4 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

We continue to commit significant resources and financial investment to maintain the integrity and security of our assets and data. We follow guidance from the National Cyber Security Centre and have defence through multiple layers of software and processes including web gateways, filtering, firewalls, intrusion and advanced threat detection. We have strengthened our security and network operations capability this year and have improved the controls around third party access to our systems and data. We have reviewed our cyber risk methodology and are using this to prioritise future investment to ensure that we protect ourselves in-line with GDPR, Network and Information Systems Regulation and Payment Card Industry Data Security Standard ('PCI DSS') best practices. We have also participated in a number of internal cyber security incident exercises to test our response capability to cyber attacks. There has been no material change in the net risk exposure.

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

5 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

In AMP7, Ofwat is setting targets on an upper quartile basis. If we are unable to meet operational performance targets, we may be subjected to significant regulatory penalties within the current price review period, or applied to the next price review. Regulatory targets apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.

WHAT ARE WE DOING TO MANAGE THE RISK?

We have significantly improved our performance on water measures this year. This demonstrates that our approach, including tracking leading measures at our comm cells and at performance meetings, is working.

Performance on supply interruptions has improved through our 'Prevent, Restore, Repair' strategy which focuses on preventing asset failure where possible, and restoring supply at speed if this happens. On leakage, we've continued to use innovative ways of finding leaks faster and fixing them more efficiently. We've also maintained performance on many of our waste water measures, but the revised targets accepted as part of waste water ODI uncapping in December 2018, meant we were in penalty on our flooding measures this year. We have improvement plans in place and will continue to use our outcomes to resources approach to ensure we undertake the right operational interventions to improve performance.

AMP6, the largest ever period of capital investment for Severn Trent has now concluded. ODIs such as Birmingham Resilience and the Water Framework Directive have been successfully delivered, as well as mains renewal activity and the strategic sewer upgrade programme at Newark.

We are closely monitoring the impact of COVID-19 on our operational performance and our ability to prevent asset failure. To date, we have not experienced a material increase in this risk as a result of the working practice changes we have made.

MOVEMENT

6 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

Some of our assets are critical to the provision of water to large populations for which we require alternative means of supply. Examples of risk include the failure of one of our reservoirs or water treatment works. These assets are regularly inspected and maintained and our assessment of the overall condition of these assets is good. Other examples are our IT, telephony systems and remote monitoring systems which are also key to our operations.

WHAT ARE WE DOING TO MANAGE THE RISK?

Our delivery plan for 2020 to 2025 includes significant investment to improve the resilience of our assets. Our approach to system planning is building on this investment to create more redundancy and to develop more options for responding to events. The plan is to have system plans for all of our control groups by summer 2022.

We recognise there are areas where our performance is not as consistent as we would like and are committed to improving these. We are continuing our Cleanest Water Plan which drives the delivery of our inspection, cleaning and repair of storage tanks, increasing our capital maintenance interventions, optimising our operation and maintenance tasks and formalising our processes, standards and operating procedures involved in delivering clean water. Building on the success of the Asset Management Framework and its implementation in operations through OEE approaches, we are moving towards more predictive and proactive solutions and so reducing the need for reactive response.

Coupled with the evolution of the Asset Health Dashboard, this will enable better targeting and prioritisation of our intervention. Our response to failures in supply such as burst mains has been greatly enhanced and we are now able to reach the site and initiate recovery plans much quicker than in previous years.

MOVEMENT

Key

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

7 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

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

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

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

8 OPERATIONS, ASSETS AND PEOPLE

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

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

Extreme Weather

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

Climate Change

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

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

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

9 FINANCIAL

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

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

10 FINANCIAL

WHAT IS THE RISK?

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

WHAT DOES IT MEAN FOR US?

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

MOVEMENT

WHAT ARE WE DOING TO MANAGE THE RISK?

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

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

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

EMERGING RISKS

We continually identify and monitor emerging risks through our network of ERM co-ordinators, ERM champions and risk owners and through cross-functional workshops at all levels of the organisation using tools such as horizon scanning and PESTLE analysis. This culminates with an emerging risk horizon map reported annually to the Audit Committee and Board. We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage. Emerging risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose. It aims to identify new and changing risks at an early stage and analyse them thoroughly to deduce the potential exposure to Severn Trent. We closely monitor emerging risks and, with time, they may become fully fledged ERM risks or be incorporated into existing ERM risks (as potential causes) as we learn more. In some cases, the emerging risks are superseded by others or cease to be relevant or applicable as the internal and external environment in which we operate evolves. The Directors have carried out a robust assessment of the Company's emerging risks and consider the following to be risks that have the potential to increase in significance and affect the performance of the Group:

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

COVID-19 STATEMENT

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

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

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

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

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

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

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

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

BREXIT STATEMENT

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

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

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

NON-FINANCIAL INFORMATION STATEMENT

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

Reporting requirement	*Policies and standards which govern our approach*	*Additional information and risk management*
STAKEHOLDERS	– Customer policy – Group data protection policy – Group commercial policy	Stakeholder engagement, **pages 24 – 27** s.172 statement, **pages 28 – 29** Board activities, **pages 79 – 80**
ENVIRONMENTAL MATTERS	– Group environment policy	Sustainability disclosure, **pages 16 – 19** Corporate Sustainability Committee report, **pages 99 – 101** Sustainability report, **pages 12 – 28**
EMPLOYEES	– Group health, safety and wellbeing policy – Group speak up policy	Employee engagement, **page 20** Our people, **page 20** Our Purpose and Values, **page 14** Our culture, **page 14** Gender Pay Gap, **page 120** Governance report, **pages 69 – 129** Audit Committee report, **pages 91 – 96**
RESPECT FOR HUMAN RIGHTS	– Modern Slavery Statement	Modern Slavery Act, **page 99** Corporate Governance report, **pages 69 – 129** Corporate Sustainability Committee report, **pages 99 – 101**
ANTI-CORRUPTION AND ANTI-BRIBERY	– Group financial crime and anti-bribery and anti-corruption policy – Group conflicts of interest policy – Group security policy – Group competition and competitive information policy	Corporate Governance report, **pages 69 – 129** Audit Committee report, **pages 91 – 96**
SOCIAL MATTERS	– Doing The Right Thing – Group environment policy – Customer policy	Sustainability disclosure, **pages 16 – 19** Corporate Sustainability Committee report, **pages 99 – 101** Directors' report, **pages 124 – 128** Sustainability report, **pages 32 – 44**
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		Risk overview, **page 57** Principal risks, **pages 58 – 62** Business model, **pages 6 – 7**
DESCRIPTION OF THE BUSINESS MODEL		Business model, **pages 6 – 7**
NON-FINANCIAL KEY PERFORMANCE INDICATORS		Strategic report, **pages 1 – 68** Key Performance Indicators **pages 32 – 33**

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

VIABILITY STATEMENT

ASSESSMENT OF CURRENT POSITION AND LONG-TERM PROSPECTS

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

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

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

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

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

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

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

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

Impact of COVID-19 on the Group's prospects

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

Period of assessment

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

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

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

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

ASSESSMENT OF VIABILITY

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

The scenarios tested are described below.

Scenario tested	Related principal risk	Mitigating actions
1. A more severe impact from the COVID-19 outbreak resulting from a prolonged 'lockdown' period resulting in lower economic activity, higher unemployment and lower inflation The adjustments that we have made to our medium-term plan to reflect the anticipated impacts of COVID-19 are based on a number of assumptions including a 'lockdown' period of three months followed by another period of three months when Government restrictions are partially lifted. We have modelled longer periods of 'lockdown' and a partial lifting of restrictions of six months each which might result in more severe impacts on total revenues and household bad debts, together with a larger and longer reduction in inflation.		The regulatory model includes mechanisms to adjust future revenues to balance out any under recovery when compared to the original price review. The application of these mechanisms would necessarily take into account affordability of customers' bills and therefore might be spread into the next AMP period. Reduce discretionary expenditure to mitigate the impact of lower revenue in the affected years. Lower inflation would reduce the finance cost incurred on index-linked debt. Consider use of hybrid debt instruments to protect credit ratings. Consider a temporary reduction in, or re-phasing of, dividends.
2. 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 adverse to our assumptions could result in a higher funding deficit. We have assessed the impact of an increase in cash contributions to the schemes to £85 million per annum. Contributions are reviewed and agreed with the Scheme trustee on a triennial basis with the next valuation of the main scheme based on the funding position at 31 March 2022.	**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.
3. Severn Trent Water experiences a severe climate event, operational failure or other exceptional event with a very significant financial impact The Group's Enterprise Risk Management process has identified a number of risks including extreme weather events, failure of key assets and cyber attacks that might have a significant impact on the Group's operational and financial performance. We have assessed the effects of an incident with an impact of £300 million.	**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. Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary.
4. Severn Trent Water underperforms against its performance commitments Severn Trent Water operates under a regulatory model that encourages companies to deliver what customers want, using performance related rewards and penalties. Failure to deliver performance at the committed level can lead to significant penalties. We have assessed the impact of a penalty equivalent to 3% of one year's revenue.	**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. Severn Trent Water 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. We have assessed the impact of a 10% overspend on capital and operating expenditure in each year of the plan.	**Risk 2:** Changes in the regulatory environment for the UK water industry	Reduce discretionary expenditure in the short term. 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 4 & 5	See above	Reduce discretionary expenditure in the short term. Reduce working capital to support cash flow. Discuss impact on debt covenants with lenders and seek a temporary waiver if necessary. Consider a temporary reduction in dividends.

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

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

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

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

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

GOVERNANCE AND ASSURANCE

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

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

ASSESSMENT OF VIABILITY

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

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

Going Concern Statement

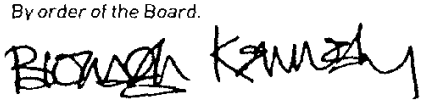
In preparing the financial statements the Directors considered the Company's ability to meet its debts as they fall due for a period of one year from the date of this report. This was carried out in conjunction with the consideration of the viability statement above.

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

Approval

This Strategic report was approved by the Board.

By order of the Board.



Bronagh Kennedy
Group General Counsel and Company Secretary

19 May 2020

CHAIR'S INTRODUCTION TO GOVERNANCE

Documents available at: www.severntrent.com

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

Andrew Duff
Chair for year ended 31 March 2020

Christine Hodgson
Appointed Chair on 1 April 2020

Board focus areas in 2019/20

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

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

CREATING LONG-TERM SUSTAINABILITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Christine Hodgson
Chair

19 May 2020

OUR NEW PURPOSE AND VALUES

OUR PURPOSE

TAKING
CARE OF ONE
OF **LIFE'S ESSENTIALS**

OUR VALUES

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

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

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

The Board monitors and assesses the culture of the Group by regularly meeting with the Executive Committee and management, and reviewing the outcomes of employee surveys. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity.

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

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

GOVERNANCE AT A GLANCE

HIGHLIGHTS

11%
BAME representation on our Board as at 1 May 2020

100.08p
Dividend per share in 2019; an increase of 7.2%

4.2
Glassdoor ranking as at 1 May 2020 (out of 5)

100%
Board independence as at 1 May 2020

100%
Board meeting attendance for year ending 31 March 2020

56%
Female representation on our Board as at 1 May 2020

8.1
Employee engagement score for 2019/20 (out of 10)

Board changes

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

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

Read more: Nominations Committee report page 87

Governance improvements

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

Major Board decisions

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

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

BOARD OF DIRECTORS

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

Christine Hodgson
CBE, BSc (Hons), FCA

Chair

N C R

Appointed:

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

Skills, competences and experience:

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

Christine was previously an Independent Non-Executive Director of Ladbrokes Coral Group PLC until 2017. She is a fellow of the Institute of Chartered Accountants in England and Wales.

Other roles:

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

Andrew Duff
BSc, FEI

Outgoing Chair, retired from the Board 31 March 2020

N C R

Appointed:

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

Retired: 31 March 2020.

Skills, competences and experience:

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

Other roles:

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

Olivia Garfield
BA (Hons)

Chief Executive

C D E

Appointed:

Chief Executive on 11 April 2014

Skills, competences and experience:

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

Other roles:

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

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

D E T

Appointed:

Chief Financial Officer on 1 April 2015.

Skills, competences and experience:

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

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

Kevin Beeston
FCMA

Senior Independent Non-Executive Director

A N R

Appointed:

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

Skills, competences and experience:

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

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

Other roles:

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

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

1 Andrew Duff did not attend the Nominations and Remuneration Committee meetings in relation to his succession

2 Andrew Duff and Dominique Reiniche were unable to attend a Corporate Sustainability Committee meeting due to long-standing commitments. They were provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

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

John Coghlan
BCom, ACA

Independent
Non-Executive Director
● (A) ● (1) (N)

Appointed:

Independent Non-Executive Director on 23 May 2014.

Skills, competences and experience:

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

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

Other roles:

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

Sharmila Nebhrajani
OBE, MA (Hons), ACA

Independent
Non-Executive Director
(A) (C) (N)

Appointed:

Independent Non-Executive Director on 1 May 2020.

Skills, competences and experience:

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

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

Other roles:

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

Dominique Reiniche
MBA

Independent
Non-Executive Director
(C) (N)

Appointed:

Independent Non-Executive Director on 20 July 2016.

Skills, competences and experience:

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

Other roles:

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

The Hon. Philip Remnant
CBE, FCA, MA

Independent
Non-Executive Director
● (R) (A) (N) (T)

Appointed:

Independent Non-Executive Director on 31 March 2014.

Skills, competences and experience:

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

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

Other roles:

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

Angela Strank
DBE, FRS, FREng, CEng, FIChemE, DSc, PhD

Independent
Non-Executive Director
● (C) (N) (R)

Appointed:

Independent Non-Executive Director on 24 January 2014.

Skills, competences and experience:

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

Other roles:

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

EXECUTIVE COMMITTEE

Olivia Garfield
BA (Hons)

Chief Executive

(C) (D) (E)

Please see full biography on page 72.

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

(D) (E) (T)

Please see full biography on page 72.

Shane Anderson
BA (Hons) Econ

Appointed as Director of Strategy and Regulation on 1 April 2020

(D) (E)

Skills, competences and experience:

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

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

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

(D) (E)

Skills, competences and experience:

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

Other roles:

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

Sarah Bentley
BSc (Hons)

Chief Customer Officer

(E)

Skills, competences and experience:

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

Other roles:

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

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

Managing Director of Production

(E)

Skills, competences and experience:

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

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

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

Special Adviser

(E)

Skills, competences and experience:

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

Other roles:

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

Bronagh Kennedy
BA (Hons)

Group General Counsel and Company Secretary

(D) (E)

Skills, competences and experience:

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

Other roles:

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

Helen Miles
CIMA

Capital Delivery and Commercial Director

(E)

Skills, competences and experience:

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

Other roles:

- Non-Executive Director of the Royal Navy

Neil Morrison
BSc (Hons), FCIPD

Director of Human Resources

(E)

Skills, competences and experience:

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

Andy Smith
BTech (Hons)

Managing Director, Business Services

(E)

Skills, competences and experience:

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

Other roles:

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

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

Chief Engineer

(E)

Skills, competences and experience:

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

Other roles:

- Director of the World Water Innovation Fund

GOVERNANCE FRAMEWORK

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

Documents available at: www.severntrent.com

- Articles of Association
- Matters Reserved to the Board
- Charter of Expectations
- Committee Terms of Reference

THE BOARD

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

p72-73 Biographies

p79-80 Board Activities

p81 Roles and Responsibilities

Informing **Reporting**

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

Nominations Committee

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

p87 Report

Corporate Sustainability Committee

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

p99 Report

Remuneration Committee

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

p102 Report

Treasury Committee

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

p97 Report

Audit Committee

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

p91 Report

Informing **Reporting**

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

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

Informing **Reporting**

DISCLOSURE COMMITTEE

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

CORPORATE GOVERNANCE STATEMENT

Structure of the Governance section

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

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

BOARD LEADERSHIP AND COMPANY PURPOSE

An effective Board

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

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

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

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

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

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

Strategy

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

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

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

Stakeholder engagement

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

Shareholder engagement

Investor meetings

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

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

Investor presentations and tours

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

Annual General Meeting ('AGM')

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

Annual Report

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

CODE COMPLIANCE

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

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

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

PRINCIPLES OF THE 2018 CODE	PAGE
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Establish Purpose and Values	70
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Corporate website
We have recently updated our website, severntrent.com, to make it more user-friendly for our stakeholders. This has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section including information which may be of interest to our shareholders.

CAPITAL MARKETS DAY

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

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

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

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

KEY ACTIVITIES OF THE BOARD IN 2019/20

Key Stakeholder Groups

Customers

Communities

Shareholders and Investors

Workforce

Suppliers and Contractors

Regulators and Government

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

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

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

PERFORMANCE

CEO Review	Operational Performance Reviews	Commercial and Capital Delivery Reports
The CEO led discussions focusing on general business performance, key strategic initiatives under way, environmental matters such as biodiversity, environmental leadership and climate change and health and safety	Received separate reports for the Regulated Business and Business Services, detailing performance against key targets and ODIs, environmental matters and health and safety.	Reviewed progress on delivering against our ODI targets for major capital programmes and health and safety.

FINANCIAL

CFO Review	Group Budget	Dividend and AMP7 Dividend Policy
The CFO led discussions focusing on financial performance across the Group. **Discussions included:** - Group Financing Updates – overseen by the Treasury Committee; and - Tax Updates – including the approval of the Group's Tax Strategy. Read more about our Fair Tax Mark on page 39.	Considered performance vs the 2019/20 Group Budget and agreed the 2020/21 Group Budget.	Reviewed dividend cover and shareholder returns, taking into consideration financial performance, liquidity, credit metrics and Ofwat's Back in Balance dividend guidance and agreed the Severn Trent Plc Dividend Policy for AMP7.

Results and Regulatory Reporting	Viability Statement Updates	Pension Scheme Updates
On the recommendation of the Audit Committee, reviewed and approved the half and full year results announcements, presentations to analysts, Annual Report and Accounts, Notice of Meeting and Annual Performance Report.	Agreed the viability statement period to be reported in the Annual Report and Accounts. Read more on page 66.	Received updates on the Group's pension schemes and triennial actuarial valuation.

ENVIRONMENTAL

Climate Change Adaptation	Strategy for Environmental Leadership	Biodiversity
Received an update on climate change projections and considered climate risks applicable to Severn Trent. Reviewed the approach for the Company's Climate Change Adaptation report, including PR24 considerations and stakeholder engagement.	Considered the Group's Environmental Strategy and committed to steps in respect of biodiversity, water treatment wetlands, tree planting and catchment management.	Received regular updates on the Company's target to improve at least 75 hectares of SSSIs and other designated sites by the end of AMP6. Read more on page 30.

RISK MANAGEMENT

Enterprise Risk Management	Review of Effectiveness of Risk Management and Internal Controls	Deep Dives on Risks
Conducted half-yearly reviews of the Group's ERM Risk Register, covering core internal and external risks, risks driven by business change and emerging risks. Read more on page 63. A separate Board risk workshop was also held during the year.	Reviewed the risk management and internal controls in place across the Group and determined their effectiveness. Read more on page 93.	**Cyber Risk** – Assessed the progress made to maintain and improve cyber security systems. **Reservoir Risk** – Scrutinised the processes, internal controls and resources in place to manage reservoir risk, extend asset life and guarantee serviceability.

STRATEGIC DEEP DIVES

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

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

GOVERNANCE, LEGAL AND REGULATORY

Governance, Regulatory and Legal Updates	Board Succession Planning and Diversity	Board Effectiveness Evaluation
Monitored regulatory and legislative developments, including renationalisation, and considered any potential impact on the Group's operations. Received regular litigation reports from the Group's legal team. Approved arrangements for delegated financial authority across the Group. Considered and agreed to proposed Licence modifications. On the recommendation of the Corporate Sustainability Committee, approved the Modern Slavery Statement.	On the recommendation of the Nominations Committee, considered the arrangements for Board Succession Planning and approved: - The appointment of Christine Hodgson as Chair Designate; and - The appointment of Sharmila Nebhrajani as Non-Executive Director. Read more on page 90.	Reviewed progress against the Action Plan for 2019/20 and set the Action Plan for 2020/21. Conducted an internally facilitated Board evaluation covering the Board's effectiveness, processes and ways of working. Read more on page 83.

WORKFORCE, CULTURE AND VALUES

Our Culture

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

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

OPERATIONAL AND SITE VISITS

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

Agrivert
The Board received an overview and demonstration of the anaerobic digestion process and operations, including implementation of technological advances. Members of the Board met teams across the site and observed a practical demonstration of health and safety considerations on complex operational sites.

Wonderful Water Tour
Our Board immersed themselves in our Wonderful Water Tour, an innovative educational roadshow available to every primary school in the Midlands.

Hafren Dyfrdwy
Members of the Board visited Llwyn Onn Water Treatment Works to observe water treatment processes first-hand and met the teams involved.

Birmingham Resilience Programme
Members of the Board visited the site of our largest capital project to observe progress first-hand and met the teams involved.

DIVISION OF RESPONSIBILITIES

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

Director	Responsibility
Chair *Andrew Duff – retired from* the Board 31 March 2020. Christine Hodgson – appointed as Independent Non-Executive Director on 1 January 2020 and as Chair on 1 April 2020.	– Leads our unified Board and is responsible for its effectiveness. – Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Company Secretary. – Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process. – Facilitates contribution from all Directors and ensures that effective relationships exist between them. – Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making.
Senior Independent Non-Executive Director Kevin Beeston	In addition to his responsibilities as a Non-Executive Director, Kevin also: – Supports the Chair in the delivery of their objectives. – Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chair, CEO or CFO. – Leads the appraisal of the Chair's performance with the Non-Executive Directors. – Undertakes a key role in succession planning for the Board, together with the Board Committees, Chair and Non-Executive Directors.
Independent Non-Executive Directors John Coghlan Sharmila Nebhrajani Dominique Reiniche Philip Remnant Angela Strank	– Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. – Satisfy themselves that internal controls are robust and that the External Audit is undertaken properly. – Engage with internal and external stakeholders and feed back insights to the Board, including in relation to employees and the culture of the Company. – Constructively challenge and assist in the development of strategy. – Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID. – Serve on various Committees of the Board.
Chief Executive Liv Garfield	– Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, suppliers and the communities we serve. – Develops and implements the Group's strategy, as approved by the Board. – Sets the cultural tone of the organisation. – Facilitates a strong link between the business and the Board to support effective communication. – Responsible for overall delivery of commercial objectives of the Group. – Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our strategic framework and values. The CEO's review can be found on page 12.
Chief Financial Officer James Bowling	– Manages the Group's financial affairs. The CFO's review can be found on page 51. – Supports the CEO in the implementation and achievement of the Group's strategic objectives. – Oversees Severn Trent's relationships with the investment community. – *Represents Severn Trent externally to all stakeholders, including our employees, the Government and* regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.
Company Secretary *Bronagh Kennedy*	– Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. – Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments. – Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements. – Ensures compliance with Board procedures and provides support to the Chair. – Co-ordinates the performance evaluation of the Board in conjunction with the Chair. – Provides advice and services to the Board.

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

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

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

COMPOSITION, SUCCESSION AND EVALUATION

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

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

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

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

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

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

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

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

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

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

Board skills and experience

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

Board evaluation

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

Step 1

2019/20 Process Planning

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

Step 2

One-to-One Meetings

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

Step 3

Evaluation and Reporting

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

Step 4

Agree Actions and Monitor Progress

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

Evaluation findings

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

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

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

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

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

Board Forward Agenda

The Board noted the excellent chairing of Board discussions despite challenging agendas to consider the PR19 process and outputs.

Opportunity to allocate additional time on the Board agenda to consider fewer, more strategic, visionary and forward-looking topics with a focus on the opportunities available through the deployment of technology and innovation.

The Board observed that significant time had been devoted to the performance review section of the agenda, which had enabled Non-Executive Directors to gain a deep understanding of the operational challenges facing the business and really get to know the accountable Executive Committee members. Now that this knowledge was well embedded, the time allocated to this section of the meeting could be reduced, with regular updates being considered outside of the formal meeting environment with deep dives into specific topics as required.

Opportunity to spend even more time in the business through more Board meetings being held at operational sites.

Risk Management

Opportunity to make additional enhancements to the Group's Enterprise Risk Management ('ERM') approach to risk. A dedicated ERM Board workshop was held in March 2020, scheduled outside of the normal Board meeting calendar, to discuss and agree next steps. An update is scheduled to be discussed by the Board in October 2020.

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

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

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

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

Meeting our people and stakeholders

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

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

Christine Hodgson
Chair

INDUCTION DEEP DIVE

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

09.00 – 09.15

TEAM INTRODUCTION

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

Christine met the team responsible for delivering BRP, including:

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

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

09.15 – 09.30

HISTORY OF BIRMINGHAM WATER

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

09.30 – 10.00

WHAT WE ARE DELIVERING FOR BRP

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

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

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

10.00 – 10.15

RAW WATER TEAM INTRODUCTION

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

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

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

10.15 – 12.45

INTAKE AND PUMPING STATION SITE VISIT

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

12.45 – 13.45

LUNCH AND INTRODUCTION TO THE TREATED WATER TEAM

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

13.45 – 14.00

TREATED WATER SAFETY INDUCTION

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

14.00 – 15.30

BRP FRANKLEY SITE TOUR

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

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

15.30 – 16.00

ELAN VALLEY AQUEDUCT SCHEME

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

16.00 – 16.30

PROJECT MILESTONE UPDATE

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

NOMINATIONS COMMITTEE REPORT

Committee members

Christine Hodgson
Chair of the Nominations Committee

Kevin Beeston
Senior Independent Non-Executive Director

John Coghlan
Independent Non-Executive Director

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

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

Dominique Reiniche
Independent Non-Executive Director

Philip Remnant
Independent Non-Executive Director

Angela Strank
Independent Non-Executive Director

Quick facts

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

Quick links

Terms of Reference

Board Diversity Policy

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

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

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

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

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

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

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

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

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

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

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

Christine Hodgson
Chair of the Nominations Committee

19 May 2020

Focus areas in 2019/20

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

Key areas of discussion
Board succession planning, including oversight of the process to recruit our new Chair and Non-Executive Director ahead of making a recommendation to the Board.
Review of how the Company involves employees, and considers the views of the workforce, in its decision-making processes and workforce engagement mechanism.
Oversight of the Group's diversity and inclusion policy and initiatives.
Executive Committee succession planning and talent development.
Approval of revised Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.

Gender Diversity % as at 31 March 2020

Group		Strategic leader and Director population		Apprentices and Graduates	
1. Male	4,875 (71%)	1. Male	36 (60%)	1. Male	124 (75%)
2. Female	1,989 (29%)	2. Female	24 (40%)	2. Female	41 (25%)

BAME Diversity % as at 31 March 2020

Group		Strategic leader and Director population		Apprentices and Graduates	
1. Ethnic minority	8.86%	1. Ethnic minority	6.67%	1. Ethnic minority	19%

Diversity

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

Board Diversity % as at 1 May 2020

Director gender split		Director BAME split	
1. Male	44%	1. Ethnic minority	11%
2. Female	56%		

Parker Review – BAME diversity

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

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

Board Diversity Policy – Objectives and progress against targets

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

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

Policy Targets	Progress against Target
33% female share of Board Directors by 2020.	56% female representation on our Board as at 1 May 2020.
Minimum of one Board Director from an ethnic minority background by 2021.	In line with the Principles of the Parker Review, the Board has been actively looking to appoint a Non-Executive Director from a BAME background for a few years. The calibre of the candidates identified in this year's search was outstanding and it was after careful deliberation that the Committee unanimously recommended the appointment of Sharmila Nebhrajani to the Board.

Chair Succession

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

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

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

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

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

Chair succession planning process in action

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

1
Production of a detailed candidate brief and role specification prepared by the Senior Independent Director, CEO and Company Secretary

2
Review of external search providers – all of which were signed up to the voluntary code on gender and BAME diversity

3
Selection and appointment of Korn Ferry – who does not have any other relationship with Company or individual Directors. The Committee and Board were satisfied that the Company, and individual Directors, did not have any other connection with Korn Ferry

4
The Senior Independent Director and Company Secretary provided a detailed brief to Korn Ferry on the candidate brief and role specification

5
Korn Ferry spent two days with Severn Trent to understand the Group's culture and further inform the search

6
The Senior Independent Director and Company Secretary held weekly meetings with Korn Ferry throughout the search. Regular updates were provided to the Committee

7
The Senior Independent Director and Company Secretary reviewed the long list and selected candidates to proceed to short list stage

8
All shortlisted candidates met with each Board member on a one-to-one basis

9
Extensive external referencing was sought and individual Director feedback was discussed and considered at Committee meetings

10
Preferred candidate selected

11
Pre-appointment meeting held with Ofwat

12
The Committee made its recommendation to the Board

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

Christine brings extensive board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Following Christine's appointment to the Board, she embarked on an extensive induction programme. Further detail can be found on page 85.

AUDIT COMMITTEE REPORT

Committee members
John Coghlan
Chair of the Audit Committee

Kevin Beeston
Senior Independent
Non-Executive Director

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

Philip Remnant
Independent
Non-Executive Director

Quick facts

- All members of the Committee are qualified accountants and are considered by the Board to have recent and relevant financial experience and competence relevant to the sector.
- Other regular attendees at meetings at the invitation of the Committee included the former Chairman of the Board, the current Chair of the Board, the CEO, the CFO, the Company Secretary, the Head of Internal Audit, the Group Financial Controller, other members of senior management, representatives from the External Auditor, Deloitte, and non-financial operational performance and data assurers, Jacobs. None of these attendees are members of the Committee.
- The Committee regularly holds private discussions with the Head of Internal Audit and the External Auditor separately, without Executive management present.
- The Committee Chair regularly holds separate one-to-one meetings with the CFO, the Head of Internal Audit, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.
- The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

Quick links

Terms of Reference

Non-Audit Services Policy

Anti-Bribery Policy

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

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

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

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

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

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

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

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

John Coghlan
Chair of the Audit Committee

19 May 2020

Focus Areas in 2019/20

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

Key areas of discussion
Reviewed the long-term viability statement, in particular the maintenance of the period at a seven-year term (including scenario testing), prior to making a recommendation to the Board. It was agreed that this approach was appropriate given the nature of the regulatory regime in the water sector, including Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions. The Committee reviewed and confirmed this recommendation having carefully considered the potential impacts of the COVID-19 outbreak. Additional detail can be found in our viability statement on page 66.
Reviewed the basis of preparation of the financial statements as a going concern (prior to making a recommendation to the Board) as set out in the accounting policies.
Internal Audit - Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions. - Reviewed and approved the approach and Internal Audit plan for 2020/21. - Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.
External Auditor - Reviewed the proposed audit plan for the 2019/20 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2019/20 audit. Management continues to make continual improvements to the Group's internal controls and risk management systems. - Assessed the effectiveness of the External Auditor and made a recommendation to the Board on the reappointment of Deloitte as the External Auditor. - Agreed the statutory audit fee for the year ended 31 March 2020 and agreed the fee approach for subsequent years. - Reviewed and approved the non-audit services and related fees provided by the External Auditor for the year and approved the updated policy on non-audit services provided by the auditor for 2020/21.
Reviewed and discussed the reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments, and the policies being applied and assessed the findings of the statutory audit in respect of the integrity of the financial reporting in respect of full and half year results.
Reviewed the integrity of the regulatory reporting process relating to the annual performance reports, and other regulatory submissions, for Severn Trent Water and Hafren Dyfrdwy as required to be submitted to Ofwat.
Reviewed the 2019/20 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy'.
Reviewed the effectiveness of the risk management and internal control systems prior to making a recommendation to the Board.
Monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the Group's whistleblowing processes and procedures, prior to reporting to the Board on this activity.
Oversight and monitoring of the Group's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).
Review and approval of the Committee's Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.
Separate, dedicated meetings were held to consider the PR19 plans for Severn Trent Water and Hafren Dyfrdwy.

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

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

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

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

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

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

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

- Robustness of the External Audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of Severn Trent's business.
- Expertise of the audit team conducting the audit.
- Degree of independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

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

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

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

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

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

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

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

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

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

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

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

Audit and Non-Audit Fees 2019/20
(£m)

Total fees
£0.8m
2017/18

Total fees
£0.8m
2018/19

Total fees
£0.9m
2019/20

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

Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor. The same safeguards that apply to the full-year External Audit also apply to this work.	54
Assurance of regulatory returns	Audit of sections 1 and 2 of the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	79
Reporting under Group financing documents	These documents require reports and it is normal practice for the External Auditor to provide these.	38
Subtotal		171
Other assurance services		
Other assurance		17
Subtotal		17
Total 2019/20 non-audit fees		188

Significant issues considered and addressed in relation to the financial statements

We looked carefully at those aspects of the financial statements that required significant accounting judgments or where there is estimation uncertainty. These areas are explained in note 4 to the Group financial statements. We received detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believed should be drawn to our attention. The draft External Auditor's report on the financial statements was also reviewed, with particular reference to those matters reported as carrying risks of material misstatement.

We discussed the range of possible treatments both with management and with the External Auditor confirming that the judgments made by management were robust and supportable. For all of the matters described below the Committee concluded that the treatment adopted in the Group financial statements was appropriate.

Significant Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement.	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic report on going concern and long-term viability. In particular the Committee considered the scenarios modelled in relation to the impact of the COVID-19 outbreak on the Group's financial position and prospects, noting the stress tests performed by management and the potential mitigating actions identified. **Our business model can be found on pages 6 to 7.** **Principal risks and uncertainties can be found on page 58.** **The viability statement can be found on page 66 and the going concern statement on page 68.**
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited. At 31 March 2020, the provision in the Group's financial statements was £141.7 million and the charge for the year was £42.9 million. Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid. This increases the risk of bad debts. In addition, it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis.	The Committee scrutinised the changes made to the methodology for calculating the provision during the year and critically appraised management's explanations for these changes. The Committee also challenged management's assumptions regarding the impact of the COVID-19 outbreak on the expected credit losses for trade receivables existing at 31 March 2020, noting the independent forecasts of the likely economic impacts and the historical evidence indicating a link between macroeconomic conditions and the Group's bad debt experience. The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision. The Committee determined that no adjustment to the amounts recorded was required.
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited. Severn Trent Water Limited has a significant capital programme that includes projects made up of a combination of expenditure and activities, some of which are recognised as property, plant equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.	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.
Determination of the amount of the Group's retirement benefit obligations. At 31 March 2020, net retirement benefit obligations amounting to £234.0 million were recognised. The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made regarding expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management. Furthermore, in the current year more judgment was required in assessing the fair values of the schemes' assets as a result of the impact of the COVID-19 outbreak on asset valuations.	The Committee scrutinised the assumptions underlying the valuation of the obligations, and obtained explanations for the significant reduction in the deficit recorded. The Committee considered whether the assumptions taken as a whole were appropriate, taking into account the work of the External Auditor and the benchmark information provided. The Committee also scrutinised the methodologies applied in assessing the fair values of the schemes' assets and considered the estimation techniques used for assets where an up to date valuation was not available. The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements.
Consideration of whether the Group's loans to its joint venture, Water Plus, should be classified as long-term interests that in substance form part of the Group's net investment in the joint venture. At 31 March 2020 the Group had loans receivable from the joint venture amounting to £102.4 million comprising a revolving credit facility of £92.6 million and Zero Coupon Subordinated Loan Notes of £9.8 million. The Group's share of the joint venture's net assets at 1 April 2019 was £37.0 million and the Group's share of the joint venture's loss after tax for the year ended 31 March 2020 was £51.5 million. The Group's share of the joint venture's losses is recognised up to the amount of the Group's net investment. The Group has classified the Zero Coupon Subordinated Loan Notes as part of its net investment but considers the revolving credit facilities not to form part of its net investment in the joint venture.	The Committee probed management's rationale for its decision not to classify the revolving credit facilities as part of its net investment in the joint venture, scrutinising the nature of the arrangements, considering the plans for recovery of the amounts loaned and the expected periods for the amounts advanced. The Committee considered that the judgments were reasonable and reflected the substance of the arrangements.

Significant Issue	How the issue was addressed by the Committee
Classification of share of Water Plus loss as an exceptional item. In the year ended 31 March 2020 the Group has recorded its share of loss from its joint venture, Water Plus, as an exceptional item. The loss recognised was £46.8 million. The Group's accounting policy defining exceptional items is set out in note 2 to the financial statements. Further details of the components of this loss are set out in the CFO's review on page 51.	The Committee noted the accounting policy and management's analysis of the loss incurred by Water Plus, which indicated that £14.3 million arose from trading activities in the year excluding the impacts of COVID-19 and that £32.5 million arose from asset impairments resulting from COVID-19. The Committee considered that the impacts of COVID-19 were exceptional within the parameters of the Group's accounting policy since the impact was material and unusual. The Committee noted the requirement of IAS 28 that the share of loss of joint ventures be presented as a single figure in the income statement. The Committee questioned the rationale for presenting the loss as exceptional, in view of the element that arose from the underlying trading of the joint venture and noted management's explanation that the COVID-19 related losses were the significantly larger portion of the total loss. Having considered the explanations provided by management, the accounting requirements of IAS 28 and the views of the External Auditor, the Committee concluded that presentation of the share of loss of joint ventures as exceptional was the most useful available under the requirements of IAS 28.
Classification of the deferred tax charge arising from the change of tax rate as exceptional. In the year ended 31 March 2020 the Group has recorded the £91.8 million deferred tax charge arising from the change of prospective corporation tax rate from 17% to 19% as an exceptional charge. The charge arises from restating the net provision for deferred tax from 17% to 19%, the rate that is now expected to apply when the net liability is settled.	The Committee noted that the Group's accounting policy for exceptional items applies to tax charges and credits. The Committee further noted that the Group has a very significant deferred tax liability and that when prospective changes to tax rates are enacted this results in a material charge or credit in the income statement to reflect the change in the amount of the liability. The Committee observed that the charge in this year's financial statements was the result of the reversal of the most recent proposed reduction in the tax rate, which had been recorded as an exceptional credit in the income statement, consistently with previous rate changes. The Committee considered that the amount of the tax charge was material and that separate presentation of its impact would make the tax charge in the income statement more understandable.

Risk management (continued)

the correct prioritisation in place. Further details of the Group's risk management systems and controls and principal risks can be found in the Strategic report on pages 1 to 68.

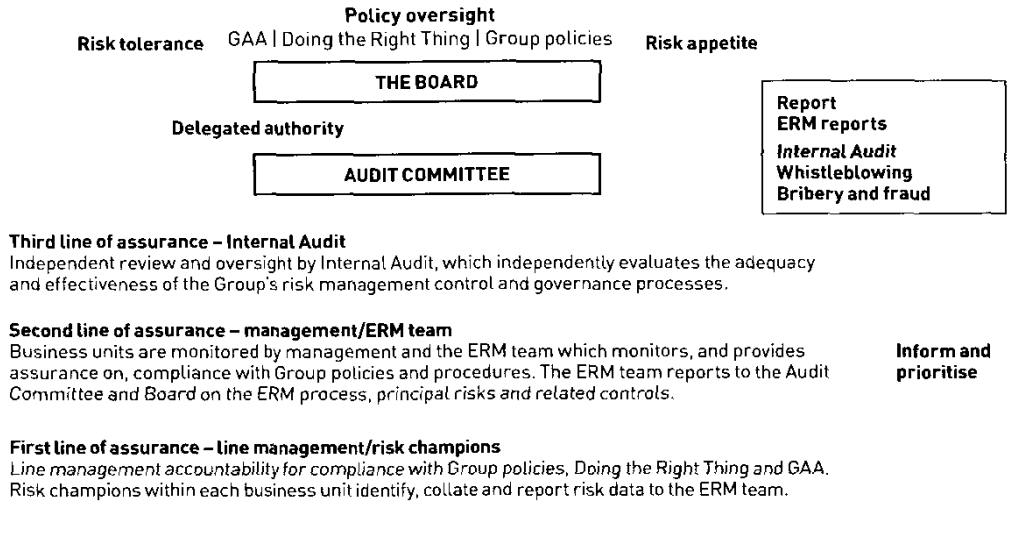
Whistleblowing

The Group has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy 'Speak Up' sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations are carried out independently with findings being reported directly *to both the Audit and Corporate Sustainability Committees.*

The Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Audit Committee receives reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Group's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are *effective, facilitate the proportionate and independent investigation of* reported matters and allow appropriate follow-up action to be taken.

Risk management governance process

The Group's risk management governance process is based on the three lines of assurance model and is scrutinised by the Audit Committee, through delegated authority from the Severn Trent Plc Board. As part of our continual improvement process, an update on the Group's ERM process is scheduled to be discussed at the October 2020 Board.



TREASURY COMMITTEE REPORT

Quick facts

- Other regular attendees at meetings at the invitation of the Committee included the former Chairman of the Board, the current Chair of the Board, the Group Financial Controller, and representatives from the Group's financial advisers, Rothschild. None of these attendees are members of the Committee.
- The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

Committee members

John Coghlan
Chair of the Treasury Committee

James Bowling
Chief Financial Officer

John Jackson
Group Treasurer

Philip Remnant
Independent Non-Executive Director

Dear Shareholder
I am pleased to introduce this report which details the role of the Treasury Committee and the important work it has undertaken during the year.

The Committee continues to play a key role in supporting the Board in monitoring performance against the Group's approved Treasury Policy and annual Treasury Plan, reviewing in detail the Group's funding requirements and providing oversight of the Group's key financing risks and opportunities.

The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision making processes. We updated the Committee's Terms of Reference this year to reflect our continued commitment to this. Read more on pages 28 to 29.

During the year, a key area of focus for the Committee has been considering and developing the Group's Sustainable Finance Framework, under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities. Additional detail can be found below.

The Committee has maintained its focus on the Group's financing strategy for the final year of AMP6 and AMP7, to ensure that the Group remains in a strong financing position as it moves into the new regulatory period. This included consideration of the Group's credit ratings and updating the Group's funding strategy to reflect changing market conditions and the risks and opportunities from the AMP7 regulatory allowance. In approving the Group's AMP7 funding strategy, the Committee also considered the impact of the Group's long-term financing strategy on AMP8 and beyond.

Following year end, the Committee has carefully considered and closely monitored the potential economic impacts of COVID-19, in particular on financing and liquidity. A key area of focus has been the assessment of the Group's compliance with the policy of maintaining at least 18 months' liquidity. At the balance sheet date, the Group's liquidity extended to early 2022. We continue to plan future funding as part of our normal business planning process and the Committee provides regular updates to the Board in respect of funding, solvency and liquidity matters so that the Group can respond quickly to any changes in our ability to secure financing.

The Group has been successful in accessing other capital markets to diversify further its sources of funding, and replace the European Investment Bank as a source of financing. I am delighted to report that the Group also completed its first debt issue under the Sustainable Finance Framework in March 2020 with a £200 million USPP debt issue by Severn Trent Plc.

The annual Board Effectiveness evaluation assessed our performance as a Committee and I'm pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range of financial experience across various industries and all members have competence relevant to our sector with significant recent and relevant financial experience.

I would like to thank the members of the Committee, the management team and our financial advisers, Rothschild, for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

John Coghlan
Chair of the Treasury Committee

19 May 2020

Focus Areas in 2019/20
The Committee provides Board oversight of the Group's key financing risks and opportunities. Some key areas of discussion for the Committee during 2019/20 included:

Key areas of discussion
Review of the Group's European Medium Term Note Programme and approval for Bonds to be issued pursuant to that Programme during the year.
Oversight of the Group's pension schemes and triennial actuarial valuation, ahead of making a recommendation to the Board in respect of the final settlement of the 2019 actuarial valuations.
Discussion and approval of the Group's AMP7 funding strategy, in consideration of the Group's funding position and priorities for the remainder of AMP6 and early AMP7, latest discussions with credit rating agencies and consideration of financial risks including the potential impacts of RPI reform. In approving the Group's AMP7 funding strategy, the Committee also considered the impacts of the Group's long-term financing strategy in respect of AMP8 and beyond.
Review and approval of the Group's Sustainable Finance Framework and Group Treasury Policy Statement. Read more below.
Review and approval of the Committee's Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

Sustainable Finance Framework
During the year, a key area of focus for the Committee has been considering and developing the Group's Sustainable Finance Framework, under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities.

Under the framework the Group can issue various funding instruments, including:

- Committed facilities (revolving and term debt from banks and institutional investors);
- Green, Social and Sustainable Bonds (all 'Sustainable Bonds');
- Private Placements (including US Private Placements); and
- Leases.

The Framework is based on the existing international standards:

- The Green Bond Principles ('GBP'), Social Bond Principles ('SBP') and Sustainability Bond Guidelines ('SBG') as published by the International Capital Market Association ('ICMA') in June 2018; and
- The Green Loan Principles ('GLP') and Sustainability Linked Loan Principles ('SLLP') as published by the Loan Market Association ('LMA') in March 2018 and March 2019.

These principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green, Social and Sustainability Bond and Green and Sustainability Linked Loan market by clarifying the approach for this type of financing.

We aim, where possible, to adhere to best practices in the market and regularly review the Framework's alignment to updated versions of the principles as and when they are released. The Committee will also review the EU Sustainable Finance Taxonomy, or its equivalent following the UK's departure from the EU, when it is published and consider updates to the Framework accordingly.

The Committee is delighted to report that the Group completed its first debt issue under the Sustainable Finance Framework in March 2020 with a £200.2 million USPP debt issue by Severn Trent Plc. This was *the first debt issue by Severn Trent Plc since 2012. The proceeds from* the debt issue will be used to finance and refinance expenditure by Severn Trent Green Power Limited including the acquisition of Agrivert.

CORPORATE SUSTAINABILITY COMMITTEE REPORT

Committee members

Angela Strank
Chair of the Corporate Sustainability Committee

Andrew Duff
Outgoing Chair, Severn Trent Plc
(Retired from the Board 31 March 2020)

Olivia Garfield
Chief Executive

Christine Hodgson
Chair, Severn Trent Plc

Sharmila Nebhrajani
Independent
Non-Executive Director
(Appointed 1 May 2020)

Dominique Reiniche
Independent
Non-Executive Director

Quick facts

- The members of the Committee in 2019/20 were Non-Executive Directors of the Board and the Chief Executive.
- Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Director of Human Resources, senior management and external advisers may be invited to attend meetings as and when appropriate.
- The Committee's Terms of Reference were updated in March 2020 to reflect the developing sustainability agenda.

Dear Shareholder

As Chair of the Corporate Sustainability Committee, I am pleased to introduce this report which details the work undertaken by the Committee during the year as well as the role it plays in developing the Group's social purpose and Sustainability Framework. The following *account provides detail on the activities of the Committee, an overview* of the topics discussed, and steps taken to address any actions.

I'm delighted to report that we've had a particularly strong year in our wide-ranging sustainability agenda, with the introduction of our Triple Carbon Pledge. We also agreed to improve the biodiversity of the land in our region through the Great Nature Boost, using nature-based solutions to help reduce the need for chemical treatment processes, supporting customers who are struggling to pay their bills, and helping customers to improve their water efficiency. The Committee spent a significant proportion of its time focusing on Severn Trent's role as an environmental leader, considering the Company's approach to climate change adaptation and mitigation, including our new commitment to developing Science-Based Climate and Carbon Targets, and submitting our first disclosure against the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD').

The Committee plays a key role in supporting the Board within the Governance Framework, by providing guidance and direction to the Company's corporate responsibility and sustainability commitments. Reflecting the Committee's broad role in reviewing both the strategy and framework of our environmental, social and corporate governance approach and also overseeing the Company's values, in March 2020 the Committee updated its name to the Corporate Sustainability Committee. This year we reviewed our Sustainability Framework, which draws together our environmental, social and governance ambitions. While those ambitions will still be delivered as part of our business plan, fully embedded in the way we work, this framework helps us to articulate how we deliver our purpose, and how the entire workforce participates in delivering it. We are particularly pleased to report that the Sustainability Framework is well embedded as part of our culture in Severn Trent and the entire workforce participates in delivering this.

During 2019/20, the Committee reviewed the Group's performance across a range of sustainability commitments and analysed regular whistleblowing reports. We had oversight of the Health, Safety and Wellbeing Strategy and performance of the Company and were pleased to report the introduction of the real Living Wage across Severn Trent. We also reviewed our approach to modern slavery and were pleased that our 2019 Modern Slavery Statement ranked 24th in the Development International and BRE Global Governance FTSE100 Index review of FTSE100 companies.

Other matters we have focused on this year include employee experience through our HR casework, the Company's approach and performance on social mobility and diversity and inclusivity.

The Committee reviewed our new Severn Trent Community Fund which is our commitment to invest 1% of our profits each year in community projects, providing an exciting opportunity to make a positive impact in our region. The first grants were made available in April 2020. A COVID-19 £1 million emergency fund was established in March 2020 to support projects and charities directly affected by COVID-19 in our region, with over £500k already donated to 200 organisations. Read more on page 4.

I should like to thank the members of the Corporate Sustainability Committee for the open, constructive, ambitious and progressive discussions that take place at our meetings and for their passion and personal commitment to our wide-ranging and impactful agenda.

Angela Strank
Chair of the Corporate Sustainability Committee

19 May 2020

Focus Areas in 2019/20

The Committee provides Board oversight for the promotion of our values and standards that relate to the social and economic community in which the Company operates, in accordance with the Company's Corporate Sustainability Framework, ensuring the Company can demonstrate that it lives through these values and can act responsibly in its engagement with all stakeholders in this community, locally and nationally. The Committee also oversees the approach of environmental standards, particularly those that relate to the activities where Severn Trent has its most significant environmental impacts in respect of energy management and climate change, water quality, resource productivity (including leakage and waste), biodiversity and land use. Some key areas of discussion for the Committee during 2019/20 included:

Key areas of discussion
Corporate Sustainability Performance Report – quarterly update on all strategic elements.
Oversight of the Company's Sustainability Framework.
Oversight of environmental leadership (including our Triple Carbon Pledge), Climate Change Adaptation and Mitigation and Pollution Incident Reduction Plan.
Approval of the use of Science-Based Targets and strategy for the Company's approach to the requirements of the Task Force on Climate-related Financial Disclosures ('TCFD').
Update on the Company's Capital Markets Day based on the Company's Sustainability Framework.
Oversight of the Group's diversity and inclusion performance.
Consideration of the Severn Trent Community Fund set up and approach.
Review and approval of the Anti-Slavery and Human Trafficking Statement 2020.
Review of Severn Trent's Health, Safety and Wellbeing Strategy and performance.
Review of our support for vulnerable customers.
Oversight of the Company's real Living Wage accreditation.
Approval of revised Terms of Reference, to be applied from 1 April 2020, prior to making a recommendation to the Board.
Consideration of employee experience through HR casework.
Review of whistleblowing reports.

BEING SOCIALLY **PURPOSEFUL**
OUR SUSTAINABILITY FRAMEWORK

TAKING CARE OF THE **ENVIRONMENT**	HELPING PEOPLE TO **THRIVE**	BEING A COMPANY **YOU CAN TRUST**
Ensuring a sustainable water cycle	Delivering an affordable service for everyone	Living our Values
Enhancing our natural environment	Providing a fair, inclusive and safe place to work	Balancing the interests of all our stakeholders
Making the most of our resources	Investing in skills and knowledge	Running our company for the long term
Mitigating climate change	Making a positive difference in the community	Being open about what we do and sharing what we know

Acting in a responsible manner is integral to our purpose of taking care of one of life's essentials and having a socially purposeful culture throughout the Company. We hold ourselves to account against our Framework and agreed metrics through an effective performance management system. Our Corporate Sustainability performance is embedded within the organisation, with customer ODIs linked to the majority of our metrics, enabling the Company to focus on issues important to our customers.

Performance against the Framework will be regularly reported to the Committee, in our Annual Report and Accounts, on our website and through selected Environmental, Social and Governance ('ESG') indices. You can read more in our first standalone Sustainability Report available on the Severn Trent Plc website.

Employee rewards are directly linked to our Corporate Sustainability performance, with customer ODIs, health and safety and our key metrics contributing to a third of all-employee annual bonus. We believe that by focusing on the issues most important to our customers, our Framework has the right focus.

The Committee ensures that, in considering the matters before them, we take into account the Severn Trent Purpose and Values, and alignment with Doing the Right Thing. You can read more on page 14.

Whistleblowing

Our employees, and wider workforce, know they can raise concerns to their line manager or by contacting a member of the Executive, the HR, Legal and Internal Audit teams or through our independent whistleblowing helpline, 'Safecall'. Every single allegation is independently investigated and reported to the Corporate Sustainability Committee and the Audit Committee. In our most recent survey employees were asked if they felt confident that something would be done if they raised a concern. The Committee is pleased to report that our score on this question put us in the top 10% of energy and utility companies worldwide.

Human rights and modern slavery

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, Doing the Right Thing. We have a responsibility to understand our potential impact on human rights and to mitigate potentially negative impacts. Whilst not having a specific human rights policy, we have Group policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement, and a separate Anti-Slavery and Human Trafficking statement.

We will always treat people in our business and supply chain fairly and have a clear zero-tolerance approach to modern slavery. To date we have had no instances of modern slavery raised, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. We know modern slavery is a growing global issue and know our customers and stakeholders share our concern. Our highest risk is through our supply chain. Therefore, we work with our suppliers to ensure they operate to the same standards we set ourselves, and we have also been working closely with our suppliers to ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states zero tolerance, and this is built into our procurement tender process. This year we have focused on education and raising awareness, creating a bespoke e-learning training module. 97% of our employees, *excluding our customer contact centre teams, have completed it and* 98% said they felt more confident reporting modern slavery following completion of the module. Targeted awareness will be rolled out to our customer contact centre teams over the next 12 months.

Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website.

Freedom of association and collective bargaining

We recognise the right of all employees to Freedom of Association and Collective Bargaining. We seek to promote co-operation between employees, our management team and recognised Trade Unions. We meet with our Trade Unions on a quarterly basis at the Company Forum and see mutual benefit in sharing information with our colleagues and seek their feedback and suggestions. We believe this fosters a common understanding of business needs and helps to deliver joint solutions aimed at making our business successful. The Company Forum also provides an invaluable opportunity for engagement with the whole workforce to ensure workforce views are taken into account.

Responsible business practices are an integral part of our business strategy. Performance against our Corporate Sustainability commitments is reported throughout our Annual Report and Accounts, reflecting their embedded nature. You can read more in our Sustainability Report and on our dedicated Sustainability webpages, on the Severn Trent Plc website.

REMUNERATION COMMITTEE REPORT

Philip Remnant
Chairman of the Remuneration Committee

Kevin Beeston
Senior Independent Non-Executive Director

Andrew Duff
Outgoing Chair, Severn Trent Plc (Retired from the Board 31 March 2020)

Christine Hodgson
Chair, Severn Trent Plc

Angela Strank
Independent Non-Executive Director

Quick facts

- *The Committee's Terms of* Reference were updated in March 2020 and are available on the Severn Trent website, *alongside the Remuneration* Policy which was approved at the Annual General Meeting on 18 July 2018.
- All Committee members are independent Non-Executive Directors, as defined under the 2018 UK Corporate Governance Code, with the exception of the Company Chair who was independent on appointment. Full biographies of the Committee members can be found on pages 72 to 73.
- The Committee members have no personal financial interest, other than as shareholders, in the matters considered by the Committee.
- Committee attendance during the year can be seen on page 73.

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Dear Shareholder
On behalf of the Remuneration Committee ('the Committee'), I am pleased to provide an overview of our work in relation to both Executive Director and wider workforce remuneration for the year ended 31 March 2020. The final year of the five-year Asset Management Period ('AMP') cycle is a period for both reflection and anticipation. This has been a year of achievement to be proud of and a culmination of strong performance throughout the AMP, reflected in the remuneration across the entire workforce.

I am immensely proud of seeing our teams adjust how they work to ensure we continue to provide our essential service during COVID-19. The health, safety and wellbeing of our colleagues, *customers and communities have never been more crucial. We are* fortunate to be in a position to provide stability and security of pay for our workforce, very many of whom are classified as key workers, through this difficult period, announcing that we will continue to pay *our all-employee annual bonus and have agreed a three-year pay* deal, as well as a commitment not to furlough or make redundancies as a result of COVID-19.

At the same time, we are actively offering support to our customers and communities through a range of initiatives, more information on which can be found on pages 10 to 11. We have announced that Christine Hodgson, our Chair, Liv Garfield, our CEO, and James Bowling, our CFO, have asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to local charities in our region which are helping the response to COVID-19.

Further details of the decisions which the Committee has made in respect of key components of executive remuneration as a consequence of COVID-19 are summarised on page 104.

As we enter the new AMP, we continue with the same enthusiasm and dedication to strive for high performance. We have strong relationships between all components of remuneration and company financial drivers, as well as strong alignment across the workforce. The Directors' Remuneration report ('the report') this year also sets out the strategy and approach as we enter the 2021 Remuneration Policy ('the Policy') review.

During the year, the Committee has taken full account of the 2018 *Corporate Governance Code (the '2018 Code') in our discussions and* remuneration practices. Our approach has always been for best practice reporting, disclosure and transparency and for consistent treatment of executive remuneration when compared with the *treatment of the wider workforce. As we navigate the impact of* the current global pandemic, we remain firmly committed to these guiding principles.

Further comment on our overall performance during the financial year is set out in the CEO's review on page 12, and highlighted in the At a Glance and Annual Report on Remuneration sections later in this report.

Our all-employee bonus scheme
Last year we communicated changes to our all-employee bonus scheme which further strengthened the alignment between reward outcomes and strategic priorities for all colleagues, including our Executive Directors.

The commitment to delivering profit before interest and tax ('PBIT') remains a significant indicator, attracting 49% of bonus. Further changes rebalanced the focus on Outcome Delivery Incentives ('ODIs') which, through a mechanism of reward or penalty, measure performance against the areas that customers have told us matter most as well as our broader environmental responsibilities. We also include 8% which is dedicated to initiatives which ensure the Health, Safety and Wellbeing of colleagues and a further 8% which is based on Customer Experience ('C-MeX'). These, together with the ODIs, make up the remaining 51% of the bonus. The changes to the bonus scheme were received positively by our employees and major shareholders.

Ensuring alignment with the Corporate Governance Code
Last year we introduced several changes to ensure that our approach to governance and disclosure reflected changes to the 2018 Code. This year the Committee has also agreed, and communicated to shareholders, the approach regarding the alignment of Executive Directors' employer pension contributions with those of the wider workforce and post-cessation shareholding requirements, both of which are covered in more detail in this section. This year we have also published our CEO pay ratio and we are pleased to present two years' worth of information for 2018/19 and 2019/20.

Remuneration for the year under review
The full Policy can be found on the Severn Trent Plc website and on pages 120 to 128 in the 2018 Directors' Remuneration report. Through our At a Glance Section, on page 105, we summarise the performance outcomes against our remuneration framework, in the context of how the Policy was applied in 2019/20.

The annual bonus will pay out at 74% of maximum opportunity, equivalent to 88.8% of salary for both the CEO and CFO, and at their request the full amount will be paid in shares, 50% of which will be deferred for three years.

The 2017-20 Long Term Incentive Plan ('LTIP') has vested at 100%, driven by the continued strong cumulative performance of our Return on Regulated Equity ('RoRE') over the three-year performance period. The component parts of RoRE are ODIs, financing and Totex (total capital and operational expenditure).

The Committee believes that the outcomes of the annual bonus and LTIP accurately reflect the performance of the Company over this period. No discretion has been exercised by the Committee to override the formulaic outcomes of either the 2017 LTIP or the 2019/20 annual bonus, nor has the share price performance over the vesting period been such to cause the Committee to adjust the level of vesting under the LTIP.

Our People at Severn Trent
Our ongoing focus on greater visibility of remuneration across our entire spectrum of workforce initiatives has led to the creation of a new section in the Strategic report on page 20. The Our People section showcases our broader people initiatives, activities and accomplishments in the areas of diversity, inclusion, culture, engagement and social mobility, and highlights how these link to our new Purpose and Values, set out in more detail on page 14.

The Company Remuneration section on page 112 now focuses wholly on pay and reward, and explains how the Committee has satisfied itself, over the course of the year, that a fair and consistent approach is applied to both the remuneration of the Executive Directors and the wider workforce.

Remuneration in the year ahead
Our commitment to delivering a leading and transparent remuneration framework is fundamental to strong governance processes and is designed to embed our Values across the Company to deliver long-term success. As mentioned above the Chair, CEO and CFO have voluntarily donated 25% of their salary during the first quarter to support local charities in our region.

Some future developments are outlined below:

- As a Committee, we believe that the alignment of all-employee interests is key to the Company's long-term success. With this principle in mind, and prior to next year's Policy review, it has been agreed that employer pension contributions for our Executive Directors and members of the Severn Trent Executive Committee will be aligned with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce) by 1 April 2022. The Committee would like to thank the Executive Directors for voluntarily supporting the phased reduction of their employer pension contributions. On page 109 we explain how the Policy will be implemented for the Executive Directors in 2020/21.
- We have retained 1.39 times the base RoRE return as our target into *the new AMP for the Severn Trent Plc LTIP in spite of the demanding* regulatory settlement. This ensures that we are building in a further challenge to this element of remuneration. Maximum payouts continue to be measured against upper quartile ('UQ') stretch RoRE performance. To be fully rewarded, management must continue to deliver one of the best service and cost performances compared with other companies in the sector, aligning reward with the interests of both investors and customers.
- As we enter AMP7, we will continue to apply a consistent bonus scheme design from the front line to Executive Directors, ensuring that every employee is incentivised and rewarded to deliver the same shared objectives. The focus of the bonus remains a combination of ODI and PBIT performance. We have also looked at how we can make the ODI measures more meaningful to employees in roles which directly impact these metrics. In the 2020/21 scheme, we will articulate the ODIs in language which brings to life how we work.

The Policy Summary and Implementation section on page 108 outlines how the Committee intends to implement the Policy in 2020/21.

Ongoing shareholder communication
In February 2020 we contacted our 30 largest shareholders representing over 50% of our issued share capital, as well as Glass Lewis, The Investment Association and ISS, to inform them of the Company's approach to achieving pension alignment between Executive Directors and the Company's wider workforce (as mentioned above) as well as clarifying how we intend to operate the LTIP performance targets for awards made from 2020 onwards. These are within the remit of the current Policy which is due for renewal in 2021.

In the unlikely event that Severn Trent achieves UQ RoRE performance relative to our Water and Sewerage Company ('WaSC') peers which is below 139%, but above 100%, of Severn Trent's Final Determination ('FD'), we believe that achieving UQ against peers within the performance period would represent exceptional performance and hence justify full vesting. There will be no change to how threshold and target performance will be calibrated and there will be nil payout for any performance below the FD. As a Committee, we will continue to review formulaic LTIP vesting outcomes to ensure that they are a fair and accurate reflection of business performance.

As part of the 2021 Policy review, we will introduce a post-cessation of employment shareholding requirement in line with the 2018 Code.

We will continue to maintain an ongoing and transparent dialogue with our major shareholders and actively engage with each of them individually as the formal Policy review commences later in 2020.

Committee changes
Andy Duff retired as a member of the Committee and Chair of the Board in March 2020, and Christine Hodgson has succeeded him. I would like to add my thanks to Andy for his invaluable contribution and leadership over the past nine years, and to welcome Christine to both the Committee and the Board.

Committee performance
The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work.

Philip Remnant
Chairman of the Remuneration Committee

2019 AGM shareholder voting

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration report	176,315,760	1,203,205	762,069
	(99.32%)	(0.68%)	

Key areas of Remuneration Committee focus in 2019/20

A summary of the matters considered at each meeting is set out below:

Our workforce	Executive and senior management remuneration	Committee governance
Approved the outturn of the 2018/19 all-employee annual bonus scheme.	The Committee discussed and approved the Company's approach to achieving alignment of employer pension contributions between Executive Directors, the Severn Trent Executive Committee and the wider workforce by 1 April 2022.	Reviewed and approved the Directors' Remuneration report 2018/19 and agreed the framework for the 2019/20 report.
Considered Severn Trent Plc's 2019 gender pay gap statistics.	Approved the outturn of the LTIP awards granted in June 2016.	Considered Severn Trent's 2018/19 reward and performance alignment compared with our WaSC peers.
Reviewed and approved the 2019/20 all-employee annual bonus scheme structure and targets.	Reviewed and approved the LTIP awards granted in July 2019.	Considered an independent update, provided by PwC, on current market practice and future remuneration trends.
Considered the 2020/21 all-employee annual bonus scheme structure.	Considered the structure of the LTIP awards to be granted in 2020.	Reviewed the expenses claim procedure for the Chair and CEO.
Conducted its annual assessment of the Company's workforce policies and practices and satisfied itself that these support its long-term sustainable success. The Committee reported to the Board on this matter.		Approved revised Terms of Reference to be applied from 1 April 2020, prior to making recommendation to the Board.
Considered and endorsed the Company's intention to commence the process to become an accredited real Living Wage employer.		

COVID-19 impact on executive remuneration

The following table summarises the key components of executive remuneration and the decisions made by the Committee:

Element of remuneration	Committee decision	Rationale
2019/20 bonus	To pay the bonus in the normal manner with no adjustment. At the request of the Executive Directors the full bonus will be paid in shares, 50% of which will be deferred for three years.	- The 2019/20 bonus is reflective of the Company's strong performance in a challenging year, prior to the impact of COVID-19. - The Company bonus criteria are the same for executives and all other employees. - All eligible employees will receive their 2019/20 bonuses. - The final dividend will be paid. - The Company's balance sheet, liquidity and finances are strong.
2020/21 salary rises	To increase the level of base salaries for the Executive Directors in line with the average rise made to all employees. The CEO and CFO have asked the Company to reduce their salaries by 25% for the first quarter of our 2020/21 financial year.	- The Company has announced its commitment for all eligible employees to receive a salary increase in the 2020/21 financial year, as part of a three-year pay deal, as well as a commitment not to furlough or make redundancies as a result of COVID-19.
2020/21 bonus	The Committee will continue to use the performance conditions and weightings agreed with shareholders. However, in relation to Group PBIT the Committee has determined that the maximum amount of bonus capable of being paid for this element will be fixed at the target level even if the actual performance exceeds target. The Committee believes that given the external circumstances and wider impact of COVID-19 on society it is not appropriate to pay a bonus greater than target level for the 2020/21 financial year for PBIT. Therefore, in practice the maximum achievable bonus potential will be approximately 91%, rather than 120%, of salary.	- The Company has committed publicly to the operation of a bonus plan for all eligible employees for 2020/21. - The Company performance conditions are the same for employees and Executive Directors - Whilst the budget for the year reflects the anticipated impact of COVID-19, the Company's five year plan in aggregate remains materially unchanged in terms of its ambition and performance. Annual bonus targets will, therefore, be set in the light of financial and other objectives re-phased for the impact of COVID-19.
2017 LTIP vesting	The Committee intends to allow the 2017 LTIP award to vest without adjustment in June 2020.	- The 2017 LTIP measures performance over three years and therefore has only been marginally impacted by COVID-19. - The value of the shares on vesting will reflect the share price experience of our shareholders.
2020 LTIP grant	The Committee has determined to make the grant on the normal timetable and to retain the performance conditions and targets agreed with shareholders. The Company will follow its normal practice of using the three-day average share price immediately prior to the date of grant to determine the number of shares awarded.	- The LTIP performance condition is based on the long-term RoRE performance of the Company over AMP7 and therefore remains appropriate. - The Company's share price has been less impacted by COVID-19 than many other companies and is higher today than the price used for the 2019 LTIP grant. - The Committee will assess the value of the 2020 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains.

Who supports the Committee?

To ensure that the Company's remuneration practices are inline with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). This appointment in 2017 followed a selection process. PwC attends meetings of the Committee. The CEO, Director of Human Resources and the Head of HR Operations also attend meetings, by invitation, to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent.

Fees, on a time-spent basis, for advice provided by PwC to the Committee during the year were £98,643 excluding VAT (2018/19: £143,000). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. There are no connections between PwC and individual Directors to be disclosed.

REMUNERATION AT A GLANCE

The following section sets out our remuneration framework, a summary of how the Policy was applied in 2019/20 in the context of our business performance, and from page 108 details how the Committee intends to implement the Policy in 2020/21.

Strategic alignment of remuneration
The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The following table sets out how the annual bonus scheme and LTIP for 2019/20 reflects the strategic framework which was in place at the start of 2019/20. This will be updated next year to reflect the 2020/21 annual bonus scheme which will be linked to our new purpose of taking care of one of life's essentials.

Further information on the Company's new Purpose and Values can be found on page 14.

PERFORMANCE BASED PAY LINKED TO THE STRATEGIC FRAMEWORK IN PLACE IN 2019/20

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 HAVE WE MEASURED PROGRESS AGAINST OUR OBJECTIVES DURING THE YEAR?

INTERNAL SEWER FLOODING	IMPROVEMENTS TO RIVER WATER QUALITY	DELIVERING OUR CAPITAL PROGRAMME	CLEAR PR19 PLAN	LOST TIME INCIDENTS PER 100,000 HOURS WORKED
EXTERNAL SEWER FLOODING	NUMBER OF CATEGORY 3 POLLUTION INCIDENTS	BUILDING A SUSTAINABLE BUSINESS	COMPELLING CASE FOR INVESTMENT	QUEST ENGAGEMENT
MINUTES WITHOUT SUPPLY	SUCCESSFUL CATCHMENT MANAGEMENT SCHEMES		ENERGY SELF-GENERATION	
WATER QUALITY COMPLAINTS	IMPROVEMENTS IN LEAKAGE		BE THE SECTOR'S THOUGHT LEADER	
C-MeX				

HOW ARE OUR STRATEGIC OBJECTIVES LINKED TO OUR INCENTIVE PLAN?

ANNUAL BONUS SCHEME

CUSTOMER, ASSET HEALTH AND ENVIRONMENT ODIs (35%)	CUSTOMER, ASSET HEALTH AND ENVIRONMENT ODIs (35%)	GROUP PBIT (49%)	CUSTOMER, ASSET HEALTH AND ENVIRONMENT ODIs (35%)	HEALTH AND SAFETY (8%)
CUSTOMER EXPERIENCE (8%)				

LTIP BASED ON 100% RoRE AND THE COMPONENTS OF RoRE ARE:

WHOLESALE TOTEX	RETAIL OPERATING COSTS	ODIs	FINANCING

2019/20 single figure outcomes

The graphs show how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors.
The full explanatory notes for each element of remuneration are detailed on page 120 in the Annual Report on Remuneration.

CEO (Liv Garfield)

- 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.

CFO (James Bowling)

- All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on the salary paid during the year ended 31 March 2020. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2020. The Executive Directors are also permitted to participate in the all-employee Sharesave scheme, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus 2019/20 outturn

A summary of performance is set out on pages 38 to 50 of the Strategic report.

Bonus element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
Group PBIT[i]	£545.0m	£560.0m	£575.0m	49%	45.1%
Customer, Asset Health and Environment ODIs	£4.9m	£26.3m	£47.2m	35%	20.0%
Health and Safety[ii]	0.25	0.16	0.09	8%	2.2%
Customer Experience[iii]	14	11	8	8%	6.7%

(i) If the PBIT component is above target the additional costs are covered by incremental profit. The bonus outturn is based on the equivalent PBIT value before payment of a stretch bonus which is equal to £572.6m for the Group. After payment of the stretch bonus (£2.3m) the underlying Group PBIT is £570.3m, as defined in note 44 to the Group financial statements.

(ii) Measured as number of lost time incidents divided by number of hours worked multiplied by 100,000.

(iii) Measured as ranking in C-MeX the new industry-wide performance measure.

Bonus opportunity and outcome

Name of holder	2019/20 salary (£'000)*	Bonus opportunity (% salary)	Bonus outcome (% max)	Annual bonus (£'000)**	Value paid in shares (£'000)	Value of deferred shares (£'000)	2019/20 front line bonus outturn (£'000)***	2019/20 team manager/ technical expert bonus outturn (£'000)
CEO	725.0	120%	74.0%	643.5	321.8	321.7	1.2	1.7
CFO	436.9	120%	74.0%	387.8	193.9	193.9		

* Bonus calculated using salary at 31 March 2020.

** The CEO and CFO requested that the 2019/20 bonus be paid fully in shares, with 50% deferred for three years.

*** Includes operational/administrative/advisory roles.

2017 LTIP vesting in 2019/20

The chart shows the outcome of the 2017 LTIP awards, for which the performance period ended on 31 March 2020. The LTIP which is based on RoRE over the three years to 31 March 2020 will vest in June 2020.

Further information is provided on page 122 in the Annual Report on Remuneration, including a breakdown of the LTIP awards granted to Executive Directors in 2019.

2017 LTIP vesting table

	Threshold FD (25% payable)	Maximum (100% payable)	CEO outcome (vesting as % of award)	CFO outcome (vesting as % of award)
RoRE – measured against multiple of Ofwat FD	1x	1.39x	100%	100%

	Number of shares granted	Award vesting (% max)	Face value of shares vesting (£'000)[i]	Value attributable to share price movement (£'000)	Value of dividend equivalents due (£'000)[ii]	Value of resultant award (£'000)
CEO	42,383	100%	1,058.7	43.2	113.0	1,171.7
CFO	17,028	100%	425.4	17.4	45.4	470.8

(i) Based on 3 month average share price as at 31 March 2020 of £24.98.

(ii) Based on dividends paid in the period since date of grant to 31 March 2020.

Business performance – 2019/20 outturns against Key Performance Indicators ('KPIs')

The charts show our customer ODI and RoRE performance since the beginning of AMP6. This strong sustained level of performance, when compared with our FD, has informed the level of reward received by our Executive Directors and our employees through the Company-wide bonus scheme, which is linked to the same performance measures.

RoRE %[i] [ii] [iii]

(i) Our calculation of RoRE includes the PR14 SIM measure, whereas the UQ RoRE is based on published company data which currently does not include the impact of SIM.

(ii) Severn Trent RoRE has been restated for years 2015/16 to 2018/19 to recognise the impact of the PR14 SIM penalty (-0.1% p.a.) over the years when the penalty was earned.

(iii) Calculated in accordance with Ofwat methodology. UQ data is not yet available for the current year.

Cumulative ODI £m outperformance

ODI £m outperformance by year

(i) Customer ODIs quoted pre-tax in 2012/13 prices.

(ii) 2017/18 figure restated to reflect Ofwat's decision on supply interruptions in their FD of in-period ODIs for 2018.

(iii) 2018/19 figure is post the regulatory customer ODI cap. The grey bar demonstrates the equivalent value of benefits which would have been delivered had the cap not been in place.

(iv) WaSC average and Industry reward not yet available for the current year.

Executive Director shareholdings
The CEO and CFO have exceeded the shareholding requirements applicable in 2019/20 of 300% and 200% of salary, respectively.

Shareholding requirement
The minimum shareholding requirement for Executive Directors, and the current share interests of the Executive Directors, take into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance, and are set out opposite. The shareholding requirement must be built up over five years and then subsequently maintained.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 123.

Shares counting towards the achievement of the guideline include beneficially owned shares (including shares held by connected persons) and the net of tax value of deferred shares under the annual bonus since they are not subject to performance conditions. The Executive Directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding requirements are met.

Executive Director shareholdings % of base salary

(i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share *awards (of which 47% are deducted to cover statutory deductions).*

(ii) Represents 2017 LTIP shares which are subject to an ongoing vesting period plus shares held as part of the Sharesave scheme.

(iii) *Represents the 2018 and 2019 LTIP awards which are subject to ongoing performance.*

All calculations in the above chart use a closing share price on 31 March 2020 of £22.80.

Overall link to remuneration and equity of the Executive Directors
As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Company. This is why, when we look at the remuneration paid in the year, we also look at the total equity they hold and its value based on the performance of the Company. The table sets out the number of shares beneficially owned by the Executive Directors at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year.

	2019/20 single figure (£'000)	Shares held at the start of the year	Shares held at the end of the year	Value of shares at start of year (£'000)	Value of shares at end of year (£'000)	Difference (£'000)
CEO	2,733.4	137,349	180,738	2,714.0	4,120.8	1,406.8
CFO	1,418.0	32,075	49,826	633.8	1,136.0	502.2

(i) Based on a closing share price on 31 March 2019 of £19.76.

(ii) Based on a closing share price on 31 March 2020 of £22.80.

SUMMARY OF THE POLICY AND IMPLEMENTATION IN 2019/20 AND 2020/21

The Company's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Severn Trent and aligned with shareholder interests.

The diagram below illustrates the balance of pay and time period of each element of the Policy for Executive Directors.

Total pay over five years	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary				
Fixed pay	Benefits, pension				
Annual bonus (Malus and clawback provisions apply)	50% in cash		50% in shares Three-year deferral period No further performance conditions		
LTIP (Malus and clawback provisions apply)		Up to 200% of salary Three-year performance period		Two-year holding period No further performance conditions	

The table below sets out an overview of the key areas of the Policy and summarises how the Committee applied the Policy in 2019/20, together with details of how the Committee intends to implement the Policy in 2020/21.

Base salary

To recruit and reward Executive Directors of a suitable calibre for the role and duties required.

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
Salaries are normally reviewed annually on 1 July. Salaries take account of: - Individual performance; - Experience and contribution; - Developments in the relevant employment market; - Company performance and affordability; - Wider economic environment; and - Internal relativities.	Any increases will typically not be higher than the average increases for employees. However, a higher increase may be proposed in the event of a role change or promotion, or other exceptional circumstances.	Executive Directors' salaries increased by 2.4% from 1 July 2019. CEO - £725,000 CFO - £436,900 These rises were in line with the general employee salary increase of 2.4%.	Executive Directors' salaries increase by 2.3% from 1 July 2020. CEO - £741,700 CFO - £447,000 These rises are in line with the general employee salary increase. The CEO and CFO asked the Company to reduce their salaries by 25% for the first quarter of 2020/21.

Benefits

To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors.

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
Benefits typically include travel allowance (formerly car allowance, changed to recognise the use of public transport), family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. In addition, Executive Directors are eligible to participate in all-employee share plans on the same terms as other eligible employees.	The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.	Normal company benefit provision.	No change.

Pension

To provide pension arrangements comparable with similar companies in the market to enable the recruitment and retention of Executive Directors.

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
A defined contribution scheme and/or cash supplement in lieu of pension.	For current Executive Directors, the Company contribution to a pension scheme and/or cash allowance will be reduced in stages from a maximum of 25% of salary to 15% of salary by 1 April 2022. For any new recruit, the contribution will be up to a maximum of 15% of salary. This is in line with the level of contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).	Executive Director pension arrangements for 2019/20 were as follows: CEO - 25% of salary CFO - 25% of salary	Executive Director pension arrangements for 2020/21 are as follows: CEO - 21.6% CFO - 21.6%

Annual bonus

To encourage improved financial and operational performance and to align the interests of Executive Directors with shareholders through the partial deferral of payment in shares.

Operation	Opportunity	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
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): Group PBIT – 49% Customer, Asset Health and Environment ODIs – 35%: – Customer (15%) – Asset Health (10%) – Environment (10%) Customer Experience – 8% Health & Safety – 8% Executive Directors awarded bonuses of: CEO – 88.8% of salary CFO – 88.8% of salary At the request of the Executive Directors the full amount will be paid in shares, 50% of which will be deferred for three years. See page 106 for further details on outcomes.	No change to the maximum bonus opportunity or payment mechanisms of bonuses. We will articulate the ODI measures in language which brings to life how we work, as described below. Performance measures (as a % of maximum): Group PBIT – 49% Customer & Environment ODIs – 35% – Minimise disruption to customers (12%) – Prevent failure in our network and our sites (11%) – Improve the environment we live in (12%) Customer Experience – 8% Health & 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 2019/20	How we plan to implement the Policy in 2020/21
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 2017 LTIP vested in the year at 100%. See page 122 for further information and for details of the RoRE target for the 2019 LTIP awards granted in the year.	No change to maximum LTIP opportunities. See page 103 of the Committee Chairman's letter for clarification of the operation of the performance targets. See page 111 for detail on LTIP awards to be granted. The Committee will assess the value of the 2020 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains.

Shareholding requirement
To encourage strong alignment between the interests of shareholders and Executive Directors.

Operation	How we implemented the Policy in 2019/20	How we plan to implement the Policy in 2020/21
The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirement has been met.	CEO – 300% of salary CFO – 200% of salary See pages 108 and 123 for further details on shareholding requirements and outstanding share awards.	No change to requirements.

LTIP awards to be granted in 2020
The table below describes how the LTIP will be implemented in 2020. The CEO's award will be 200% of salary and the CFO's award will be 150% of salary. The RoRE performance condition that will be measured over three years, to 31 March 2023, and corresponding vesting (as % of salary) will be:

Operation	Award 2020 LTIP	Threshold FD % salary	1.39x FD % salary	UQ RoRE performance relative to WaSCs % salary
Vesting for performance	CEO	37.5%	150%	200%
	CFO	25%	100%	150%

Chair and Non-Executive Directors' fees (audited)
From 1 July 2020, Non-Executive Director fees will be increased by 2.3% from £56,450 to £57,750, in line with the general employee salary increase.

The Chair, Christine Hodgson, succeeded Andrew Duff on 1 April 2020, having joined the Board as a Non-Executive Director on 1 January 2020. The Chair's fee changed from £294,600 to £300,000 on 1 April 2020.

The Chair asked the Company to reduce her fee by 25% for the first quarter of 2020/21.

The current fee levels, and those for the future financial year, are set out in the table opposite.

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following the annual Board Effectiveness evaluation process.

This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. The current Letters of Appointment are available on the Severn Trent Plc website.

Operation	Fees 2020/21	Fees 2019/20	Increase %
Chair's fee	£300,000	£294,600	1.8%
Fee paid to all Non-Executive Directors	£57,750	£56,450	2.3%
Supplementary fees:			
– Senior Independent Director	£10,000	£10,000	0.0%
– Audit Committee Chair	£15,000	£15,000	0.0%
– Remuneration Committee Chairman	£15,000	£15,000	0.0%
– Corporate Sustainability Committee Chair	£13,000	£13,000	0.0%
– Treasury Committee Chair	£15,000	£15,000	0.0%

COMPANY REMUNERATION AT SEVERN TRENT

This new section sets out the steps we take to make sure that our pay and reward framework is transparent, beyond executives and senior management, in a way that is meaningful and useful. Further detail on all aspects of our employee experience, including ways in which we communicate with employees, our activities and our accomplishments in the year, are set out in the Our People section on page 20.

Pay and alignment across the business
Alongside our thriving culture and inclusive working environment, our reward framework is designed to attract, motivate and retain people who are inspired by Severn Trent's Purpose, and live our Values every day. Our new Values have been positively received across the business since they were rolled out in November 2019, as can be seen on page 20.

Our reward package recognises the great performance of our employees, as we deliver our essential service to customers across the region, and is designed to reward all colleagues fairly throughout the organisation. We do this by providing our employees with the remuneration elements set out on the next page.

This section of the report covers:

- Pay and alignment across the business;
- Our Remuneration principles;
- What the Remuneration Committee has looked at in the last 12 months; and
- Pay comparisons
  - Alignment with Group performance;
  - CEO pay ratios; and
  - Gender pay gap reporting.

OUR VALUES

Eligibility	Number of employees covered	Remuneration element	Details
All employees	6,864 (as at 31 March 2020)	**Salary**	Salaries are set to reflect the market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary Living Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.
		Benefits	All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and which is designed to support a positive work-life balance. 44% of our employees choose to tailor their benefits via our flexible benefits scheme. They have also saved over £91,000 through our employee discount partnerships since the scheme was launched.
		Pension	We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary). As set out in the Chairman's letter on page 103, the employer pension contributions for incumbent Executive Directors will be aligned with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce) by 2022. When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. We are proud that 99% of our employees are members of the pension scheme and 61% pay contributions above the minimum of 3%.
		Annual bonus	All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. For this year the bonus paid out £1,151 to our frontline employees in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig. New starters, post 6 January 2020, were not eligible to receive a bonus.
		SAYE	Offering the opportunity to participate in our Sharesave scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also aligning participants with shareholder interests. 72% of our employees are active participants in our Sharesave scheme which gives employees an opportunity to save up to £500 per month over three to five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.
Management and senior management	356	**LTIP** A proportion of this population participate in the LTIP by annual invitation	The LTIP reinforces delivery of long-term creation of value and sector outperformance. The retention of shares by Executive Directors for the longer term also supports a shared ownership culture in the Group.
Executive Committee and Executive Directors	11	**Shareholding requirement as a % of salary** CEO – 300% CFO – 200% Exec Co – 100%	Supports alignment of Executives' interests with shareholders.
Our Supply Chain			We have achieved real Living Wage employer accreditation and firmly believe this is an important step to take. It affords us the opportunity to share our experiences and influence standards throughout our supply chain. This commitment and expectation will be built as part of our Sustainable Supply Chain Charter, alongside modern slavery and social mobility.

Remuneration principles

We strongly believe in fair and transparent reward throughout the organisation and when making decisions on executive remuneration the Committee considers the context of wider workforce remuneration. This section shows how the 2018 Code is embedded in our remuneration principles and how they are cascaded throughout the organisation. The diagram below shows how the Policy is aligned with the factors set out in Provision 40, and how our principles and Policy are aligned with the 2018 Code.

OUR PURPOSE: **TAKING CARE OF ONE OF LIFE'S ESSENTIALS**

HOW DO WE EMBED OUR PURPOSE AND VISION IN OUR REMUNERATION GUIDING PRINCIPLES?

Support our Purpose, Values and our wider business goals	Drive long-term sustainable performance for the benefit of all our customers, shareholders and wider stakeholders	Be simple, transparent and easily understood by internal and external stakeholders	Encourage our employees to think and act like owners in the business	Attract, motivate and retain all our employees with diverse backgrounds, skills and capabilities

HOW DOES THE COMMITTEE ADDRESS THE REQUIREMENTS UNDER PROVISION 40?

Cultural alignment and proportionality	Proportionality and risk	Simplicity, clarity and predictability	Cultural alignment and risk	Clarity
- The Committee ensures that the overall reward framework embeds our Purpose and Values - The Committee reviews the executive reward framework regularly to ensure it supports the Company's strategy	- 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	- 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	- 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	- The Committee ensures that Executives are provided with a remuneration opportunity which is competitive against companies of a similar size and complexity, with a strong emphasis on the variable elements

Alignment of the Policy to the Provisions of the 2018 Code

Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through KPIs which are used for the annual bonus and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid.
Simplicity	The Company operates a UK market standard approach to remuneration which is familiar to all stakeholders.
Risk	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 annual bonus and LTIP Plans on their approval. In addition, all the checks and balances set out above under 'Risk' were disclosed at the time of shareholder approval.
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy, and through deferral and measurement of performance over a number of years ensure that the Executives have a strong drive to ensure that the performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance.
Alignment to culture	A key principle of the Company's culture is a focus on customers and their experience; this is reflected directly in the type of performance conditions used for the bonus. The focus on ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used for the incentive plans are measures used to determine the success of the implementation of the strategy.

What the Remuneration Committee has looked at in the past 12 months

The Committee carried out its first review, under the 2018 Code, of key remuneration elements, policies and processes by employee group during the 2019/20 financial year. This process was introduced for the Committee to meet its responsibility for the oversight and review of wider workforce pay and policies, and to ensure they are designed to support the Company's desired culture and Values.

The Committee's process

In November 2019 the Committee reviewed its first report which set out details of workforce pay policies and practices. The Committee has always been provided with information on how the cascade of the reward framework applies across different levels within the organisation and this information has in turn been shared with shareholders in this report (see page 113).

This year, and in line with the requirement of the 2018 Code, the Committee has sought to understand areas of variation within the Company's pay policies and practices. The table below sets out a summary of the information which the Committee received this *year as part of its review process.*

Element	Focus areas	Implementation at Severn Trent
Salary	– Date of annual increase across all employee groups; – Wider workforce increases versus the senior executive population; and – Differences across employee groups.	– Salary increases were on average 2.4% across the workforce in 2019/20. – Annual pay reviews are effective in July for all employee groups. – The Company has achieved real Living Wage employer accreditation and reviews salaries in this context. – Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
Benefits	– Types of benefits; and – Eligibility across levels.	– A consistent approach is applied across the business for benefits.
Pension	– Employer pension contributions across the workforce; and – Comparisons of wider workforce pension to executive pensions.	– The majority of employees are eligible to participate in the Severn Trent Group Pension Plan. The maximum workforce employer contribution is 15%. – As set out in the Chairman's letter on page 103, we have started the process of aligning employer pension contributions for incumbent Executive Directors with the maximum 15% contribution available *to members of the Severn Trent Group Pension Plan (the majority* of the workforce) and this will be achieved by 2022.
Annual bonus	– Bonus design across different populations; – Details of performance measures and targets; and – Outturn during the year.	– A consistent design is operated throughout the business. – At all levels performance outcomes are measured against the same metrics (see the next page). – An individual performance multiplier is in place across management grades informed by our Inspiring Great Performance ('IGP') outcomes. Our front line colleagues and team managers benefit from an all company fixed bonus payment. – Bonus opportunities vary by grade. – We also operate some sub-schemes in Business Services, to reflect specific business needs. – Malus and clawback provisions are in place.
Sharesave	– Take-up rates.	– All employees under Severn Trent Plc can participate in the Save As You Earn scheme – Sharesave. – There is a significant take-up of this benefit with 72% of employees actively participating.
LTIP	– Eligibility; – Cost; – Dilution; and – Details of performance measures and targets.	– Eligibility is reviewed annually. – The LTIP is available to Executive Directors, the Executive Committee and some members of senior management. – The vesting period is three years. The Executive Directors are subject to an additional two-year holding period for awards granted from 2018 onwards. – LTIP opportunities vary by role from 200% of salary to 25% of salary. – Executive Directors have a UQ performance target. – Malus and clawback provisions are in place.
Shareholding requirement	– Eligibility; and – Requirements and actual shareholdings.	– Shareholding requirements are in place for the Executive Directors and Executive Committee.

The Committee believes that the context and knowledge shared is a useful underpin to ensure that our future decision-making around executives' and senior managements' pay supports fair and equal remuneration throughout the entire workforce.

We operate a consistent core bonus design across the organisation

Employee group	Performance measures in core bonus
Executive Directors Executive Committee	PBIT (49%)
Strategic Leader Business Leader	CUSTOMER AND ENVIRONMENT ODIs (35%)
Team Manager/ Technical Expert	CUSTOMER EXPERIENCE (8%)
Front Line – operational/ administrative/advisory	HEALTH AND SAFETY (8%)

The Committee's key findings and conclusions

Element	Implementation at Severn Trent
Differences in approaches to remuneration	The Committee is satisfied that the approach to remuneration within the business across all levels is fair. An area that the Committee reviewed this year was around new starters and the Committee is satisfied that within the different employing entities all new starters are treated consistently. The Committee recognises there are differences in pay practice in some of our recently acquired businesses (Agrivert and Hafren Dyfrdwy), but that these are necessary and reasonable to align with the terms and conditions of their employing entity for operational reasons. As the Company continues to evolve its approach to reporting and sharing information with the Committee, papers now also include relevant wider workforce information so the Committee can understand where there may be differences in approach.
Salary increases	Salary increases for employees across the Company are being applied on an equitable basis and average employee increases are considered when setting salary increases for both the Executive Directors and Non-Executive Directors.
Variable pay	Variable pay for all employees is linked to the achievement of stretching performance targets and underpinned by a strong governance framework for all. The measurement of performance is consistent through the entire workforce using our IGP approach alongside investment in personal development and rewarded through our all-employee annual bonus scheme.
Remuneration mix and leverage	The incentive approach applied to the Executive Directors aligns with the wider company policy on incentives, which is to have a higher percentage of at-risk performance pay and increased amount of incentive deferred, provided in equity and/or measured over the longer term the more senior the employee.
Alignment with remuneration principles	Overall, the Committee is satisfied that the approach to remuneration across the business is aligned with the Company's remuneration principles, and the approach to executive remuneration aligns with wider company pay policy and that there are no anomalies specific to the Executive Directors. Further details on the cascade of the reward framework can be found on page 113.

We are mindful of the 2018 Code requirement that we engage with employees to explain how our executive remuneration aligns with wider pay policies. We are looking forward to sharing this year's Directors' Remuneration report with members of the Company Forum and highlighting the availability and accessibility of the Annual Report on the Company intranet ('On Tap').

What will the Remuneration Committee look at in the next 12 months

EMBEDDING OUR NEW PURPOSE AND VALUES

The Committee will again review any high-level changes to wider workforce policies and practices over the period.

We have also committed to carrying out an assessment of the Group's wider workforce policies and practices in the context of the new Purpose and Values. We have launched in November 2019.

EXPLORING COLLEAGUE FEEDBACK

We are exploring colleague feedback and our data to facilitate a deep dive into areas of interest concerning wider workforce pay reporting, the cascade of incentives, policies and practices.

ENHANCING PAY FAIRNESS

We are also looking to further embed our remuneration principles by linking them even more explicitly with our values of equal pay, transparency and fairness through the development of our own fair pay charter. This will enable us to assess the findings of our wider workforce review against different lenses to draw conclusions and facilitate necessary action planning.

POLICY REVIEW

We will maintain an ongoing, and transparent dialogue with our major shareholders and actively engage with each of them individually as the formal Policy review commences later in 2020. We have committed our intention to introduce a post-cessation of employment shareholding requirement.

Pay comparisons

Our philosophy of transparent reporting is evident in the information we display in this section of the report, and this year sees the first publication of CEO pay ratios on page 118.

Our policy quantum compared with peers

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant markets for the Executive Directors, which we believe is the FTSE51-150, and the size of the Company compared with these peers. The table below shows the relative position of target total compensation under the Policy in comparison with the FTSE51-150.

Relative position of target total compensation

Total shareholder return

The chart below shows the value at 31 March 2020 of £100 invested in Severn Trent Plc at the start of AMP6. The intermediate points show the value at the intervening financial year ends until the end of AMP6.

Total shareholder return over AMP

The relationship between the remuneration of the CEO and all employees
The Company's approach to remuneration is consistent for all employees, as outlined on page 113 and in the current Policy which can be found on the Severn Trent Plc website.

In the first year of disclosing CEO pay ratios we have chosen to publish two years' worth of information covering 2018/19 and 2019/20. The table below shows how the CEO's single total figure of remuneration compares with the equivalent figures for UK employees occupying the 25th percentile, median and 75th percentile quartiles.

We have chosen Option A under the Regulations for the calculation, which takes into consideration the full-time equivalent basis of all UK employees and provides a representative result of employee pay conditions across the Company.

Total pay and benefits for all have been calculated as at 31 March 2020 and 2019 respectively in accordance with the single figure methodology and is based on full-time equivalent pay and benefits. We have not omitted any pay elements from the calculation.

CEO pay ratio

Chief Executive Officer	2019	2020
Total single figure (£'000)	2,478.8	**2,733.4**
Annual bonus payment level achieved (% of maximum opportunity)	58.5%	**74.0%**
LTIP vesting level achieved (% of maximum opportunity)	100%	**100%**
Ratio of CEO's single total remuneration figure shown:		
– To employee at the 25th percentile	80.8	**83.5**
– To employee at the 50th percentile	61.1	**65.0**
– To employee at the 75th percentile	48.8	**53.2**
Ratio of CEO's single total remuneration figure shown to the median Executive Committee member:		**3.4**

The table below sets out the base salary and total pay and benefits details for the CEO and the employees at the 25th, 50th and 75th percentiles.

CEO	2020
Base salary (£'000)	**720.8**
Total pay and benefits (£'000)	**2,733.4**
Employees	
Base salary (£'000)	
– Employee at the 25th percentile	**27.9**
– Employee at the 50th percentile	**36.4**
– Employee at the 75th percentile	**45.0**
Total pay and benefits (£'000)	
– Employee at the 25th percentile	**32.7**
– Employee at the 50th percentile	**42.1**
– Employee at the 75th percentile	**51.3**

In summary, there has been a small increase in the CEO pay ratio between 2019 and 2020. Total pay and benefits for the CEO and employees have remained fairly consistent year-on-year. The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies. However, over the long term, it is reasonable to expect there to be a degree of volatility in the CEO pay ratio and this could be caused by the following:

- Our CEO's single figure is made up of a higher proportion of incentive-based pay than that of our employees, in line with the expectations of our shareholders and the Company's remuneration approach. This introduces a higher degree of variability each year which affects the ratio. It should be noted that all employees in the Company who meet the service requirement are eligible to receive a bonus based on the same broad Company performance conditions. This ensures all employees share in the success of the Company;
- The value of long-term incentives, which measure performance over three years, is disclosed in pay in the year of vesting, which increases the CEO pay in that year, again impacting the ratio for that year;
- Long-term incentives are provided in shares, and therefore any increase in share price over the three years, as has been observed for the 2017 LTIP vesting this year, can magnify the impact of a long-term incentive award vesting in a year; and
- None of the lower quartile, median and upper quartile employees identified this year are participants in the LTIP. If the value of the LTIP is excluded from the CEO total remuneration pay ratio calculation, the ratios would be as follows:
  - To employee at the 25th percentile: 47.7
  - To employee at the 50th percentile: 37.1
  - To employee at the 75th percentile: 30.4

The ratio is therefore driven by the variable nature of the remuneration elements of our CEO versus that of our employees, and what is important to us is that the fluctuations in the ratio are influenced only by differences in the structure of remuneration, which for the CEO reflect the weighting towards long-term value creation and alignment with shareholder interests.

CEO remuneration vs returns to shareholders

The graph on the right shows the value at 31 March 2020 of £100 invested in Severn Trent Plc on 1 April 2010 compared with the value of £100 invested in the FTSE100. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value of the intervening financial year ends.

Total shareholder return and total remuneration

Remuneration of the CEO

The figure of remuneration for the CEO over the last 10 financial years is shown in the table below. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

Year ended 31 March	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield
Total remuneration (£'000)[i]	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,478.8	**2,733.4**
Annual bonus (% of maximum)	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	**74.0%**
LTIP vesting (% of maximum)	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**
SMP vesting (% of maximum)	N/A	N/A	78.0%	64.3%	N/A	N/A	N/A	N/A	N/A	**N/A**

(i) 2018 onwards includes any SAYE grants made during the year as well as dividend equivalents in respect of vested LTIP shares.

Percentage change in the remuneration of the CEO

The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group, and monitors year-on-year changes between the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee. As required under the Shareholder Rights Directive we have expanded this analysis to cover each Executive Director and Non-Executive Director and will build this information to display a five year history.

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Group's total wage bill as a result of the movements in the number of employees. The comparator group used is Severn Trent employees in the UK.

The Committee monitors this information carefully to ensure that there is consistency in the fixed pay of the Executive Directors and Non-Executive Directors compared with the wider workforce. In addition, this information demonstrates the Company's approach to having an all-employee bonus throughout the organisation with employees and the CEO benefiting when the Company does well.

Percentage change in remuneration of Executive Directors and Non-Executive Directors

	% change on last year for 2019/20		
	Salary[i]	Benefits[ii]	Bonus[iii]
Executive Directors			
Liv Garfield	2.4%	0.6%	29.5%
James Bowling	2.4%	0.0%	29.5%
Non-Executive Directors[iv]			
Christine Hodgson[v]	N/A	N/A	N/A
Andy Duff[vi]	2.4%	N/A	N/A
Kevin Beeston	2.2%	N/A	N/A
John Coghlan[vii]	13.3%	N/A	N/A
Dominique Reiniche	2.4%	N/A	N/A
Philip Remnant	1.9%	N/A	N/A
Angela Strank	2.0%	N/A	N/A
Average per employee[viii]	3.7%	(19.8%)	21.8%

(i) The salary figures shown are based on full-time equivalent comparisons.

(ii) The benefits figures include travel allowance and family level private medical insurance for senior and middle managers.

(iii) The figures shown are reflective of any bonus earned during the respective financial year. Bonuses are paid in the following June.

(iv) Non-Executive Directors do not receive any additional benefits or bonus payments.

(v) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020.

(vi) Retired from the Board on 31 March 2020.

(vii) Received an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities.

(viii) The average pay increase for the wider workforce during the year was 2.4%.

Gender pay gap reporting
Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. Gender equality is a big part of our commitment to all aspects of diversity and inclusion; it is absolutely central to everything we do, and we know just how much it means to our own people while also being something we believe will help us attract the best talent regardless of their backgrounds.

We reported our Gender Pay Gap in November 2019 in line with statutory requirements. The data was based in figures from 5 April 2019 and showed a median gap of 9.8% (last year: 13.2%) and a mean gap of 3.6% (last year: 2.8%). The decrease in our median continues to be primarily driven by more women being attracted to management and senior management roles, and the slight increase in our mean gender pay gap reflects small changes within our executive population.

We are proud to offer an effective and inclusive working environment and are confident that our continuously evolving culture can make a difference to the career of all our employees.

The full Gender Pay Gap report can be found on the Severn Trent Plc website, detailing the methodology and definitions, including case studies showcasing our flexible workplace policies, approach to running and supporting internal work experience programmes and external workshops.

We are looking at our data and internal systems to understand how we will respond to the requirements of the Government's ethnicity pay gap reporting legislation once it comes into force.

Pay quartiles

71.5%	Top quartile	28.5%
79.4%	Upper middle quartile	20.6%
78.1%	Lower middle quartile	21.9%
54.5%	Lower quartile	45.5%

Difference in hourly pay between men and women

9.8%	Mean
3.6%	

Difference in annual bonus pay between men and women

2.5%	Mean
-38.8%	

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 15 July 2020. The information on pages 120 to 123 is audited.

Total single figure of remuneration (audited)
The tables below and on the next page set out the total single figure of remuneration received by the Executive Directors for 2019/20 (or for performance periods ending in 2019/20 in respect of long-term incentives) and 2018/19 for comparison, and total fees received by Non-Executive Directors for 2019/20 and 2018/19.

Where necessary, further explanations of the values provided are included below. The tables and the explanatory notes have been audited.

Executive Directors		Salary (£'000)[i]	Benefits (£'000)[ii]	Pension (£'000)[iii]	Other (£'000)[iv]	Fixed pay and benefits sub-total (£'000)	Annual bonus (£'000)[v]	LTIP (£'000)[vi]	Variable remuneration sub-total (£'000)	Total remuneration (£'000)
Liv Garfield	2019/20	720.8	17.2	180.2	0.0	918.2	643.5	1,171.7	1,815.2	2,733.4
	2018/19	703.7	17.1	175.9	0.0	896.7	497.0	1,085.1	1,582.1	2,478.8
James Bowling	2019/20	434.3	16.5	108.6	0.0	559.4	387.8	470.8	858.6	1,418.0
	2018/19	424.0	16.5	106.0	4.5	551.0	299.5	435.9	735.4	1,286.4

(i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions via salary sacrifice. Salary is based on salary earned during the financial year.

(ii) Benefits include a travel allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme.

(iii) *The Executive Directors' pension provision is currently equal to 25% of salary; details of the future phased reduction to 15% by 1 April 2022 are set out earlier in the report.* No Executive Director accrued benefits under any defined contribution pension plans during the year or has participated in a defined benefits scheme while an Executive Director.

(iv) This figure relates to the difference between the market price and the discounted option price relating to an SAYE option granted during the financial year.

(v) The annual bonus is typically paid 50% in cash and 50% in shares with the portion deferred into shares subject to continued employment for three years but with no further *performance conditions attached. This year the Executive Directors requested that the full amount be paid in shares, 50% of which will be deferred for three years.* See page 106 for further details of the annual bonus outturn for 2019/20.

(vi) The value of the 2017 LTIP is based on the estimated value of shares calculated using the average share price for the period 1 January to 31 March 2020 of £24.98 and includes *dividends paid to date. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares.* See page 122 for further details of the 2017 LTIP vesting in 2019/20.

Total Non-Executive Directors' fees (audited)

Non-Executive Directors	2019/20 Fees	2019/20 Total (£'000)	2018/19 Fees	2018/19 Total (£'000)
Christine Hodgson[i]	14.1	14.1	0.0	0.0
Andy Duff[ii]	294.6	294.6	287.6	287.6
Kevin Beeston	66.5	66.5	65.1	65.1
John Coghlan[iii]	96.5	96.5	85.1	85.1
Dominique Reiniche	56.4	56.4	55.1	55.1
Philip Remnant	71.4	71.4	70.1	70.1
Angela Strank	69.5	69.5	68.1	68.1

(i) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020.

(ii) Retired from the Board on 31 March 2020.

(iii) Received an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities.

Relative importance of spend on pay

The table below shows the expenditure of the Company on staff costs against dividends paid to shareholders for both the current and prior financial periods and the percentage change between the two periods.

Relative importance of the spend on pay	2020 £m	2019 £m	% Change
Staff costs	**343.9**	309.4	11.2%
Dividends	**228.4**	211.9	7.8%

Benefits for 2019/20 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically. In line with the Policy outlined on page 109, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2019/20 (audited)	Typical annual value 2019/20	Typical annual value 2018/19	Percentage increase/ (decrease)
Travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,447	£1,500	(3.5)%
Life assurance	Up to 6x salary	Up to 6x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide policy	0%
Biennial health screening	£581 per health screen	£581 per health screen	0%
Incapacity benefits[i]	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

(i) Incapacity benefit for Executive Directors and senior management is 75% of salary, and for the rest of the eligible workforce is 50% of salary

Annual bonus outturn for 2019/20 (audited)
Our all-employee annual bonus scheme ensures that all of our people, from Executive Directors to our front line employees, are aligned with the same measures and rewarded appropriately for achieving key objectives. Full detail on the Company's performance during the financial year can be found in the Strategic report.

The performance outcomes in respect of financial performance conditions, and the overall bonus awarded to each Executive Director and our front line employees, is set out in the At a Glance section on page 106.

LTIP awards vesting in relation to performance in 2019/20 (audited)
The table below shows the outcome in respect of the 2017 LTIP awards, granted on 20 June 2017, which had performance periods ended 31 March 2020 and indicates the resulting number of shares vesting and their value. The LTIP based on RoRE over the three years to 31 March 2020 will vest at 100%. This is representative of continued strong performance in customer ODIs, financing and Totex. Detail on the performance outcome is given in the At a Glance section on page 107.

Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	% award vesting	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting[i] (£'000)	Value of dividend equivalents due on vesting shares[ii] (£'000)	Total value of LTIP (single figure) (£'000)
CEO	42,383	1,015.5	31/03/20	100%	42,383	20/06/20	43.2	1,058.7	113.0	1,171.7
CFO	17,028	408.0	31/03/20	100%	17,028	20/06/20	17.4	425.4	45.4	470.8

The 2017 LTIP is the last award where the RoRE calculation will differ slightly from that used in the Annual Performance Report, which uses the Ofwat definition. The LTIP measure seeks to align our LTIP targets to actual cash flows and against a clearly defined target. In this measure, financing outperformance is based on actual gearing rather than the notional capital structure and compares our cost of debt against the allowance in the Ofwat Financial Model. It includes profits/losses associated with land sales, miscellaneous activities and the impact of the wholesale revenue forecasting incentive mechanism.

All LTIP awards granted from 2018 onwards use the Ofwat definition of RoRE.

(i) Based on the average share price over the final three months of the performance period of £24.98 as the awards will not be released until after the end of the closed period.
(ii) Based on dividends paid in the period since date of grant to 31 March 2020

Payments for loss of office (audited)
There were no payments for loss of office in the year.

Payments to past Directors (audited)
Emma FitzGerald
Full details of Emma FitzGerald's unvested shares under the deferred Annual Bonus Scheme and LTIP awards can be found in the 2017/18 Directors' Remuneration report. The table below sets out details of the LTIP award which will be released to her on the ordinary vesting date, 20 June 2020. She will also receive dividend equivalents on the vested shares.

Award	End of performance period	Number of shares
2017 LTIP	31 March 2020	5,895

2019 LTIP award (awards granted during the year)

Award	Grant date	Threshold vesting FD (baseline)	1.39x FD	Full vesting (out performance)	3 day average share price used for grant calculations
2019 LTIP	23/07/19	5.55%	Equal to 7.71%	UQ RoRE compared to WaSCs	£20.40

Deferred shares under the annual bonus scheme (including awards granted during the year)

Award	Relating to FY	Grant date	3 day average share price used for grant calculations
2019 Annual bonus scheme	2018/19	18/06/19	£20.44

Directors' shareholdings and summary of outstanding share interests (audited)

Page 108 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements.

The shareholding requirements for the CEO and CFO remained unchanged in 2019/20.

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders. The retention and build-up of equity is important in a long-term business such as Severn Trent as it encourages decisions to be made on a long-term, sustainable basis for the benefit of customers and shareholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 19 May 2020.

		Interests in shares as at 31 March 2020					
Directors	Beneficially owned	LTIP shares[i][ii]	Annual bonus shares[iii]	SAYE options	Shareholding requirement as a % of salary	Current shareholding as a % of salary	% shareholding requirement achieved[iv]
Executive Directors:							
Liv Garfield	180,738	184,674	38,403	1,089	300%	632%	210%
James Bowling	49,826	81,336	23,091	1,221	200%	324%	161%
Non-Executive Directors:							
Christine Hodgson[v]	2,020	–	–	–	–	–	–
Andy Duff[vi]	8,184	–	–	–	–	–	–
Kevin Beeston	2,244	–	–	–	–	–	–
John Coghlan	2,670	–	–	–	–	–	–
Dominique Reiniche	400	–	–	–	–	–	–
Philip Remnant	1,969	–	–	–	–	–	–
Angela Strank	459	–	–	–	–	–	–

(i) LTIP awards are conditional share awards subject to ongoing performance conditions.

(ii) Additional dividend equivalent shares may be released where provided in the rules.

(iii) Annual bonus shares are deferred shares which are not subject to further performance conditions.

(iv) *The share price used to calculate the percentage of the shareholding guideline achieved was £22.80 (as at 31 March 2020).* The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).

(v) Appointed to the Board on 1 January 2020 as a Non-Executive Director and appointed as Chair on 1 April 2020

(vi) Retired from the Board on 31 March 2020.

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2020, she was paid fees of £13,700 which she retained.

Service contracts for Executive Directors

Copies of the service contracts of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

Service contracts for Executive Directors

Name	Date of service contract	Nature of contract	Notice period	Termination payments
Liv Garfield	10.04.14	Rolling	12 months	Payments for loss of office comprise a maximum of 12 months' salary and benefits only
James Bowling	01.04.15			

Philip Remnant
Chairman of the Remuneration Committee

19 May 2020

DIRECTORS' REPORT

***The Directors' report for the year ended 31 March 2020 comprises* pages 124 to 128 of this report, together with the sections of the Annual Report incorporated by reference. The Governance report set out on pages 69 to 129 is incorporated by reference into this report and, accordingly, should be read as part of this report. *As permitted by legislation, some of the matters required to be* included in the Directors' report have instead been included in the Strategic report on pages 1 to 68, as the Board considers them to be of strategic importance.**

Specifically, these are:

- Performance Review which provides detailed information relating to the Group, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2020;
- Future business developments (throughout the Strategic report);
- Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Strategic report on pages 58 to 62;
- Employee Engagement (page 20); and
- Business relationships (throughout the Strategic report).

The Strategic report and the Directors' report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R. Information relating to financial instruments can be found on pages 176 to 185 and is incorporated by reference.

For information on our approach to social, environmental and ethical matters, please refer to our Sustainability Report, available at severntrent.co.uk.

Principal activity
The principal activity of the Group is to treat and provide water and remove waste water in the UK and Ireland. Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2020 are shown in notes 20 and 45 to the Group financial statements.

Areas of operation
During the course of 2019/20, the Group had activities and operations in the UK and Ireland.

Directors and their interests
Biographies of the Directors currently serving on the Board are set out on pages 72 to 73.

As set out in the Notice of Meeting, all the Directors, with the exception of Andrew Duff, who retired from the Board on 31 March 2020, will retire at this year's Annual General Meeting ('AGM') and submit themselves for reappointment, or in the case of Christine Hodgson and Sharmila Nebhrajani, appointment, by shareholders. All Directors seeking reappointment were subject to a formal and rigorous performance evaluation, further details of which can be found on page 83.

Details of Directors' service contracts are set out in the Directors' Remuneration report on page 123. The interests of the Directors in the shares of the Company are also shown on page 123 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities
The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year and is currently in force.

Severn Trent Plc does not have in place any indemnities for the benefit of the External Auditor.

Disclosures Required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	155
(4)	Details of long-term incentive schemes	110
(2), (5), (6), (7), (8)–(14)	Not applicable	Not applicable

Employees
The average number of employees within the Group is shown in note 9 to the Group financial statements.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we do not discriminate in any way – we want to create and maintain a culture open to a diverse population. Severn Trent believes that no one should be hurt or made unwell by what we do. We did not experience any major safety incidents and there were no fatalities during the year.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well, including an employee assistance programme.

Additional information on our diversity aims and progress can be found on pages 20 and 88.

Employee engagement
Due to our commitment to transparent and best practice reporting, we have included our section on employee engagement on page 20 of the Strategic report as the Board considers these disclosures to be of strategic importance and is therefore incorporated into the Directors' report by cross-reference. Pages 28 to 29 demonstrate how the Directors have engaged with employees and how they have had regard to employee interests and the effect of that regard including the principal decisions by the Company during the financial year.

The Company is also keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all-employee plan, the Severn Trent Sharesave Scheme ('Sharesave'), which is offered to UK employees on an annual basis.

72% of Severn Trent's UK employees now participate in Sharesave, with 24.5% of participants saving the maximum of £500 per month compared with 9.9% across FTSE100 companies.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plan.

Business relationships
Pages 28 and 29 demonstrate how the Directors have had regard to key stakeholders and how the effect of that regard had influenced the principal decisions taken by the Company during the financial year. The Board considers its s.172 statement to be of strategic importance and is therefore incorporated into the Directors' report by cross-reference.

Research and development
Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Group and our products must continue to deliver value for customers.

Expenditure on research and development for the year totalled £2.1 million, included within note 7 to the Group financial statements.

Internal controls
Further details of our internal control framework can be found in the Audit Committee report on page 96.

Treasury management
Details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 56.

Post balance sheet events
Details of post balance sheet events are set out in note 42 to the Group financial statements.

Dividends
An interim dividend of 40.03 pence per Ordinary Share was paid on 3 January 2020. The Directors recommend a final dividend of 60.05 pence per Ordinary Share to be paid on 17 July 2020 to shareholders on the register on 12 June 2020. This would bring the total dividend for 2019/20 to 100.08 pence per Ordinary Share (2018/19: 93.37 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy
Following publication of the Final Determination by Ofwat, the Board approved our Dividend Policy for the period 2020-25. With effect from 2020/21, dividends during the AMP7 period will increase by growth of at least CPIH. This replaces the previous Dividend Policy of growth of at least RPI +4% each year.

The Dividend Policy reflects our strong operational delivery and financial performance, along with the Final Determination and ensuring that our bills are affordable for all of our customers. When determining the Policy, the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment grade credit rating.

Capital structure
Details of the Company's issued share capital and of the movements during the year are shown in note 30 to the Company financial statements. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 37 to the Group financial statements. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the 2018 Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document,

Substantial Shareholdings
As at 31 March 2020, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of Holder	Number of Ordinary Shares	Voting Rights Held (%)
BlackRock	19,797,394	8.20
RREEF Real Estate	12,711,225	5.26
Qatar Investment Authority	11,599,565	4.80
Lazard Asset Management	9,811,549	4.06
Legal & General Investment Management	9,659,132	4.00
Vanguard Group	9,636,352	3.99
SSGA	8,282,897	3.43
Pictet Asset Management	8,116,317	3.36
Aviva Investors	7,932,977	3.28

As at 19 May 2020, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: BlackRock 19,637,348 shares (8.25%), Qatar Investment Authority 11,599,565 (4.87%), RREEF Real Estate 10,246,275 (4.31%), Lazard Asset Management 9,772,147 (4.11%), Legal & General Investment Management 9,398,792 (3.95%), Vanguard Group 9,730,687 (4.09%), SSGA 8,137,263 (3.43%), Pictet Asset Management 8,206,436 (3.45%), Aviva Investors 7,918,036 (3.33%).

The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules.

which can be found on our website, the Articles and the Governance report on page 76.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2019 AGM.

Change of control
There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment because of a takeover bid.

Authority to purchase shares
The Company was given authority at its AGM in 2019 to make market purchases of Ordinary Shares up to a maximum number of 23,757,108 Ordinary Shares. During the year, no Ordinary Shares have been repurchased.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,834,985 Ordinary Shares.

The Directors believe that it is desirable to have the general authority to buy back the Company's Ordinary Shares in order to provide maximum flexibility in the management of the Group's capital resources. However, the authority would only be used if the Board was satisfied at the time that to do so would be in the best interests of shareholders.

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £18,445 (2019: £65,936). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries. You can read more about the work of our Community Fund on page 40.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly, neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Supplier payment policy
Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC'). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

For the payment practices reporting period ended 31 March 2020, the average time to pay for Severn Trent Water Limited was 29 days.

Relevant audit information
The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External Auditor
Having carried out a review of its effectiveness during the year, details of which can be found in the Audit Committee report on page 93, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated its willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

We reduce our carbon footprint
We play a leading role in reducing our greenhouse gas emissions. We have committed to achieving net zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We have now also made commitments to generate or procure 100% renewable electricity and move our fleet to 100% electric vehicles by 2030[1].

We have also now committed to setting targets under the stringent 'Science-Based' methodology.

As the majority of our carbon emissions are driven by our use of energy, managing carbon also means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy.

We have held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes. We continue to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of their responses. In 2019/20 our CDP score was B, an improvement from C in 2018/19.

This year, we again reduced our operational emissions, primarily through the decarbonising effect of increased renewable energy generation across Severn Trent and our import portfolio. We beat our 2030 renewable energy target by generating an equivalent of 51% of Severn Trent Water Limited's electricity needs. This was up from 43% in 2018/19.

To reduce our operational emissions further we will continue to focus on improving our energy efficiency to offset the additional demands of a growing population and more stringent treatment quality requirements and increase the amount of renewable-backed energy we buy. We will also continue to decarbonise our fleet and encourage employees to take up low-carbon electric cars.

Severn Trent Net Carbon Footprint kt CO_2e

260 ktCO_2e (-3%)

Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

As we have successfully reduced our Scope 2 emissions, we are now focusing more on our Scope 1 emissions, which are not as clearly aligned with financial incentives and will require more innovation to solve.

Report on greenhouse gas emissions
This is the seventh year Severn Trent has been required to report greenhouse gas ('GHG') emissions in the Directors' report. For Severn Trent Water, which accounts for 90% of our total Group emissions, we have been publicly reporting on our emissions since 2002. This year, in line with new environmental reporting guidelines, we have also included additional energy data and more detail on how we manage energy use.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO_2e), for the period 1 April 2019 to 31 March 2020.

Our total net emissions have fallen again this year, due to increased generation of renewable energy and a reduction in the emissions intensity of UK grid electricity, including from accredited renewable energy sources procured in our contract supply. We have reported this market-based benefit separately in the table below.

Severn Trent Carbon Footprint kt CO_2e
Our gross emissions total in the table below applies the 'location-based' accounting methodology for grid emissions, which is consistent with previous years. We also show the net benefit of our renewable energy procurement via our suppliers, applying the 'market-based' accounting methodology, which is included in our net emissions total.

Operational Greenhouse Gas Emissions (Tonnes CO_2e)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Scope 1 Emissions (Combustion of fuel and operation of facilities)	132,535	132,406	134,584	138,131	134,307	132,360	156,014
Scope 2 Emissions (Electricity purchased for own use) – Location-Based	330,679	357,756	337,028	294,426	279,393	217,726	199,635
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700	350,086	355,649
Emissions benefit of the renewable energy we export (including biogas for which we hold green gas certificates)	21,672	38,878	45,085	42,069	45,333	46,986	59,878
Market-based carbon accounting benefit from supply of electricity import which is REGO-backed renewable						34,818	35,784
Total Annual Net Operational Emissions – Market-Based	441,542	451,285	426,527	390,488	368,367	268,283	259,987

Annual GHG Intensity Ratio (t CO_2/unit)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net Operational GHG emissions of Severn Trent per £m turnover	248.6	255.2	234.7	214.0	217.4	151.8	141.0

1 Where specialist vehicles such as tankers are available within that time window.

We reduce our carbon footprint (continued)

Our GHG data is reported internally during the year to the Corporate Sustainability Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs. Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. We have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions. We do report these indirect 'Scope 3' emissions in our CDP Disclosure and we will report on these in our Annual Report in future years.

For the appointed UK water businesses, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, we have calculated our emissions using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 13' (released April 2020). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. For non-appointed business emissions, we have used the latest Defra emissions factors. All emissions arise in the UK.

Energy efficiency

We continually invest in improving energy efficiency and we have a dedicated energy management team focused on driving operational change to reduce energy. This is supported by a network of energy champions across our business and a governance structure which includes an energy steering group at Executive level.

Over the course of the last year we have invested £4.2 million in energy efficiency and £20.3 million over the last five years. These capital schemes include proactive maintenance on our most energy-intensive assets such as pumps and air blowers and investment in improved controls to reduce energy use. We use our half hourly meter data, regular internal communication and performance reporting to understand energy efficiency and drive behaviour, minimise waste and identify opportunities. We have energy online learning for all staff, and specific energy training, for example on pump efficiency, for specific staff. We are transitioning our fleet from fossil fuels to electric vehicles and have our first vehicles on the fleet, along with dedicated site charging points. We are also rationalising our office sites and moving our data centre to more efficient alternatives to reduce our total footprint on digital and office activities.

Severn Trent Energy Data GWh

In line with the latest Government energy and carbon reporting requirements, below is further information on our energy consumption for the last two years across the Severn Trent Group. This is source data for the carbon data reported above and is tracked internally each month. All data is collected from metered data for electricity. Biogas combustion information is calculated using assumptions based on metered data. Fuel use is reported based on financial records of fuel purchased. We have applied assumptions on standard calorific values to convert all liquid and gas fuel types to a common energy metric (GWh) and data is reported for the period 1 April 2019 to 31 March 2020. All energy is used in the UK.

Energy type	Source	Units[1]	2019	2020
Electricity	Electricity Imported	GWh	771	780
	Electricity Generated from Renewable Sources and Used on Site	GWh	198	194
	Electricity Generated from Renewable Sources and Exported	GWh	114	184
Gas Fuels	Gas Imported from the Grid	GWh	52	44
	Biogas Generated and Used	GWh	745	922
	Biomethane Generated and Exported to the Grid	GWh	166	181
Liquid Fuels	Fuel used by Plant (gas oil and diesel)	GWh	20	20
	Fuel used by Company Fleet	GWh	47	55
	Fuel used for Business Travel (company cars)	GWh	15	15
	Fuel used for Business Travel (personal cars)	GWh	7	6
Total	**Total Energy Used (i.e. Annual quantity of energy consumed from activities for which the Company is responsible, including combustion of fuel and operation of facilities)**	**GWh**	**1,855**	**2,037**
	Total Energy Imported (i.e. Annual quantity of energy consumed resulting from the purchase of electricity and gas. No imports of heat, steam or cooling)	**GWh**	**912**	**921**
Normalised Metrics	Total Energy per unit of revenue	GWh/£m	1.05	1.11
	Energy Imported per unit of revenue	GWh/£m	0.52	0.50
	Clean Water Electricity Use per unit treated	kWh/Ml	705	690

1 1 GWh = 1,000,000 kWh.

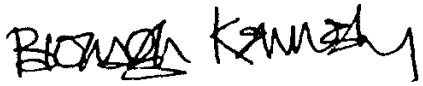
Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

Separate Annual Performance Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are prepared and provided to Ofwat. Copies will be made available in due course on the respective websites.

Additionally, separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig will also be available on their respective websites.

Annual General Meeting

A copy of the Notice of Meeting can be found on the Severn Trent Plc website.



By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary

19 May 2020

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a Going Concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

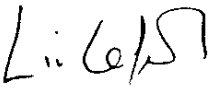
Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 19 May 2020 and is signed on its behalf by:

By order of the Board



Olivia Garfield
Chief Executive

19 May 2020

James Bowling
Chief Financial Officer

19 May 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN TRENT PLC

Report on the audit of the financial statements

1. 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 2020 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 ('IFRS') 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 statements 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 45 and the related notes to the parent company financial statements 1 to 19.

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).*

2. 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.

3. *SUMMARY OF OUR AUDIT APPROACH*

Significant changes in our approach	The timing of the Group's year end, relative to the COVID-19 pandemic related UK lockdown, means the impact of the pandemic on the principal trading businesses in the Group was not significant in the financial year being audited. COVID-19 has however increased the level of risk and volatility as at the year end of certain markets to which Severn Trent Plc is exposed. This includes property markets, in which the Group's pension scheme is partially invested and the non-household retail water market that the Group's joint venture trades in. As a result, two new key audit matters were identified for the year ended 31 March 2020: - *the valuation of the Group's assets held to fund retirement benefit obligations – specifically with reference to* the property assets; and - accounting for the joint venture investment.
Key audit matters	The key audit matters that we identified in the current year were: - valuation of the provision for household trade receivables in Severn Trent Water Limited; - valuation of the Group's retirement benefit obligation – liabilities; - valuation of the Group's retirement benefit obligation – pension assets; - classification and valuation of capital expenditure in Severn Trent Water Limited; and - accounting for the joint venture investment. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £16.4 million which was determined on the basis of profit before tax adjusted for gains/losses on financial instruments.
Scoping	Our scoping has resulted in over 95% of the Group's net operating assets and 95% of profit before tax adjusted for gains/losses on financial instruments being subject to audit testing.

4. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

4.1. Going concern

We have reviewed the Directors' statement in note 2 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 Company's ability to continue to do so over a period of at least twelve 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 the COVID-19 pandemic and 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. 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 57 to 64 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 57 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on pages 66 and 67 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.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

As noted in section 3, two additional key audit matters have been identified this year.

5.1. Valuation of the provision for household 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 related receivables. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision.

The bad debt provision recorded for household trade receivables in Severn Trent Water Limited as at 31 March 2020 was £134.3 million (31 March 2019: £115.3 million), which includes an additional £2.1 million to reflect management's estimate of the impact of COVID-19 on customers' ability to pay their outstanding bills to Severn Trent Water Limited.

Provisions are made against Severn Trent Water Limited's trade receivables based on historical cash collection rates of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on the whole population of household debtors. A top-up to the provision has been recorded to reflect anticipated changes to cash collection as a result of COVID-19.

The key audit matter, which is also a potential fraud risk, has been focused on the valuation of the household bad debt provision, and specifically whether the experience of debt invoiced seven to nine years ago provides an appropriate expectation of future credit losses under IFRS 9 Financial Instruments.

The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 95. The bad debt provision is discussed in note 2(p) and note 22 to the financial statements.

How the scope of our audit responded to the key audit matter	Our procedures included the following: - *Obtaining an understanding of relevant management review controls over the bad debt provision model;* - Testing the completeness and accuracy of data used in the bad debt model; - Reviewing management's assumptions applied to the bad debt provision and challenging whether they reflect the lifetime expected credit outcomes for receivables, including reviewing of cash collection data and historical trends; - Reviewing management's assumptions applied to the COVID-19 manual overlay and challenging the reasonableness of economic forecast data within the calculation by comparing against independent economic forecasts; - Testing the allocation of cash received in the current year against debt aged between seven and nine years; and - *Reconciling the debtor ageing for each debt category to source data.*
Key observations	We are satisfied that the bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Valuation of the Group's retirement benefit obligation – liabilities

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, and the longevity of pension scheme members in order to determine the value of the scheme's liabilities. This 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, inflation rate and mortality assumptions (updated during the year for the latest triennial funding valuations), and the related volatility of those assumptions during the COVID-19 pandemic. The Group's retirement benefit obligation (gross liability) as at 31 March 2020 is £2,648.1 million (31 March 2019: £2,871.8 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 95. Management has included this as a key source of estimation uncertainty in note 4b to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: - Obtaining an understanding of management's controls over the appropriateness of the assumptions; - Challenging the discount rate and inflation rate assumptions used in the calculation of the pension scheme deficit as detailed in note 28, with the support of pension specialists within our audit team, including whether the assumptions reflect the increased degree of volatility in current COVID-19 circumstances; - *Challenging the mortality assumptions from the latest triennial funding valuations used in the calculation of the pension* scheme deficit as detailed in note 28; and - Assessing whether there have been any changes in the methodology to determine the assumptions since the prior year; and if any changes in methodology exists, challenging the appropriateness of the revised methodology.
Key observations	We are satisfied that the assumptions used by management in the valuation of the retirement benefit obligation are derived based on a consistent methodology with those applied in prior years and are appropriate.

5.3. Valuation of the Group's retirement benefit obligation – pension assets

Key audit matter description	The net retirement benefit obligation includes assets totalling £2,414.1 million of which £261.9 million (10.8%) are property assets. Consistent with guidance provided by the Royal Institute of Chartered Surveyors, the external valuers' reports to the investment managers, which management uses to estimate the fair value of the assets in the Group's balance sheet, have reported a 'material valuation uncertainty' in their valuation reports for property assets. This uncertainty clause is based on COVID-19 bringing an increased level of risk in and volatility to certain markets as at 31 March 2020. Given the range of estimation uncertainty, we identified a key audit matter associated with the valuation of the property assets. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 95. The pension assets, including the property assets, are discussed in note 28 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures included the following: - Obtaining an understanding of management's key controls over the valuation of pension scheme assets; - Obtaining from the investment managers for the property funds, the specific details of the material uncertainty clause in the valuers' reports; - Reviewing a summary of the assets in the funds, analysed by sector and also by length of unexpired leases; - Reviewing a summary of each fund, analysed by sector; and - *Consulting with our Real Estate specialists in order to assess and conclude on the risks of misstatement.*
Key observations	We are satisfied that the valuations of the property assets within the retirement benefit pension asset funds are reasonable as at 31 March 2020.

5.4. 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.

During the year Severn Trent Water Limited has invested £830 million (2019: £783 million) in capital expenditure projects out of the total Group additions of £956.0 million (2019: £861.4 million) disclosed in note 18. Severn Trent Water Limited spent a further £144.5 million (2019: £137.3 million) on Infrastructure maintenance expenditure (total Group £149.6 million (2019: £141.6 million)) as disclosed in note 7.

As the classification of capital expenditure, operating expenditure and infrastructure maintenance 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 changes to the Group's capital expenditure policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement 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 95. Management has included this as a critical accounting judgement in note 4a to the financial statements.

How the scope of our audit responded to the key audit matter

We performed the following procedures to respond to this key audit matter:

- Reviewing 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;
- Obtaining an understanding of, and testing, relevant controls over the application of the policy to expenditure incurred on projects within the Group's capital programme during the year;
- Testing whether there have been any changes in the application of the policy; and
- For a sample of capital projects, assessing the application of the capitalisation policy to the costs incurred by reviewing the business cases and invoices.

Key observations

We are satisfied that the classification and valuation of assets capitalised in the year is appropriate.

5.5 Accounting for the joint venture investment

Key audit matter description

During the year ended 31 March 2020, the Group recognised £46.8 million as its share of losses, as an exceptional item, from its investment in a joint venture (Water Plus) which is a continuing operation. This reduced its investment in joint ventures to nil.

In assessing recognition of its share of losses, management concluded that loans of £9.8 million provided via subordinated debt instruments represented long-term investments and therefore formed part of the carrying value of its investment in Water Plus. The carrying value of these loans were also reduced to nil as a result of the above losses.

The Group has further loans receivable from Water Plus of £92.6 million (2019: £142.0 million) following repayments in the period of £35.6 million.

Management identified the classification of loans to Water Plus (for the purpose of determining the carrying value of the long-term investment in the joint venture) to be a critical accounting judgement as disclosed in note 4a to the financial statements and interests in joint ventures is detailed in note 20 to the financial statements. The Audit Committee also considered this a significant issue as discussed in the Audit Committee Report on page 95.

Given the materiality of the sums involved, the nature of the critical accounting judgement and the decision by management to present these losses as exceptional items, we determined that the accounting for and presentation of the Group's share of these exceptional losses represented a key audit matter.

How the scope of our audit responded to the key audit matter

In response to the judgement over whether the loans receivable should be classified as part of the long-term investment in Water Plus, our work included:

- Reviewing the loan agreements and assessing whether they met the criteria of a long-term investment.

In testing whether the loss reported by Water Plus should be recognised as an exceptional loss, we performed the following procedures:

- Reading the Group's accounting policy for exceptional items as disclosed in note 2d to the financial statements, along with the guidance issued by ESMA specific to the application of the APM guidelines in the context of COVID-19;
- Agreeing the share of loss to the Water Plus results for the year and assessing its quantum relative to materiality and the historical trading performance of Water Plus;
- Assessing and challenging the items underpinning the loss recognised to determine whether they are non-recurring in nature by making enquiries of Water Plus management; and
- Performing sensitivity analysis on key assumptions that would either individually or collectively impact the share of loss recognised whilst considering the likelihood of such movements.

Key observations

We are satisfied that the accounting judgements applied are appropriate and in accordance with the relevant standards and that the presentation of this matter complies with the Group's policy for exceptional items.

6. OUR APPLICATION OF MATERIALITY

6.1. 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 judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£16.4 million (2019: £18 million)	£15.1 million (2019: £16.2 million)
Basis for determining materiality	Approximately 5% of profit before tax and gains/losses on derivative financial instruments.	3.0% of net assets (2019: 3.0%) capped at 95% of Group materiality.
Rationale for the benchmark applied	In the year ended 31 March 2019, our benchmark was profit before tax, adjusted for gains/losses on financial instruments and exceptional items; our determined materiality was approximately 4.8% of this benchmark. In the year ended 31 March 2020, to reflect the increased level of risk and volatility arising from the COVID-19 pandemic and the significance of exceptional items, our benchmark has changed to no longer exclude exceptional items. Our resulting benchmark was profit before tax, adjusted for gains/losses on financial instruments.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered our assessment of the control environment, considering the potential reduction in the effectiveness of the internal control environment as a result of changes in working patterns since March 2020, as well as the continuity of the business year-on-year. We also considered the value of uncorrected misstatements identified in previous years.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £750,000 (2019: £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.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Identification and scoping of components

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 a Group level.

Regulated Water and Waste Water is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £14.3 million, (2019: £15.0 million). We have audited a further seven components using statutory materiality which ranges from £0.50 million to £9 million (2019: nine components using statutory materiality which range from £34,000 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% (2019: over 95%) of the Group's net operating assets and profit before tax adjusted for gains/losses on financial instruments.

At the Group 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.

7.2. Our consideration of the control environment

The Group uses SAP, a financial accounting software platform, in all of its legal entities except those acquired as part of the Agrivert acquisition in 2019. The entities acquired under the Agrivert acquisition are not subject to a full scope audit as part of our Group audit of Severn Trent Plc. We utilised our IT specialists to assess and test relevant controls over the SAP system.

From our walkthroughs and understanding of the entity and the controls at the business cycle and account balance levels, we relied on controls over the accurate capitalisation of project expenses between capital and operating expenditure.

8. 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.

9. *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.

10. 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 and non-compliance with laws and regulations 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.

11. 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.

11.1. 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and *identified the greatest potential for fraud in the following areas:*

- the valuation of the provision for household trade receivables in Severn Trent Water Limited;
- the classification and valuation of capital expenditure in Severn Trent Water Limited; and
- accounting for the joint venture investment.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified
As a result of performing the above, we identified the valuation of the provision for household trade receivables in Severn Trent Water, the classification and valuation of capital expenditure in Severn Trent Water Limited, and accounting for the joint venture investment as key audit matters related to the potential risk of fraud. 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.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 judgements 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

12. 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 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.

13. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

13.1. 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.

13.2. 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.

14. OTHER MATTERS

14.1. 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 15 years, covering the years ended 31 March 2006 to 31 March 2020.

14.2. 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).

15. 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

Kari Hale, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

London, United Kingdom

19 May 2020

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 Underlying £m	2020 Non-underlying items[1] £m	2020 Total £m	2019 Underlying £m	2019 Non-underlying items[1] £m	2019 Total £m
Turnover	5,6	**1,843.5**	**–**	**1,843.5**	1,767.4	–	1,767.4
Other income		**6.9**	**–**	**6.9**	19.9	–	19.9
Operating costs before charge for bad and doubtful debts	7	**(1,237.2)**	**(2.1)**	**(1,239.3)**	(1,188.1)	(10.3)	(1,198.4)
Charge for bad and doubtful debts	7	**(42.9)**	**–**	**(42.9)**	(25.6)	–	(25.6)
Total operating costs		**(1,280.1)**	**(2.1)**	**(1,282.2)**	(1,213.7)	(10.3)	(1,224.0)
Profit before interest and tax		**570.3**	**(2.1)**	**568.2**	573.6	(10.3)	563.3
Finance income	10	**59.9**	**–**	**59.9**	68.9	–	68.9
Finance costs	11	**(248.3)**	**–**	**(248.3)**	(263.1)	–	(263.1)
Net finance costs		**(188.4)**	**–**	**(188.4)**	(194.2)	–	(194.2)
Impairment of loans receivable	8	**–**	**(4.9)**	**(4.9)**	–	–	–
Net (losses)/gains on financial instruments	12	**(17.4)**	**–**	**(17.4)**	16.0	–	16.0
Share of net loss of joint ventures accounted for using the equity method	20	**–**	**(46.8)**	**(46.8)**	(0.4)	–	(0.4)
Profit on ordinary activities before taxation		**364.5**	**(53.8)**	**310.7**	395.0	(10.3)	384.7
Current tax	13	**(30.1)**	**(0.9)**	**(31.0)**	(31.8)	–	(31.8)
Deferred tax	13	**(29.1)**	**(91.8)**	**(120.9)**	(39.4)	1.8	(37.6)
Taxation on profit on ordinary activities	13	**(59.2)**	**(92.7)**	**(151.9)**	(71.2)	1.8	(69.4)
Profit for the year		**305.3**	**(146.5)**	**158.8**	323.8	(8.5)	315.3

1 For definition of non-underlying items see note 44.

EARNINGS PER SHARE (PENCE)

	Note	2020	2019
Basic	15	**66.7**	133.4
Diluted	15	**66.3**	133.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Profit for the year		**158.8**	315.3
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains	28	**187.4**	57.9
Current tax on pension contributions in prior periods	13	**9.5**	9.5
Deferred tax on pension contributions in prior periods	13	**(9.5)**	(9.5)
Deferred tax on net actuarial gains	13	**(32.9)**	(12.2)
Deferred tax arising on rate change	13	**2.7**	–
		157.2	45.7
Items that may be reclassified to the income statement:			
Losses on cash flow hedges		**(38.9)**	(8.6)
Deferred tax on losses on cash flow hedges	13	**7.4**	1.5
Amounts on cash flow hedges transferred to the income statement	12	**8.2**	8.2
Deferred tax on transfer to the income statement	13	**(1.6)**	(1.3)
		(24.9)	(0.2)
Other comprehensive income for the year		**132.3**	45.5
Total comprehensive income for the year		**291.1**	360.8

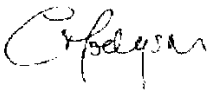
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

		Equity attributable to owners of the Company				
	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
As at 1 April 2018		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	13	–	–	1.5	–	1.5
Amounts on cash flow hedges transferred to the income statement	12	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	13	–	–	(1.3)	–	(1.3)
Net actuarial gains	28	–	–	–	57.9	57.9
Current tax on pension contributions in prior periods	13	–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods	13	–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains	13	–	–	–	(12.2)	(12.2)
Total comprehensive income for the year		–	–	(0.2)	361.0	360.8
Share options and LTIPs						
- proceeds from shares issued	30,31	0.8	10.3	–	–	11.1
- value of employees' services	37	–	–	–	8.1	8.1
- own shares purchased		–	–	–	(1.1)	(1.1)
Current tax on share based payments	13	–	–	–	0.2	0.2
Dividends paid	14	–	–	–	(211.9)	(211.9)
As at 31 March 2019		235.9	128.0	92.8	707.4	1,164.1
Adjustment on adoption of IFRS 16	2	–	–	–	(1.6)	(1.6)
As at 1 April 2019		235.9	128.0	92.8	705.8	1,162.5
Profit for the year		–	–	–	158.8	158.8
Losses on cash flow hedges		–	–	(38.9)	–	(38.9)
Deferred tax on losses on cash flow hedges	13	–	–	7.4	–	7.4
Amounts on cash flow hedges transferred to the income statement	12	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	13	–	–	(1.6)	–	(1.6)
Net actuarial gains	28	–	–	–	187.4	187.4
Current tax on pension contributions in prior periods	13	–	–	–	9.5	9.5
Deferred tax on pension contributions in prior periods	13	–	–	–	(9.5)	(9.5)
Deferred tax on net actuarial gains	13	–	–	–	(32.9)	(32.9)
Deferred tax arising from rate change	13	–	–	–	2.7	2.7
Total comprehensive income for the year		–	–	(24.9)	316.0	291.1
Share options and LTIPs						
- proceeds from shares issued	30,31	0.6	9.0	–	–	9.6
- value of employees' services	37	–	–	–	8.1	8.1
Deferred tax on share based payments	13	–	–	–	0.8	0.8
Dividends paid	14	–	–	–	(228.4)	(228.4)
As at 31 March 2020		**236.5**	**137.0**	**67.9**	**802.3**	**1,243.7**

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2020

	Note	2020 £m	2019 £m
Non-current assets			
Goodwill	16	**91.4**	90.9
Other intangible assets	17	**153.8**	124.2
Property, plant and equipment	18	**9,580.8**	9,085.6
Right-of-use assets	19	**128.8**	–
Investments in joint ventures	20	**–**	37.0
Derivative financial instruments	21	**65.5**	68.4
Trade and other receivables	22	**153.7**	204.0
Retirement benefit surplus	28	**21.3**	18.6
		10,195.3	9,628.7
Current assets			
Inventory		**29.2**	20.8
Trade and other receivables	22	**525.5**	513.5
Current tax receivable		**3.1**	–
Derivative financial instruments	21	**–**	0.1
Cash and cash equivalents	23	**48.6**	41.0
		606.4	575.4
Current liabilities			
Borrowings	24	**(475.4)**	(197.0)
Derivative financial instruments	25	**(4.4)**	–
Trade and other payables	26	**(573.6)**	(496.7)
Current tax payable		**–**	(9.3)
Provisions for liabilities	29	**(18.9)**	(32.2)
		(1,072.3)	(735.2)
Net current liabilities		**(465.9)**	(159.8)
Non-current liabilities			
Borrowings	24	**(5,957.7)**	(5,857.2)
Derivative financial instruments	25	**(159.2)**	(126.5)
Trade and other payables	26	**(1,187.3)**	(1,082.9)
Deferred tax	27	**(901.1)**	(747.5)
Retirement benefit obligations	28	**(255.3)**	(471.5)
Provisions for liabilities	29	**(25.1)**	(19.2)
		(8,485.7)	(8,304.8)
Net assets		**1,243.7**	1,164.1
Equity			
Called up share capital	30	**236.5**	235.9
Share premium account	31	**137.0**	128.0
Other reserves	32	**67.9**	92.8
Retained earnings		**802.3**	707.4
Total equity		**1,243.7**	1,164.1

Signed on behalf of the Board who approved the accounts on 19 May 2020.



Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Cash generated from operations[1]	39	**928.1**	872.8
Tax received	39	**0.4**	–
Tax paid	39	**(34.3)**	(21.3)
Net cash generated from operating activities		**894.2**	851.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		**–**	(50.9)
Investments in associates and joint ventures		**–**	(6.2)
Purchases of property, plant and equipment		**(777.2)**	(782.1)
Purchases of intangible assets and goodwill		**(74.8)**	(35.1)
Proceeds on disposal of property, plant and equipment		**12.9**	1.4
Net loans repaid by joint ventures		**35.6**	–
Interest received		**2.0**	0.8
Net cash outflow from investing activities		**(801.5)**	(872.1)
Cash flow from financing activities			
Interest paid		**(181.9)**	(158.0)
Interest element of lease payments		**(4.3)**	(4.4)
Dividends paid to shareholders of the parent		**(228.4)**	(211.9)
Repayments of borrowings		**(3.0)**	(166.5)
Principal elements of lease payments		**(5.5)**	(1.7)
New loans raised		**330.1**	554.2
Issues of shares		**9.6**	11.1
Payments for swap terminations		**(16.8)**	–
Proceeds from swap terminations		**16.5**	–
Purchase of own shares		**–**	(1.1)
Net cash (outflow)/inflow from financing activities		**(83.7)**	21.7
Net movement in cash and cash equivalents		**9.0**	1.1
Net cash and cash equivalents at the beginning of the year		**39.6**	38.5
Net cash and cash equivalents at end of year		**48.6**	39.6
Cash at bank and in hand	23	**37.3**	41.0
Bank overdrafts	24	**–**	(1.4)
Short-term deposits	23	**11.3**	–
		48.6	39.6

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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 68 which sets out the Group's considerations relating to viability and going concern) 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 2020.

(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 Partnerships (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

Amendments to IFRS 9

The Group has early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR.

Details of the Group's management of the impacts of the replacement of such benchmarks and the Group's risk exposure that is affected by interest rate benchmark reform are set out in note 36.

IFRS 16

In the current financial year the Group has adopted IFRS 16 Leases.

The Group has adopted IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for prior reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 April 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 3.14%.

For leases previously classified as finance leases the Group recognised the carrying amount of the right-of-use asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. There have been no remeasurement amounts of leases previously classified as finance leases under IFRS 16 principles.

	£m
Operating lease commitments disclosed as at 31 March 2019	17.5
Add: adjustments as a result of a different treatment of extension and termination options	10.6
Add: finance lease liabilities recognised as at 31 March 2019	112.2
Less: short-term leases recognised on a straight-line basis as an expense	(1.0)
Less: low-value leases recognised on a straight-line basis as an expense	(0.1)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(11.1)
Lease liability recognised as at 1 April 2019	**128.1**
Recognised at 31 March 2020 as:	
Current lease liabilities	**5.8**
Non-current lease liabilities	**116.9**
	122.7

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 March 2020 £m	1 April 2019 £m
Land and buildings	**10.4**	11.7
Infrastructure assets	**113.8**	114.8
Fixed plant and equipment	**4.2**	7.8
Moveable plant	**0.4**	0.8
Total right-of-use assets	**128.8**	135.1

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	£m
Property, plant and equipment	(118.8)
Right-of-use assets	135.1
Deferred tax	0.4
Provisions	(2.4)
Borrowings	(15.9)
Retained earnings	1.6

Impact on segment disclosure and earnings per share

Year ended 31 March 2020	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m
Segment assets	7.1	6.4	1.0
Segment liabilities	–	(2.4)	–
	7.1	**4.0**	**1.0**

Basic and diluted earnings per share decreased by 0.3 pence per share for the year ended 31 March 2020 as a result of the adoption of IFRS16. Underlying basic and diluted earnings per share also decreased by 0.3 pence per share.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with a remaining lease term of less than 12 months at 1 April 2019 as short-term leases per asset class;
- accounting for operating leases of low-value assets as at 1 April 2019 on an individual basis;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Leasing activities

The Group leases various land and buildings, plant and equipment and vehicles. Rental agreements are typically made for fixed periods of 1 to 999 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the current financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use assets with a corresponding liability at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following: the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. During the current financial year, there has been no financial effect of revising lease terms to reflect the effect of exercising extension or termination options.

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 excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

2 ACCOUNTING POLICIES (CONTINUED)

b) Basis of consolidation (continued)

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.

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 6. The expected turnover over the life of a contract is allocated to each performance obligation based on the standalone selling price of each performance obligation, which is based on the forecast costs incurred and 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 in aggregate, if of a similar type, 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.

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 – 25

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*

Where the Group enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Group; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily *determined, the Group's incremental borrowing rate. Lease* liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability 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 of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Group at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Where the lease term is less than one year or the underlying asset is low value, the Group does not recognise a right-of-use asset or lease liability. Payments under such leases are charged to operating costs.

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.

2 ACCOUNTING POLICIES (CONTINUED)

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. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

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. Impairments are recognised in line with policy set out in 2 l) above.

n) Inventories

Inventories are 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 where the fee is integral to the yield on the loan. All loans receivable are held for collection of contractual cash flows, which represent solely payments of principal and interest. 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.

The Group recognises a loss allowance for expected credit losses ('ECL') on its loans and receivables to joint ventures. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the 12 month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the loans. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers both quantitative and qualitative information about the risk of default that is reasonable and supportable, including forward-looking information that is available. This includes assessment of a deterioration in: actual or expected business; financial or economic conditions of the borrower; actual or expected operating results, cash flows and financial position of the borrower; and the regulatory, economic, or technological environment faced by the borrower.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

(ii) Definition of default

The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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 and other 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 and reasonable, supportable forward-looking information which is available without undue cost or effort.

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.

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) and the accounting policy for lease liabilities is set out in note 2 j).

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.

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.

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 economic relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

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.

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.

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 host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; 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.

2 ACCOUNTING POLICIES (CONTINUED)

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) 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 below.

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 the fair value less costs to sell. Depreciation is not charged on such assets.

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, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group's financial position.

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 that Group has developed to facilitate the consistent application of its accounting policies.

ii) Classification of loans to Water Plus for the purpose of determining the share of joint venture losses to be recognised

Water Plus, the Group's joint venture, incurred a loss after tax of £103.3 million in the year ended 31 March 2020. The Group's share of the loss is £51.7 million but, since the Group has no obligation to make any further contribution to Water Plus, the Group is not required to recognise losses in excess of its net investment in the joint venture. At 1 April 2019 the Group's equity investment in Water Plus was £37.0 million and this has been entirely written off by the losses in the year. The Group has also advanced loans to Water Plus under varying terms. Assessing whether any of these loans form part of the Group's net investment in Water Plus under IAS 28 requires judgments to be made.

The Group holds a loan of £12.5 million under a zero coupon subordinated loan note ('the note'). The note was issued at par and does not bear interest. It is repayable in full in 2027. Since the note does not bear interest the Group considers that the note forms part of its net investment in Water Plus and therefore should be taken into account in determining the amount of the Group's share of Water Plus's losses that should be recognised. At 31 March 2020 the note was carried at a value of £9.8 million, before writing off any of the Group's share of Water Plus's losses against it. The difference between the carrying value of the note and its par value was included in the Group's equity investment in Water Plus. The Group has recognised £9.8 million of Water Plus's losses against the value of the note.

The Group has also made available revolving credit facilities ('RCFs') from Severn Trent Plc and Severn Trent Water in the sums of £32.5 million and £100.0 million respectively. The RCFs bear interest at LIBOR plus 2.1% and 1.73% respectively and are repayable in September 2021. The amount drawn down on the facilities fluctuates with Water Plus's working capital requirements. The Group considers that these facilities have been advanced on arm's length commercial terms and that they do not form part of the Group's net investment in Water Plus. None of Water Plus's losses have been written off against the amount receivable on the RCFs.

iii) **Classification of share of joint venture losses as exceptional**
The Group's accounting policy defining exceptional items is set out in note 2 above. Further details of the components of this loss are set out in the CFO's review on page 51, which indicates that £14.3 million arose from trading activities in the year excluding the impacts of COVID-19 and that £32.5 million arose from asset impairments resulting from COVID-19. The Group considers that the impacts of COVID-19 are exceptional within the parameters of the Group's accounting policy since the impact is material and unusual.

IAS 28 requires that the share of loss of joint ventures is presented as a single figure in the income statement. The Group has considered whether to present the entire loss as underlying or as exceptional.

In view of significantly larger portion of the total loss that arose from the COVID-19 related losses compared to the amount attributable to underlying trading of the joint venture and the accounting requirements of IAS 28, the Group considers that presentation of the share of loss of joint ventures as exceptional is the most relevant and reliable available under the requirements of IAS 28.

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 45 years. A five year change in the average useful lives would result in a £37 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, and, where market prices are not available, the values of the assets held. 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

a) Background

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 (excluding Bioresources and Developer Services), its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses in the UK and Ireland, the Green Power business, the Bioresources business, the Property Development business and our other businesses including Developer Services, affinity products and searches.

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.

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 38 to 49 of the Strategic report and those of Business Services on page 50.

Results from interests in joint ventures 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 44). A segmental analysis of turnover and underlying PBIT is presented below.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

b) Segmental results

The following table shows the segmental turnover and PBIT:

	2020		2019	
Year ended 31 March	**Regulated Water and Waste Water £m**	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,620.7**	**222.8**	1,583.1	183.4
Inter-segment turnover	**–**	**17.6**	–	17.5
Total turnover	**1,620.7**	**240.4**	1,583.1	200.9
Underlying PBIT	**511.5**	**64.9**	527.0	64.1
Exceptional operating items and amortisation of acquired intangible assets	**–**	**(2.1)**	(8.9)	(1.0)
Profit before interest and tax	**511.5**	**62.8**	518.1	63.1

The reportable segments' turnover is reconciled to Group turnover as follows:

Year ended 31 March	**2020 £m**	2019 £m
Regulated Water and Waste Water	**1,620.7**	1,583.1
Business Services	**240.4**	200.9
Corporate and other	**0.7**	0.4
Consolidation adjustments	**(18.3)**	(17.0)
	1,843.5	1,767.4

Included in the revenues of Regulated Water and Waste Water of £1,620.7 million (2019: £1,583.1 million) is £306.6 million (2019: £335.0 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 2020 or 2019.

5 SEGMENTAL ANALYSIS (CONTINUED)

b) Segmental results (continued)

Segmental underlying PBIT is reconciled to the Group's profit before tax as follows:

Year ended 31 March	2020 £m	2019 £m
Regulated Water and Waste Water	**511.5**	527.0
Business Services	**64.9**	64.1
Corporate and other	**(5.6)**	(8.2)
Consolidation adjustments	**(0.5)**	(9.3)
Underlying PBIT	**570.3**	573.6
Exceptional operating items and amortisation of acquired intangible assets:		
Regulated Water and Waste Water	**–**	(8.9)
Business Services	**(2.1)**	(1.0)
Corporate and other	**–**	(0.4)
Net finance costs	**(188.4)**	(194.2)
Impairment of loans receivable	**(4.9)**	–
Net (losses)/gains on financial instruments	**(17.4)**	16.0
Share of net loss of joint ventures accounted for using the equity method	**(46.8)**	(0.4)
Profit on ordinary activities before taxation	**310.7**	384.7

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.

c) *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.

	2020		2019	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**9,883.0**	**626.3**	9,214.4	622.3
Goodwill	**63.5**	**29.2**	63.5	28.7
Investments in joint ventures	**–**	**–**	–	37.0
Segment assets	**9,946.5**	**655.5**	9,277.9	688.0
Segment operating liabilities	**(1,991.8)**	**(42.4)**	(1,986.3)	(68.7)
Capital employed	**7,954.7**	**613.1**	7,291.6	619.3

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2020 £m	2019 £m
Segment assets		
Regulated Water and Waste Water	**9,946.5**	9,277.9
Business Services	**655.5**	688.0
Corporate and other	**3.7**	4.0
Other financial assets	**114.1**	109.5
Loans receivable from joint venture	**92.6**	142.0
Current tax receivable	**3.1**	–
Consolidation adjustments	**(13.8)**	(17.3)
Total assets	**10,801.7**	10,204.1

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:

	2020 £m	2019 £m
Segment liabilities		
Regulated Water and Waste Water	**(1,991.8)**	(1,986.3)
Business Services	**(42.4)**	(68.7)
Corporate and other	**(42.3)**	(62.3)
Other financial liabilities	**(6,596.8)**	(6,180.7)
Current tax payable	**–**	(9.3)
Deferred tax	**(901.1)**	(747.5)
Consolidation adjustments	**16.4**	14.8
Total liabilities	**(9,558.0)**	(9,040.0)

The consolidation adjustments comprise elimination of intra-group creditors.

The following table shows the additions to other intangible assets, property, plant and equipment and right-of-use assets:

	2020		2019	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**60.7**	**1.8**	36.1	2.3
Property, plant and equipment	**946.8**	**9.4**	851.1	10.3
Right-of-use assets	**–**	**0.3**	–	–

d) Geographical areas

The Group's sales were derived from the following countries:

	2020 £m	2019 £m
UK	**1,838.9**	1,762.8
Other	**4.6**	4.6
	1,843.5	1,767.4

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2020 and 2019.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue recognised from contracts with customers is analysed by type of revenue and by business segment below:

Year ended 31 March 2020	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,616.4	57.1	–	–	1,673.5
Operating services	–	70.7	–	–	70.7
Renewable energy	–	81.2	–	–	81.2
Other sales	4.3	13.8	–	–	18.1
Intra-group sales	–	17.6	0.7	(18.3)	–
	1,620.7	**240.4**	**0.7**	**(18.3)**	**1,843.5**

Year ended 31 March 2019	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,581.7	54.5	–	–	1,636.2
Operating services	–	57.1	–	–	57.1
Renewable energy	–	46.2	–	–	46.2
Other sales	1.4	25.7	–	0.8	27.9
Intra-group sales	–	17.4	0.4	(17.8)	–
	1,583.1	**200.9**	**0.4**	**(17.0)**	**1,767.4**

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year, and revenue is recognised on a straight-line basis over the financial year.

Income from diversions of £6.8 million (2018/19: £8.4 million), which is reimbursement of costs for diversions, is included within infrastructure maintenance expenditure within operating costs.

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract the Group bills the customer based on an inflation-linked volumetric tariff and invoices are payable on normal commercial terms. The performance obligations, which are satisfied as the services are performed, are: operating and maintaining the customer's infrastructure assets; upgrading the customer's infrastructure assets; administrating the services received from statutory water and sewerage undertakers; administrating billing services of the customer's commercial and Non Base Dependent customers. Revenue has been allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Changes to projected margins are adjusted on a cumulative basis in the period that they are identified.

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. There was no significant change in the estimated transaction price in the year. At 31 March 2020 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £459.3 million (2019: £509.6 million). This amount is expected to be recognised as revenue as follows:

	2020 £m	2019 £m
In the next year	**43.6**	43.5
Between one and five years	**177.6**	178.1
After more than five years	**238.1**	288.0
	459.3	509.6

The assumptions and other sources of estimation uncertainty in relation to this contract do not present a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year and therefore are not included as a source of estimation uncertainty in *note 4 b)*.

Revenue recognised in excess of amounts billed is recorded as a contract asset and amounts billed in excess of revenue recognised is recorded as a contract liability. Changes in contract assets in the year were as follows:

	2020 £m	2019 £m
Contract asset at 1 April	**35.1**	39.1
Amounts billed	**(47.6)**	(46.1)
Revenue recognised	**49.1**	42.1
Contract asset at 31 March	**36.6**	35.1

No revenue recognised in the year was included as a contract liability at the beginning of the year (2019: nil). No revenue recognised in the year is from performance obligations satisfied in previous periods (2019: nil).

7 NET OPERATING COSTS

	2020			2019		
	Before adjusting and exceptional costs £m	**Non-underlying items £m**	**Total £m**	Before adjusting and exceptional costs £m	Non-underlying items £m	Total £m
Wages and salaries	**281.1**	**–**	**281.1**	252.2	–	252.2
Social security costs	**28.9**	**–**	**28.9**	25.5	–	25.5
Pension costs	**25.8**	**–**	**25.8**	23.6	9.6	33.2
Share based payments	**8.1**	**–**	**8.1**	8.1	–	8.1
Total employee costs	**343.9**	**–**	**343.9**	309.4	9.6	319.0
Power	**94.5**	**–**	**94.5**	90.3	–	90.3
Raw materials and consumables	**68.4**	**–**	**68.4**	60.6	–	60.6
Rates	**81.6**	**–**	**81.6**	80.8	–	80.8
Charge for bad and doubtful debts	**42.9**	**–**	**42.9**	25.6	–	25.6
Service charges	**39.4**	**–**	**39.4**	35.2	–	35.2
Depreciation of property, plant and equipment	**327.4**	**–**	**327.4**	315.4	–	315.4
Depreciation of right-of-use assets	**6.6**	**–**	**6.6**	–	–	–
Amortisation of intangible assets	**30.8**	**2.1**	**32.9**	29.8	0.7	30.5
Hired and contracted services	**237.8**	**–**	**237.8**	242.1	–	242.1
Rental charges						
– land and buildings	**0.6**	**–**	**0.6**	2.3	–	2.3
– other	**1.3**	**–**	**1.3**	1.6	–	1.6
Hire of plant and machinery	**7.4**	**–**	**7.4**	6.8	–	6.8
Loss on disposal of tangible fixed assets	**1.2**	**–**	**1.2**	0.6	–	0.6
Exchange (gains)/losses	**(0.6)**	**–**	**(0.6)**	0.1	–	0.1
Infrastructure maintenance expenditure	**149.6**	**–**	**149.6**	141.6	–	141.6
Ofwat licence fees	**5.1**	**–**	**5.1**	5.1	–	5.1
Other operating costs	**42.1**	**–**	**42.1**	48.4	–	48.4
Other operating income	**(3.0)**	**–**	**(3.0)**	(3.3)	–	(3.3)
	1,477.0	**2.1**	**1,479.1**	1,392.4	10.3	1,402.7
Release from deferred credits	**(15.4)**	**–**	**(15.4)**	(14.7)	–	(14.7)
Own work capitalised	**(181.5)**	**–**	**(181.5)**	(164.0)	–	(164.0)
	1,280.1	**2.1**	**1,282.2**	1,213.7	10.3	1,224.0

Further details of exceptional costs are given in note 8. Other adjusting costs are amortisation of acquired intangible assets.

7 NET OPERATING COSTS (CONTINUED)

During the year the following fees were charged by the auditors:

	2020 £m	2019 £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*	**0.5**	0.4
Total audit fees	**0.7**	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

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

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 93 and 94. No services were provided pursuant to contingent fee arrangements.

Details of Directors' remuneration are set out in the Directors' remuneration report on pages 102 to 123.

8 EXCEPTIONAL ITEMS BEFORE TAX

	2020 £m	2019 £m
Regulated Water and Waste Water		
GMP equalisation costs	**–**	(8.9)
	–	(8.9)
Business Services		
GMP equalisation costs	**–**	(0.3)
	–	(0.3)
Corporate and other		
GMP equalisation costs	**–**	(0.4)
	–	(0.4)
Exceptional operating costs	**–**	(9.6)
Other exceptional items		
Exceptional impairment of loans receivable from joint venture (see note 22)	**(4.9)**	–
Exceptional share of net losses of joint venture (see note 20)	**(46.8)**	–
	(51.7)	(9.6)

9 EMPLOYEE NUMBERS

Average number of employees (including Executive Directors) during the year:

	2020	2019
By business segment		
Regulated Water and Waste Water	**5,824**	5,680
Business Services	**962**	889
Corporate and other	**10**	11
	6,796	6,580

10 FINANCE INCOME

	2020 £m	2019 £m
Interest income earned on bank deposits	**0.4**	0.2
Other financial income	**1.3**	7.7
Total interest receivable	**1.7**	7.9
Interest income on defined benefit scheme assets	**58.2**	61.0
	59.9	68.9

11 FINANCE COSTS

	2020 £m	2019 £m
Interest expense charged on:		
Bank loans and overdrafts	**21.6**	21.3
Other loans	**150.5**	153.0
Lease liabilities	**4.3**	4.4
Total borrowing costs	**176.4**	178.7
Other financial expenses	**2.6**	9.6
Interest cost on defined benefit scheme liabilities	**69.3**	74.8
	248.3	263.1

Borrowing costs of £44.2 million (2019: £33.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 2.68% (2019: 3.40%). Tax relief of £8.4 million (2019: £5.5 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £8.4 million (2019: £4.9 million).

12 NET (LOSSES)/GAINS ON FINANCIAL INSTRUMENTS

	2020 £m	2019 £m
Gain on swaps used as hedging instruments in fair value hedges	**5.1**	0.3
(Loss)/gain arising on debt in fair value hedges	**(1.6)**	0.5
Exchange loss on other loans	**(6.7)**	(8.1)
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**2.7**	1.9
(Loss)/gain arising on swaps where hedge accounting is not applied	**(9.8)**	28.5
Amortisation of fair value adjustment on debt	**1.1**	1.1
	(17.4)	16.0

The net loss on financial assets and liabilities mandatorily measured at fair value through profit or loss was £4.7 million (2019: gain of £28.8 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2019: nil).

The Group's hedge accounting arrangements are described in note 36.

13 TAXATION

a) Analysis of tax charge in the year

	2020 £m	2019 £m
Current tax		
Current year at 19% (2019: 19%)	**36.2**	41.2
Prior years	**(5.2)**	(9.4)
Total current tax	**31.0**	31.8
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**29.8**	30.1
Prior years	**(0.7)**	7.5
Exceptional charge on rate change	**91.8**	–
Total deferred tax	**120.9**	37.6
	151.9	69.4

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Profit before taxation	**310.7**	384.7
Tax at standard rate of corporation tax in the UK 19% (2019: 19%)	**59.0**	73.1
Tax effect of depreciation on non-qualifying assets	**1.3**	1.1
Other permanent differences	**5.7**	0.6
Current year impact of lower rate for deferred tax	**–**	(3.5)
Adjustments in respect of prior years	**(5.9)**	(1.9)
Exceptional deferred tax arising from rate change	**91.8**	–
Total tax charge	**151.9**	69.4

	2020 £m	2019 £m
Profit before taxation	**310.7**	384.7
Tax at standard rate of corporation tax in the UK 19% (2019: 19%)	**59.0**	73.1
Tax effect of depreciation on non-qualifying assets	**1.3**	1.1
Other permanent differences	**5.7**	0.6
Tax effect of accelerated capital allowances	**(26.2)**	(29.5)
Other timing differences	**(3.6)**	(4.1)
Adjustments in respect of prior years	**(5.2)**	(9.4)
Total current tax charge	**31.0**	31.8

The most significant factor impacting the Group's current tax charge is the difference between the depreciation charged on property, plant and equipment in the financial statements and the amount deductible from taxable profits in the form of capital allowances. Where the assets qualify for capital allowances this creates a temporary difference and deferred tax is recognised on the difference between the carrying amount of the asset and the amount that will be deductible for tax purposes in future years. Changes in the amount of deferred tax recognised on these assets are charged or credited to deferred tax in the income statement. Where the amount of the capital allowances received is greater than the depreciation charged this is referred to as accelerated capital allowances.

Certain of the Group's property, plant and equipment assets are not eligible for capital allowances under current legislation. Therefore there is no tax deduction that corresponds to the depreciation charged on these assets and deferred tax is not recognised in respect of this permanent difference.

Other permanent differences comprise expenditure that is not deductible for tax purposes or income that is not taxable.

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 11 March 2020, the UK Government announced that it would reverse the previously planned reduction in the corporation tax rate that was due to take effect from 1 April 2020. This change was substantively enacted on 17 March 2020 and we have therefore remeasured our deferred tax assets and liabilities at 31 March 2020 at the new rate of 19%. This resulted in an exceptional deferred tax charge in the income statement of £91.8 million and a credit to reserves amounting to £2.7 million.

Other timing differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax liabilities in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

c) Tax (credited)/charged directly to other comprehensive income or equity

In addition to the amount (credited)/charged to the income statement, the following amounts of tax have been (credited)/charged to other comprehensive income or equity:

	2020 £m	2019 £m
Current tax		
Tax on share based payments	–	(0.2)
Tax on pension contributions in prior periods	**(9.5)**	(9.5)
Total current tax credited to other comprehensive income or equity	**(9.5)**	(9.7)
Deferred tax		
Tax on actuarial gains	**32.9**	12.2
Tax on cash flow hedges	**(7.4)**	(1.5)
Tax on share based payments	**(0.8)**	–
Tax on transfers to the income statement	**1.6**	1.3
Tax on pension contributions in prior periods	**9.5**	9.5
Effect of change in tax rate	**(2.7)**	–
Total deferred tax charged to other comprehensive income or equity	**33.1**	21.5

14 DIVIDENDS

Amounts recognised as distributions to owners of the Company in the year:

	2020		2019	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2019 (2018)	**56.02**	**133.1**	51.92	122.9
Interim dividend for the year ended 31 March 2020 (2019)	**40.03**	**95.3**	37.35	89.0
Total dividends paid	**96.05**	**228.4**	89.27	211.9
Proposed final dividend for the year ended 31 March 2020	**60.05**	**145.0**		

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. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the period.

Basic and diluted earnings per share are calculated on the basis of profit attributable to the owners of the Company.

The calculation of basic and diluted earnings per share is based on the following:

i) Earnings for the purpose of basic and diluted earnings per share

	2020 £m	2019 £m
Profit for the year	**158.8**	315.3

ii) Number of shares

	2020 m	2019 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.0**	236.3
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**1.4**	0.4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	236.7

b) Underlying earnings per share

	2020 pence	2019 pence
Underlying basic earnings per share	**146.0**	145.8
Underlying diluted earnings per share	**145.1**	145.6

Underlying earnings per share figures exclude the effects of deferred tax, exceptional tax, losses/gains on financial instruments, current tax related to losses/gains on financial instruments, amortisation of acquired intangible assets, exceptional items and current tax related to exceptional items. The Directors consider that the underlying figures provide a useful additional indicator of performance. The denominators used in the calculations of underlying 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:

	2020 £m	2019 £m
Earnings for the purpose of basic and diluted earnings per share	**158.8**	315.3
Adjustments for:		
– exceptional items before tax	**51.7**	9.6
– *current tax on exceptional items*	**(0.9)**	–
– amortisation of acquired intangible assets	**2.1**	0.7
– net losses/(gains) on financial instruments	**17.4**	(16.0)
– current tax on net losses/gains on financial instruments	**(2.6)**	(2.6)
– deferred tax	**120.9**	37.6
Earnings for the purpose of underlying basic and diluted earnings per share	**347.4**	344.6

16 GOODWILL

	2020 £m	2019 £m
Cost		
At 1 April	**90.9**	62.2
Acquisition of subsidiary (note 38)	**–**	28.7
Adjustment to provisional fair values on acquisition (note 38)	**0.5**	–
At 31 March	**91.4**	90.9

Goodwill is allocated to the Group's cash-generating units ('CGUs') identified according to the operating segment. A summary of the carrying amount of goodwill by CGU is presented below.

	2020 £m	2019 £m
Regulated Water and Waste Water	**62.2**	62.2
Business Services	**29.2**	28.7
	91.4	90.9

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2019: £4.3 million).

a) Regulated Water and Waste Water

On 1 July 2018 the 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 in Hafren Dyfrdwy; consequently this goodwill is allocated to the Regulated Water and Waste Water CGU.

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, 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 next 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 the cash flows in the projections, which are based on Ofwat's Final Determination for AMP7, and the following:

Key assumption	%
Discount rate	5.6
RPI inflation	2.8
CPI inflation	1.9
Growth rate in the period beyond the detailed projections	1.5

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the nominal post-tax WACC detailed in the Ofwat PR19 Final Determination. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 2.8% and 1.9% for RPI and CPI respectively based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the five-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 £3,965 million. An increase in the discount rate to 6.5% or a reduction in the growth rate in the period beyond the detailed projections to 0.9% would reduce the recoverable amount to the carrying amount of the CGU.

16 GOODWILL (CONTINUED)

b) Agrivert

On 30 November 2018, the Group acquired Agrivert Holdings and its subsidiary undertakings resulting in goodwill of £28.7 million. Adjustments to the provisional fair value of the assets and liabilities acquired has increased the goodwill to £29.2 million at 31 March 2020. This goodwill has been allocated to the Green Power South cash-generating unit which is determined to be the lowest level of independent cash flows relating to the goodwill. Green Power South 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 Green Power South CGU was determined on the basis of a value in use calculation.

The value in use determined using a discounted cash flow calculation for the Green Power South CGU is based on the most recent financial projections available for the business to 2025.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	6.8
Growth rate in the period beyond the detailed projections	3.0

The discount rate was based on a review of a range of external sources of information about the cost of capital for the Severn Trent energy business. This rate was then converted to the equivalent pre-tax discount rate disclosed above.

Cash flows beyond the end of the five-year period are extrapolated using an assumed growth of 3.0% in the Group's free cash flows.

The value in use for the CGU exceeded its carrying value by £152 million. An increase in the discount rate to 12.8% or reduction in the growth rate in the period beyond the detailed projections to negative 1.4% would reduce the recoverable amount to the carrying amount of the CGU.

17 OTHER INTANGIBLE ASSETS

	Computer software		Capitalised development costs and patents	Other intangible assets	Total
	Internally generated £m	Purchased £m	£m	£m	£m
Cost					
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	–	–	–	31.5	31.5
At 1 April 2019	235.2	135.0	12.8	35.8	418.8
Additions	44.6	17.9	–	–	62.5
At 31 March 2020	**279.8**	**152.9**	**12.8**	**35.8**	**481.3**
Amortisation					
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 1 April 2019	(187.9)	(93.2)	(12.8)	(0.7)	(294.6)
Amortisation for the year	(17.4)	(13.4)	–	(2.1)	(32.9)
At 31 March 2020	**(205.3)**	**(106.6)**	**(12.8)**	**(2.8)**	**(327.5)**
Net book value					
At 31 March 2020	**74.5**	**46.3**	**–**	**33.0**	**153.8**
At 31 March 2019	47.3	41.8	–	35.1	124.2

Other intangible assets includes the Instrument of Appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert.

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 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	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
Reclassified on adoption of IFRS 16 (see note 2 a)	–	(129.2)	(381.4)	–	–	(510.6)
At 1 April 2019	3,581.1	5,277.9	4,023.4	66.1	1,284.0	14,232.5
Additions	90.1	162.9	170.7	7.9	524.4	956.0
Transfers on commissioning	95.1	56.9	152.0	1.1	(305.1)	–
Disposals	(12.2)	–	(5.4)	(7.9)	(10.5)	(36.0)
At 31 March 2020	**3,754.1**	**5,497.7**	**4,340.7**	**67.2**	**1,492.8**	**15,152.5**
Depreciation						
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)
Reclassified on adoption of IFRS 16 (see note 2 a)	–	14.4	377.4	–	–	391.8
At 1 April 2019	(1,370.8)	(1,354.3)	(2,503.1)	(37.5)	–	(5,265.7)
Charge for the year	(89.7)	(39.3)	(192.6)	(5.8)	–	(327.4)
Disposals	9.5	–	5.1	7.3	–	21.9
Impairment	(0.5)	–	–	–	–	(0.5)
At 31 March 2020	**(1,451.5)**	**(1,393.6)**	**(2,690.6)**	**(36.0)**	**–**	**(5,571.7)**
Net book value						
At 31 March 2020	**2,302.6**	**4,104.1**	**1,650.1**	**31.2**	**1,492.8**	**9,580.8**
At 31 March 2019	2,210.3	4,038.4	1,524.3	28.6	1,284.0	9,085.6

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £71.0 million (2019: £42.1 million).

The adjustments to cost and accumulated depreciation arose on the adoption of IFRS 16 and represent the transfer of assets held under finance leases under IAS 17 to right-of-use assets, which are disclosed separately in note 19 under IFRS 16.

At 31 March 2019 the carrying amount of property, plant and equipment included 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

The net book value of land and buildings is analysed as follows:

	2020 £m	2019 £m
Freehold	**2,302.3**	2,210.0
Short leasehold	**0.3**	0.3
	2,302.6	2,210.3

19 LEASES

a) The Group's leasing activities

The Group leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2 a).

Lease contracts are negotiated on an individual basis and include a wide range of terms and conditions. The contracts do not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contracts do not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases for the year ended 31 March 2020:

	2020 £m	2019 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**1.4**	–
Infrastructure assets	**1.0**	–
Fixed plant and equipment	**3.6**	–
Moveable plant	**0.6**	–
Total depreciation of right-of-use assets	**6.6**	–
Interest expense included in finance cost	**4.3**	–
Expense relating to short-term leases included in operating costs	**1.1**	–
Expense relating to leases of low-value assets included in operating costs	**0.1**	–

c) Balance sheet

In the previous year the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17. See note 2 a) for adjustments recognised on adoption of IFRS 16 on 1 April 2019.

The balance sheet includes the following amounts relating to leases:

	31 March 2020 £m	1 April 2019 £m
Right-of-use assets:		
Land and buildings	**10.4**	11.7
Infrastructure assets	**113.8**	114.8
Fixed plant and equipment	**4.2**	7.8
Moveable plant	**0.4**	0.8
	128.8	135.1

Additions to right-of-use assets were £0.3 million.

	31 March 2020 £m	1 April 2019 £m
Lease liabilities:		
Current	**5.8**	6.0
Non-current	**116.9**	122.1
	122.7	128.1

At 31 March 2019 the Group leased various property plant and equipment with a carrying value of £118.8 million under finance leases expiring within 1 to 13 years. Finance lease liabilities were reclassified to lease liabilities on 1 April 2019 on the adoption of the new leasing standard – see note 2 a). Obligations under lease liabilities were as follows:

	2020 £m	2019 £m
Within 1 year	**10.1**	7.3
1 – 2 years	**10.0**	7.8
2 – 5 years	**31.2**	26.3
After more than 5 years	**112.7**	103.7
Gross obligations under finance leases	**164.0**	145.1
Less: future finance charges	**(41.3)**	(32.9)
Present value of lease obligations	**122.7**	112.2

Net obligations under finance leases were as follows:

	2020 £m	2019 £m
Within 1 year	**5.8**	4.1
1 – 2 years	**5.7**	4.1
2 – 5 years	**20.9**	16.1
After more than 5 years	**90.3**	87.9
Included in non-current liabilities	**116.9**	108.1
	122.7	112.2

d) Cash flow

The total cash outflow for leases in the year was £9.8 million which consists of £4.3 million repayments of interest and £5.5 million repayment of principal elements. This is included in financing cash flows.

20 INTERESTS IN JOINT VENTURES

Particulars of the Group's principal joint venture undertaking at 31 March 2020 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%

Water Plus is the largest business retailer in the non-household retail water market in England with close to 1 in 3 businesses in England as customers. Its principal activities are core retail services including billing, meter reading, call centre support and water efficiency advice as well as key account management services and value added solutions.

Water Plus competes in England and Scotland for customers ranging from small and medium-sized enterprises through to large corporate entities in both the private and public sectors.

Movements in our investment were as follows:

	2020 £m	2019 £m
Carrying value of joint venture investment at 1 April	**37.0**	37.6
Amortisation of discount on zero coupon loan note	**–**	(0.2)
Zero coupon loan note classified as part of net investment	**9.8**	–
Group's share of loss after tax and comprehensive loss	**(46.8)**	(0.4)
As at 31 March	**–**	37.0

In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak; the resulting lockdown; and its effects on commercial customers and expects to see lower economic activity leading to increases in business customer failures.

Water Plus has updated its business plan to take account of the expected impacts of the COVID-19 outbreak, and the impairment assessment for its long-term assets, in particular goodwill and customer relationships recognised under the acquisition accounting rules of IFRS 3. The updated impairment tests identified an impairment of £51.1 million against these assets. In addition, Water Plus has already seen a significant reduction in cash collected from its non-household customers and, using economic forecasts to estimate the likely impact of future economic circumstances on their debt book at 31 March, has recognised an additional £29.3 million bad debt provision.

20 INTERESTS IN JOINT VENTURES (CONTINUED)

Before taking account of these COVID-19 related write-downs, our share of Water Plus's loss for the year was £14.3 million, of which £9.3 million arose in the first half of the year.

We have recognised £46.8 million of our share of losses in Water Plus. Losses recognised have been capped at the level of our long-term investments in Water Plus. Unrecognised losses at 31 March 2020 were £4.9 million.

All results are from continuing operations in both the current and preceding year.

As at 31 March 2020 and 2019 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than those 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 2020 or 2019.

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 £54.1 million (2019: £58.1 million) and the guarantees for the Severn Trent Water loan is for the amount due.

The registered office of Water Plus Limited is Two Smithfield, Leonard Coates Way, Stoke-On-Trent, ST1 4FD.

At 31 March 2020, Water Plus had current assets of £310.8 million, non-current assets of £33.3 million, current liabilities of £154.5 million and non-current liabilities of £218.1 million. Included in these amounts were cash of £7.6 million, current financial liabilities (excluding trade and other payables and provisions) of £0.6 million and non-current financial liabilities of £216.6 million.

Its revenue for the year then ended was £854.5 million and it recorded a loss for the year and total comprehensive loss of £99.1 million after depreciation and amortisation of £56.4 million, finance income of £3.2 million, finance costs of £8.2 million and a tax credit of £8.7 million.

21 CATEGORIES OF FINANCIAL ASSETS

	Note	2020 £m	2019 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**36.7**	18.0
Interest rate swaps – not hedge accounted		**4.9**	26.1
		41.6	44.1
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**23.7**	19.1
Energy hedges – cash flow hedges		**0.2**	5.3
		23.9	24.4
Total derivative financial assets		**65.5**	68.5
Financial assets at amortised cost			
Trade receivables	22	**220.1**	221.5
Accrued income	22	**241.8**	223.3
Other amounts receivable	22	**58.0**	64.6
Loans receivable from joint venture	22	**92.6**	142.0
Short-term deposits	23	**11.3**	–
Cash at bank and in hand	23	**37.3**	41.0
Total financial assets at amortised cost		**661.1**	692.4
Total financial assets		**726.6**	760.9
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**65.5**	68.4
Trade and other receivables		**11.1**	15.7
Loans receivable from joint venture		**92.6**	142.0
		169.2	226.1
Current assets			
Derivative financial assets		**–**	0.1
Trade and other receivables		**508.8**	493.7
Cash and cash equivalents		**48.6**	41.0
		557.4	534.8
		726.6	760.9

22 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Current assets		
Net trade receivables	**220.1**	221.5
Other amounts receivable	**46.9**	48.9
Contract assets	**0.7**	3.2
Prepayments	**16.0**	16.6
Net accrued income	**241.8**	223.3
	525.5	513.5
Non-current assets		
Other amounts receivable	**11.1**	15.7
Prepayments	**14.1**	14.4
Contract assets	**35.9**	31.9
Loans receivable from joint venture	**92.6**	142.0
	153.7	204.0
	679.2	717.5

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

(i) Trade receivables and accrued income

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 91% of Group turnover and 92% 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.

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 43, Related party transactions. Credit risk is considered separately for trade receivables due from Water Plus and is considered immaterial as amounts outstanding are paid within 30 days.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables, contract assets and accrued income.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable supportable information on the future impact of the COVID-19 outbreak on unemployment levels and hence on the Group's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2019: nil).

(ii) Contract assets

The contract assets represent the Group's right to receive consideration from the Ministry of Defence for services provided. On that basis the Group considers that the credit risk in relation to these assets is immaterial and therefore no provision for expected credit losses has been recognised (2019: nil).

(iii) Loans receivable from joint venture

As well as trade receivables from Water Plus the Group has advanced loans to its joint venture. These loans are assessed for impairment under the two stage impairment model in IFRS 9.

In the current year, the Group determined that there has been a significant increase in the credit risk since inception relating to its loans receivable from Water Plus of £97.5 million (2019: £142.0 million) in the light of the unforeseen significant increase in losses incurred by Water Plus in the year. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2020 (2019: 12 month expected credit loss) based on Water Plus's financial projections, taking into account the expected impact of COVID-19 in more than one scenario, as this is considered to be reasonable and supportable forward-looking information. The Group has recorded an impairment provision for expected credit losses of £4.9 million (2019: no provision recognised as risk of default was insignificant) resulting in a net loan receivable of £92.6 million (2019: £142.0 million).

22 TRADE AND OTHER RECEIVABLES (CONTINUED)

b) Expected credit loss allowance – trade receivables and accrued income

The expected credit loss at 31 March 2020 and 2019 was as set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

2020	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	8	349.8	(27.4)	322.4
Up to 1 year past due	33	60.0	(19.7)	40.3
1 – 2 years past due	42	67.4	(28.4)	39.0
2 – 3 years past due	47	43.5	(20.3)	23.2
3 – 4 years past due	48	30.4	(14.6)	15.8
4 – 5 years past due	61	22.3	(13.7)	8.6
5 – 6 years past due	64	15.7	(10.1)	5.6
6 – 7 years past due	48	8.3	(4.0)	4.3
7 – 8 years past due	46	4.1	(1.9)	2.2
8 – 9 years past due	50	1.0	(0.5)	0.5
More than 9 years past due	100	1.1	(1.1)	–
		603.6	(141.7)	461.9

2019	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	12	326.3	(39.8)	286.5
Up to 1 year past due	40	54.9	(22.1)	32.8
1 – 2 years past due	30	57.9	(17.3)	40.6
2 – 3 years past due	30	38.7	(11.6)	27.1
3 – 4 years past due	32	27.9	(9.0)	18.9
4 – 5 years past due	32	19.7	(6.4)	13.3
5 – 6 years past due	23	20.2	(4.7)	15.5
6 – 7 years past due	54	11.1	(6.0)	5.1
7 – 8 years past due	28	5.4	(1.5)	3.9
8 – 9 years past due	64	1.4	(0.9)	0.5
More than 9 years past due	60	1.5	(0.9)	0.6
		565.0	(120.2)	444.8

Movements on the expected credit loss allowance were as follows:

	2020 £m	2019 £m
At 1 April	120.2	129.0
Charge for bad and doubtful debts	42.9	25.6
Amounts written off during the year	(21.4)	(34.4)
At 31 March	141.7	120.2

23 CASH AND CASH EQUIVALENTS

	2020 £m	2019 £m
Cash at bank and in hand	**37.3**	41.0
Short-term deposits	**11.3**	–
	48.6	41.0

Included within short-term bank deposits are security deposits for insurance obligations of £4.3 million, which are not available for use by the Group. In addition, £17.5 million (2019: £14.7 million) of cash at bank and in hand is restricted for use on the Ministry of Defence contract and is not available for use by the Group.

24 BORROWINGS

	2020 £m	2019 £m
Current liabilities		
Bank overdraft	–	1.4
Bank loans	**469.5**	188.7
Other loans	**0.1**	2.8
Lease liabilities	**5.8**	4.1
	475.4	197.0
Non-current liabilities		
Bank loans	**782.4**	931.4
Other loans	**5,058.4**	4,817.7
Lease liabilities	**116.9**	108.1
	5,957.7	5,857.2
	6,433.1	6,054.2

See note 35 for details of interest rates payable and maturity of borrowings.

25 CATEGORIES OF FINANCIAL LIABILITIES

	Note	2020 £m	2019 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**78.5**	94.1
Inflation swaps – not hedge accounted		**27.7**	6.2
		106.2	100.3
Derivatives designated as hedging instruments			
Interest rate swaps – cash flow hedges		**50.2**	25.8
Energy hedges – cash flow hedges		**7.2**	0.4
		57.4	26.2
Total derivative financial liabilities		**163.6**	126.5
Other financial liabilities			
Borrowings	24	**6,433.1**	6,054.2
Trade payables	26	**45.4**	32.2
Other payables	26	**23.1**	29.9
Total other financial liabilities		**6,501.6**	6,116.3
Total financial liabilities		**6,665.2**	6,242.8
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**159.2**	126.5
Borrowings		**5,957.7**	5,857.2
Other payables		**6.5**	8.4
		6,123.4	5,992.1
Current liabilities			
Derivative financial liabilities		**4.4**	–
Borrowings		**475.4**	197.0
Trade payables		**45.4**	32.2
Other payables		**16.6**	21.5
		541.8	250.7
		6,665.2	6,242.8

26 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current liabilities		
Trade payables	**45.4**	32.2
Social security and other taxes	**7.7**	11.5
Other payables	**16.6**	21.5
Accruals	**487.6**	412.6
Deferred income	**16.3**	18.9
	573.6	496.7
Non-current liabilities		
Other payables	**6.5**	8.4
Accruals	**8.8**	0.4
Deferred income	**1,172.0**	1,074.1
	1,187.3	1,082.9
	1,760.9	1,579.6

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 2018	783.5	(62.1)	(42.1)	(4.1)	675.2
Charge/(credit) to income	36.3	(2.3)	5.2	(1.6)	37.6
Acquisition of subsidiary undertaking	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
Adjustment on adoption of IFRS 16 (see note 2 a)	–	–	–	(0.4)	(0.4)
At 1 April 2019	823.6	(42.7)	(37.1)	3.3	747.1
Charge/(credit) to income	29.8	1.3	(1.0)	(1.0)	29.1
Charge/(credit) to income arising from rate change	96.9	(1.6)	(4.0)	0.5	91.8
Charge/(credit) to equity	–	42.4	(5.8)	(0.8)	35.8
Credit to equity arising from rate change	–	(2.3)	(0.4)	–	(2.7)
At 31 March 2020	**950.3**	**(2.9)**	**(48.3)**	**2.0**	**901.1**

The majority of the Group's deferred tax liability is expected to be recovered over more than one year. Deferred tax assets and liabilities have been offset. The offset amounts, which are expected to be recovered/settled after more than 12 months, are as follows:

	2020 £m	2019 £m
Deferred tax asset	**(51.2)**	(79.8)
Deferred tax liability	**952.3**	827.3
	901.1	747.5

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 (the '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 2019
Severn Trent Mirror Image Pension Scheme ('STMIPS')	31 March 2019
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.

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

	2020 £m	2019 £m
Fair value of assets	**2,414.1**	2,418.9
Present value of the defined benefit obligations	**(2,648.1)**	(2,871.8)
	(234.0)	(452.9)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**21.3**	18.6
Retirement benefit obligation – funded schemes in deficit	**(247.4)**	(462.9)
Retirement benefit obligation – unfunded schemes	**(7.9)**	(8.6)
Retirement benefit obligation – deficit total	**(255.3)**	(471.5)
Net retirement benefit obligation	**(234.0)**	(452.9)

STPS, STMIPS and DVWS	2020 £m	2019 £m
Fair value of scheme assets		
Equities	**275.6**	356.6
Corporate bonds	**925.7**	899.2
Liability-driven investment funds ('LDIs')	**720.4**	746.0
Property	**261.9**	228.2
High-yield bonds	**28.2**	31.3
Cash	**202.3**	157.6
	2,414.1	2,418.9

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £414.1 million. Due to the unprecedented market situation related to COVID-19, valuation of the asset categories requiring judgment (in particular, property included at £261.9 million) is subject to significant uncertainty at the balance sheet date. Consequently, a higher degree of caution should be attached to the valuation of those assets than would normally be the case.

Movements in the fair value of the scheme assets were as follows:

	2020 £m	2019 £m
Fair value at 1 April	**2,418.9**	2,339.8
Interest income on scheme assets	**58.2**	61.0
Contributions from the sponsoring companies	**46.2**	34.9
Contributions from scheme members	**0.1**	0.1
Return on plan assets (excluding amounts included in finance income)	**(0.4)**	95.9
Scheme administration costs	**(3.4)**	(2.3)
Benefits paid	**(105.5)**	(110.5)
Fair value at 31 March	**2,414.1**	2,418.9

Movements in the present value of the defined benefit obligations were as follows:

	2020 £m	2019 £m
Present value at 1 April	**(2,871.8)**	(2,859.6)
Service cost	**(0.2)**	(0.2)
Exceptional past service cost	**–**	(9.6)
Interest cost	**(69.3)**	(74.8)
Contributions from scheme members	**(0.1)**	(0.1)
Actuarial (losses)/gains arising from changes in demographic assumptions	**(49.0)**	55.7
Actuarial gains/(losses) arising from changes in financial assumptions	**222.5**	(132.7)
Actuarial gains arising from experience adjustments	**14.3**	39.0
Benefits paid	**105.5**	110.5
Present value at 31 March	**(2,648.1)**	(2,871.8)

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 £7.9 million (2019: £8.6 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that it 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

	2020 £m	2019 £m
Amounts charged to operating costs:		
Current service cost	**(0.2)**	(0.2)
Exceptional past service cost	**–**	(9.6)
Scheme administration costs	**(3.4)**	(2.3)
	(3.6)	(12.1)
Amounts charged to finance costs:		
Interest cost	**(69.3)**	(74.8)
Amounts credited to finance income:		
Interest income on scheme assets	**58.2**	61.0
Total amount charged to the income statement	**(14.7)**	(25.9)

The actual return on scheme assets was a gain of £57.8 million (2019: £156.9 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. There have been no significant developments that have changed the initial estimate in the current year. Any subsequent changes to the estimate of the cost of equalising benefits in future periods will be treated as a change in actuarial assumption, and 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 Scheme'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 Scheme. 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 Schemes have a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the Scheme liabilities, we consider it appropriate to invest a portion of the Scheme assets in equity securities and in real estate to leverage the return generated by the fund.

28 RETIREMENT BENEFIT SCHEMES (CONTINUED)

a) Defined benefit pension schemes (continued)

(iv) Actuarial risk factors (continued)

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.

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:

	2020 % p.a.	2019 % p.a.
Price inflation – RPI	**2.5**	3.2
Price inflation – CPI	**1.7**	2.2
Discount rate	**2.4**	2.5
Pension increases in payment	**2.5**	3.2
Pension increases in deferment	**2.5**	3.2

The assumption for RPI 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 taking account of the 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:

	2020		2019	
	Men	**Women**	Men	Women
Mortality table used	**S3PA_L**	**S3PA_M**	S2NMA	S2NFA
Mortality table compared with standard table	**112%**	**95%**	95%	99%
Mortality projections	**CMI 2019**	**CMI 2019**	CMI 2018	CMI 2018
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Remaining life expectancy for members currently aged 65 (years)	**22.2**	**23.9**	21.9	23.6
Remaining life expectancy at age 65 for members currently aged 45 (years)	**23.1**	**25.1**	22.9	24.8

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% p.a.	Decrease/increase by £41/£42 million
Price inflation[2]	Increase/decrease by 0.1% p.a.	Increase/decrease by £36/£35 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £97 million

1 A change in discount rate is likely to occur as a result of changes in bond yields 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 Schemes.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases.

3 The change in this assumption is based on triennial valuations and reflect the fact that life expectancy rates might 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.

(vi) 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 (2019: 16 years) and 14 years for DVWS (2019: 15 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2019 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 £32.4 million, increasing in line with CPI inflation until 31 March 2027, were agreed. Payments of £8.2 million per annum through an asset backed funding arrangement will continue to 31 March 2032. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ended 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of 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 £25.6 million (2019: £23.4 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the Scheme. As at 31 March 2020, no contributions (2019: nil) in respect of the current reporting period were owed to the Schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which was material in either the current or prior year.

29 PROVISIONS

	Restructuring £m	Insurance £m	Other £m	Total £m
At 31 March 2019	0.3	23.4	27.7	51.4
Recognised on adoption of IFRS 16 (see note 2 a)	–	–	2.4	2.4
At 1 April 2019	0.3	23.4	30.1	53.8
(Credited)/charged to income statement	–	(1.4)	4.5	3.1
Utilisation of provision	(0.3)	(3.0)	(9.8)	(13.1)
Unwinding of discount	–	–	0.2	0.2
Reclassifications	–	2.5	(2.5)	–
At 31 March 2020	**–**	**21.5**	**22.5**	**44.0**

	2020 £m	2019 £m
Included in:		
Current liabilities	**18.9**	32.2
Non-current liabilities	**25.1**	19.2
	44.0	51.4

Insurance includes provisions in respect of Lyra Insurance Guernsey Limited, a captive insurance company and a wholly owned subsidiary 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 10 years from the balance sheet date.

30 SHARE CAPITAL

	2020 £m	2019 £m
Total issued and fully paid share capital		
241,537,324 Ordinary Shares of 97 17/19 pence (2019: 240,943,929)	**236.5**	235.9

At 31 March 2020, 3,581,338 treasury shares (2019: 3,774,921) were held at a nominal value of £3.5 million (2019: £3.7 million).

Changes in share capital were as follows:

	Number	£m
Ordinary Shares of 97 17/19 pence		
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 31 March 2020	**241,537,324**	**236.5**

31 SHARE PREMIUM

	2020 £m	2019 £m
At 1 April	**128.0**	117.7
Share premium arising on issue of shares for Employee Sharesave Scheme	**9.0**	10.3
At 31 March	**137.0**	128.0

32 OTHER RESERVES

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2018	157.1	(64.1)	93.0
Total comprehensive income for the year	–	(0.2)	(0.2)
At 1 April 2019	157.1	(64.3)	92.8
Total comprehensive income for the year	–	(24.9)	(24.9)
At 31 March 2020	**157.1**	**(89.2)**	**67.9**

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.

33 CAPITAL MANAGEMENT

The Group's principal objectives in managing capital are:

- to maintain a flexible and sustainable balance sheet structure;
- to maintain an investment-grade credit rating;
- 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; and
- to provide the Group with an appropriate degree of certainty as to its foreign exchange exposure.

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 monitor market conditions and reduce its exposure to low floating interest rates, which comprises 12% (2019: 22%) of our gross debt portfolio at the balance sheet date, with a further 24% (2019: 25%) of index-linked debt and 64% (2019: 53%) of fixed rate debt.

Exposure to credit risk (excluding credit risk relating to amounts receivable from contracts with customers) is set out in note 35 b).

Foreign exchange risk is set out in note 35 a) (ii). At 31 March 2020 the Group had the following credit ratings:

	Moody's	Standard and Poor's
Severn Trent Plc	Baa2	BBB
Severn Trent Water	Baa1	BBB+

The ratings were stable.

A key metric in measuring financial sustainability and capital efficiency for companies in the water sector is RCV gearing. This is measured as net debt divided by Regulatory Capital Value (RCV). The Group aims to main its RCV gearing ratio close to the Ofwat assumption at the Price Review (62.5% for AMP 6 and 60% for AMP 7). At 31 March 2020 the Group's RCV gearing ratio was 64.9% (2019: 63.0%) and for Severn Trent Water it was 64.4% (2019: 62.3%).

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 2019/20 dividend at 100.08 pence, an increase of 7.2% compared with the total dividend for 2018/19 of 93.37 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

The Group's capital at 31 March was:

	2020 £m	2019 £m
Net cash and cash equivalents	**48.6**	39.6
Bank loans	**(1,251.9)**	(1,120.1)
Other loans	**(5,058.5)**	(4,820.5)
Lease liabilities	**(122.7)**	(112.2)
Cross currency swaps	**60.4**	37.1
Loans receivable from joint venture	**92.6**	142.0
Net debt	**(6,231.5)**	(5,834.1)
Equity attributable to owners of the Company	**(1,243.7)**	(1,164.1)
Total capital	**(7,475.2)**	(6,998.2)

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 are Level 2 unless otherwise stated below:

	2020 £m	2019 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow.
Assets	**60.4**	37.1	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	**4.9**	26.1	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.
Liabilities	**(128.7)**	(119.9)	
Energy swaps			Discounted cash flow.
Assets	**0.2**	5.3	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(7.2)**	(0.4)	
Inflation swaps			Discounted cash flow.
Liabilities	**(27.7)**	(6.2)	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 ('the wedge').
			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)**	(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 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)
Losses recognised in profit or loss	(21.5)	–
At 31 March 2020	**(27.7)**	**(3.0)**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A reduction of 10bps in the CPI wedge would result in an increase in the carrying value of £7.9 million and an increase of 10bps in the CPI wedge would result in a decrease in the carrying value of £7.9 million. This sensitivity is assuming no change to any other inputs.

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of all financial instruments, except those disclosed in the table below, approximate to their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2020		2019	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**948.9**	**947.1**	818.1	818.3
Other loans	**187.2**	**180.9**	185.6	185.9
	1,136.1	**1,128.0**	1,003.7	1,004.2
Fixed rate debt				
Bank loans	**182.2**	**182.1**	184.1	183.3
Other loans	**3,472.8**	**3,903.1**	3,267.2	3,667.0
Finance leases	**–**	**–**	112.2	119.6
Lease liabilities	**122.7**	**129.5**	–	–
	3,777.7	**4,214.7**	3,563.5	3,969.9
Index-linked debt				
Bank loans	**120.8**	**138.0**	117.9	126.7
Other loans	**1,398.5**	**1,904.2**	1,367.7	2,171.6
	1,519.3	**2,042.2**	1,485.6	2,298.3
	6,433.1	**7,384.9**	6,052.8	7,272.4

The above classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate loans are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked loans are rarely traded and therefore quoted prices are not considered a reliable indicator of fair value. Therefore, these loans are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models with discount rates derived from observed market prices, which is a Level 2 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 of Directors. 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 operates under the Group's Treasury Procedures Manual and Policy Statement and 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 CPI. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPI, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI and the Group holds RPI/CPI swaps to mitigate the risk of divergence between RPI and CPI inflation.

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

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 annual 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.

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:

	2020 £m	2019 £m
Net debt (note 39)	**6,231.5**	5,834.1
Cash and cash equivalents	**48.6**	41.0
Loans receivable from joint venture	**92.6**	142.0
Cross currency swaps included in net debt at fair value	**60.4**	37.1
Fair value hedge accounting adjustments	**(29.3)**	(28.8)
Exchange on currency debt not hedge accounted	**(23.1)**	(16.7)
Interest bearing financial liabilities	**6,380.7**	6,008.7

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.

2020	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank loans	(948.9)	(182.2)	(120.8)	(1,251.9)
Other loans	(187.2)	(3,420.4)	(1,398.5)	(5,006.1)
Lease liabilities	–	(122.7)	–	(122.7)
	(1,136.1)	**(3,725.3)**	**(1,519.3)**	**(6,380.7)**
Impact of swaps not matched against specific debt instruments	126.6	(126.6)	–	–
Interest-bearing financial liabilities	**(1,009.5)**	**(3,851.9)**	**(1,519.3)**	**(6,380.7)**
Proportion of interest-bearing financial liabilities that are fixed		**60%**		
Weighted average interest rate of fixed debt		**4.07%**		
Weighted average period for which interest is fixed (years)		**8.6**		

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		

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 charge of £7.0 million (2019: credit of £19.7 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2020 %	2019 %	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Pay fixed rate interest						
2 – 5 years	**5.10**	4.98	**(200.0)**	(150.0)	**(41.4)**	(25.8)
5 – 10 years	**–**	5.14	**–**	(150.0)	**–**	(34.9)
10 – 20 years	**5.46**	5.45	**(75.0)**	(75.0)	**(37.1)**	(33.4)
	5.20	5.13	**(275.0)**	(375.0)	**(78.5)**	(94.1)
Receive fixed rate interest						
5 – 10 years	**–**	3.36	**–**	225.0	**–**	15.8
10 – 20 years	**2.75**	2.75	**50.0**	400.0	**4.9**	10.3
	2.75	2.97	**50.0**	625.0	**4.9**	26.1
			(225.0)	250.0	**(73.6)**	(68.0)

In addition to the above the Group has cross currency swaps that also swap fixed rate interest to floating (see below).

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:

	2020		2019	
	1.0% £m	**-1.0% £m**	1.0% £m	-1.0% £m
Profit or loss	**6.2**	**(7.0)**	**(48.5)**	**54.3**
Cash flow	**(7.8)**	**7.8**	**(10.8)**	**10.8**
Equity	**6.2**	**(7.0)**	**(48.5)**	**54.3**

(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 no charge (2019: 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 value and fair value of these swaps is shown in note 36 a) (i).

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

a) Market risk (continued)

(ii) Exchange rate risk (continued)

The Group also has cross currency swaps with a sterling notional value of £98.3 million (2019: £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 and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to a credit of £18.6 million (2019: £12.2 million) in the income statement, which is partly offset by the exchange loss of £5.6 million (2019: £8.6 million) on the underlying debt.

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.

2020	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	**(19.9)**	**(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	**–**	**–**	**–**

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)	–	–

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 22.

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	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Double A range	**15.0**	105.0	**–**	–
Single A range	**800.0**	700.0	**11.3**	–
Below single A range	**–**	–	**–**	–
	815.0	805.0	**11.3**	–

Values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2020 £m	2019 £m
Double A range	**4.9**	1.4
Single A range	**60.6**	67.1
Below single A range	**–**	–
	65.5	68.5

The Group's maximum exposure to credit risk is the carrying amount of financial assets detailed in note 21, which is net of impairment losses.

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:

	2020 £m	2019 £m
2 – 5 years	**755.0**	885.0

(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.

2020 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(330.1)	(287.8)	(27.6)	(62.0)	(707.5)
1 – 2 years	(10.8)	(383.2)	(28.3)	(6.5)	(428.8)
2 – 5 years	(662.6)	(918.6)	(226.8)	–	(1,808.0)
5 – 10 years	(128.2)	(1,936.5)	(510.3)	–	(2,575.0)
10 – 15 years	(49.0)	(752.3)	(213.0)	–	(1,014.3)
15 – 20 years	–	(309.9)	(146.5)	–	(456.4)
20 – 25 years	–	(487.5)	(177.4)	–	(664.9)
25 – 30 years	–	–	(210.6)	–	(210.6)
30 – 35 years	–	–	(642.8)	–	(642.8)
35 – 40 years	–	–	(3,181.2)	–	(3,181.2)
40 – 45 years	–	–	(21.6)	–	(21.6)
45 – 50 years	–	–	(280.3)	–	(280.3)
Total	**(1,180.7)**	**(5,075.8)**	**(5,666.4)**	**(68.5)**	**(11,991.4)**

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	2.9	508.8	48.6	560.3
1 – 2 years	99.4	11.1	–	110.5
Total	**102.3**	**519.9**	**48.6**	**670.8**

35 RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

c) Liquidity risk (continued)

(ii) Cash flows from non-derivative financial instruments (continued)

2019 *Undiscounted amounts payable:*	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(202.2)	(122.8)	(28.8)	(53.7)	(407.5)
1 – 2 years	(14.4)	(276.4)	(30.9)	(8.4)	(330.1)
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)	(62.1)	(11,765.5)

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	2.5	493.7	41.0	537.2
1 – 2 years	144.6	15.7	–	160.3
Total	147.1	509.4	41.0	697.5

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.

(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		
2020	**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	(16.2)	–	(2.8)	0.3	–	6.6	(2.8)	(14.9)
1 – 2 years	(20.1)	0.1	(2.6)	0.5	–	6.6	(2.6)	(18.1)
2 – 5 years	(54.1)	0.6	(1.9)	1.5	0.2	19.9	(8.1)	(41.9)
5 – 10 years	(39.8)	(2.8)	–	2.1	–	196.0	(148.6)	6.9
10 – 15 years	(5.7)	2.3	–	0.8	–	–	–	(2.6)
15 – 20 years	–	(28.7)	–	–	–	–	–	(28.7)
	(135.9)	**(28.5)**	**(7.3)**	**5.2**	**0.2**	**229.1**	**(162.1)**	**(99.3)**

2019	Derivative liabilities			Derivative assets				
						Cross currency swaps		
	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)

d) Inflation risk

The Group's principal operating subsidiary, Severn Trent Water, operates under a regulatory environment where its prices are linked to inflation (for the period to 31 March 2020 as measured by RPI). Its operating profits and cash flows are therefore exposed to changes in inflation. 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 inflation 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 the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2019: £250 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 CPI/RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in CPI/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.

	2020		2019	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(12.3)**	**12.3**	(10.6)	10.6
Equity	**(12.3)**	**12.3**	(10.6)	10.6

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. Hedge ineffectiveness arises from credit risk, which is not hedged.

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**	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Euro	**11.4**	11.4	**10.1**	10.1
US dollar	**23.2**	23.2	**3.4**	0.2
Yen	**8.5**	8.5	**10.2**	8.8
	43.1	43.1	**23.7**	19.1

36 HEDGE ACCOUNTING (CONTINUED)

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	2020 %	2019 %	2020 £m	2019 £m	2020 £m	2019 £m
5 – 10 years	**2.57**	2.63	**132.2**	135.2	**(15.3)**	(10.9)
10 – 20 years	**1.83**	1.83	**298.0**	298.0	**(34.9)**	(14.9)
	2.06	2.08	**430.2**	433.2	**(50.2)**	(25.8)

The Group recognised a gain on hedge ineffectiveness of £2.7 million (2019: £1.9 million) in losses/gains on financial instruments in the income statement in relation to interest rate swaps.

(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	2020 £/MWh	2019 £/MWh	2020 MWh	2019 MWh	2020 £m	2019 £m
Less than 1 year	**44.7**	48.6	**372,240**	21,955	**(4.4)**	0.1
1 – 2 years	**43.1**	44.7	**372,240**	372,240	**(1.6)**	2.0
2 – 5 years	**44.6**	43.7	**459,720**	788,280	**(1.0)**	2.7
5 – 10 years	**–**	47.7	**–**	43,680	**–**	0.1
	44.2	44.2	**1,204,200**	1,226,155	**(7.0)**	4.9

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2020	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Cross currency swaps	**–**	**(65.4)**	**–**	**(19.5)**
Interest rate swaps	**–**	**(180.0)**	**–**	**–**
	–	**245.4**	**–**	**(19.5)**

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2019	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Cross currency swaps	–	(60.9)	–	(17.9)
Interest rate swaps	–	(181.9)	–	–
	–	(242.8)	–	(17.9)

£65.4 million (2019: £60.9 million) of the carrying amount of hedged items and £19.5 million (2019: £17.9 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

Amendments to IFRS 9

From 1 April 2019, the Group has early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR.

The Group is exposed to GBP LIBOR, which is subject to interest rate benchmark reform within its hedge accounting relationships. The hedged items include issued sterling, Euro and Yen denominated fixed rate debt and issued sterling denominated floating rate debt.

As well as the benchmark interest rate exposures described in note 35, the Group has derivative financial instruments in its trading books that are not included in hedge accounting relationships. Given hedge accounting is not applied, there is no accounting relief. The fair value of these financial assets and liabilities reflects the uncertainties arising from the interest rate benchmark reforms.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has established a LIBOR transition group within Group Treasury with an objective of identifying and assessing LIBOR exposures within the business and developing and delivering an action plan to enable a smooth transition to alternative benchmark rates. The Group aims to have its transition and fall-back plans in place by the end of this financial year.

None of the Group's current GBP LIBOR-linked contracts include adequate and robust fall-back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall-back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall-back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements during this financial year.

For the Group's floating rate debt, we will seek to refinance our committed bank facilities, including our Revolving Credit Facility, ahead of the LIBOR transition. The Group will begin a dialogue with our other lenders, comprising bank lenders and USPP noteholders during this financial year to propose amendments to the fall-back provisions to move from GBP LIBOR to SONIA.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9/IAS 39 amendments due to interest rate benchmark reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Below are the details of the cash flow hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal £m	Hedged item
Interest rate swaps	Pay sterling fixed, receive 6m GBP LIBOR	2027	32.2	6m GBP LIBOR debt with same maturity and nominal as the swap
	Pay sterling fixed, receive 6m GBP LIBOR	2027	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2028	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2031	48.0	
Forward-starting interest rate swaps	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	Forecast interest payments on debt with the same nominal as the swap
	Pay sterling fixed, receive 6m GBP LIBOR	2030	150.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	

Below are the details of the fair value hedging instruments and hedged items:

Instrument type	Instrument details	Maturing in	Nominal	Hedged item
Cross currency swaps	Receive JPY fixed, pay 6m GBP LIBOR	2029	¥2bn	Fixed JPY debt with same maturity and nominal as the swap
	Receive EUR fixed, pay 6m GBP LIBOR	2025	€19.9m	Fixed EUR debt with same maturity and nominal as the swap

The Group will continue to apply the amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference IBORs are amended to specify: the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate, and the relevant spread adjustment. This will, in part, be dependent on the introduction of fall back clauses that have yet to be added to the Group's contracts and the negotiation with lenders and bondholders.

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 (2019: £8.1 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £22.07 (2019: £19.27).

At 31 March 2020, there were no options exercisable (2019: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans (LTIPs)

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 2016, 2017, 2018 and 2019 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 business plans over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2019: 100%).

37 SHARE BASED PAYMENT (CONTINUED)

a) Long Term Incentive Plans (LTIPs) (continued)

(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 2018	548,774
Granted during the year	272,057
Vested during the year	(159,463)
Lapsed during the year	(35,945)
Outstanding at 1 April 2019	625,423
Granted during the year	281,905
Vested during the year	(174,445)
Lapsed during the year	(14,732)
Outstanding at 31 March 2020	**718,151**

Details of LTIP awards outstanding at 31 March were as follows:

Date of grant	Normal date of vesting	Number of awards 2020	Number of awards 2019
July 2016	2019	–	175,543
July 2017	2020	**181,070**	181,070
July 2018	2021	**266,178**	268,810
July 2019	2022	**270,903**	–
		718,151	625,423

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 103 and 104.

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.

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 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 1 April 2019	3,714,517	1,585p
Granted during the year	1,042,857	1,787p
Forfeited during the year	(46,040)	1,586p
Cancelled during the year	(152,843)	1,564p
Exercised during the year	(593,395)	1,621p
Lapsed during the year	(9,074)	1,623p
Outstanding at 31 March 2020	**3,956,022**	**1,633p**

Sharesave options outstanding at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of awards 2020	Number of awards 2019
January 2014	2019	1,331p	–	144,212
January 2015	2020	1,584p	**215,914**	227,212
January 2016	2019 or 2021	1,724p	**117,428**	556,447
January 2017	2020 or 2022	1,633p	**625,429**	662,545
January 2018	2021 or 2023	1,652p	**740,496**	804,957
January 2019	2022 or 2024	1,474p	**1,219,105**	1,319,144
January 2020	2023 or 2025	1,787p	**1,037,650**	–
			3,956,022	3,714,517

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:

	2020			2019		
	LTIP	SAYE		LTIP	SAYE	
		3-year scheme	5-year scheme		3-year scheme	5-year scheme
Share price at grant date (pence)	**2,026**	**2,515**	**2,515**	1,884	1,849	1,849
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 (%)	**5.0**	**5.0**	**5.0**	4.0	4.0	4.0
Risk free rate (%)	**n/a**	**0.5**	**0.6**	n/a	0.6	0.8
Fair value per share (pence)	**2,007**	**489**	**416**	1,866	303	284

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.

38 ACQUISITIONS

On 30 November 2018, Severn Trent Green Power Limited acquired 100% of the issued share capital of Agrivert Holdings Limited, for a total consideration of £61.3 million and the assumption of £59.7 million of existing debt.

The acquisition was accounted for using the acquisition method. Goodwill of £28.7 million was capitalised, attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired.

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 adjustments to fair values recognised at 31 March 2020 are set out below:

	£m
Goodwill recognised at 1 April 2019 based on provisional fair values	28.7
Adjustment to estimated fair value of trade and other receivables	0.5
Goodwill recognised at 31 March 2020 based on final fair values	**29.2**

During the 12 month period post-acquisition, new information was obtained regarding accrued income held within the entities acquired. This new information related to disputed amounts and amounts that relate to debtors that had gone into administration. The provision for the doubtful collection of accrued income as at the acquisition date has therefore been adjusted in the fair values of trade and other receivables on acquisition.

See note 16 for reconciliation of goodwill recognised for the Group.

39 CASH FLOW STATEMENT

a) Reconciliation of operating profit to operating cash flows

	2020 £m	2019 £m
Profit before interest and tax	**568.2**	563.3
Depreciation of property, plant and equipment	**327.4**	315.4
Depreciation of right-of-use assets	**6.6**	–
Amortisation of intangible assets	**30.8**	29.8
Amortisation of acquired intangible assets	**2.1**	0.7
Impairment of property, plant and equipment	**0.5**	–
Pension service cost	**0.2**	9.8
Defined benefit pension scheme administration costs	**3.4**	2.3
Defined benefit pension scheme contributions	**(46.2)**	(34.9)
Share based payment charge	**8.1**	8.1
Loss on sale of property, plant and equipment and intangible assets	**1.2**	0.6
Release from deferred credits	**(15.4)**	(14.7)
Contributions and grants received[1]	**39.6**	46.5
Provisions charged to the income statement	**3.3**	12.2
Utilisation of provisions for liabilities	**(13.1)**	(12.8)
Operating cash flows before movements in working capital	**916.7**	926.3
Increase in inventory	**(8.4)**	(1.7)
Increase in amounts receivable	**(12.8)**	(60.0)
Increase in amounts payable	**32.6**	8.2
Cash generated from operations	**928.1**	872.8
Tax received	**0.4**	–
Tax paid	**(34.3)**	(21.3)
Net cash generated from operating activities	**894.2**	851.5

1 Contributions and grants received have been presented as operating cash flows in 2019/20 as these credits are released to operating costs over the useful economic life of the non-current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing operating cash inflows by £46.5 million and increasing investing cash outflows by the same amount.

b) Non-cash transactions

Non-cash investing and financing cash flows disclosed in other notes were:

- Acquisition of right-of-use assets (note 19).
- Acquisition of infrastructure assets from developers at no cost (note 18).
- Shares issued to employees for no cash consideration under the LTIP (note 37).

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2019 nil).

d) 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	Lease liabilities £m	Cross currency swaps £m	Loans due from joint ventures £m	Net debt £m
As at 31 March 2019	39.6	(1,120.1)	(4,820.5)	(112.2)	37.1	142.0	(5,834.1)
Recognised on adoption of IFRS 16 (see note 2 a)	–	–	–	(15.9)	–	–	(15.9)
As at 1 April 2019	39.6	(1,120.1)	(4,820.5)	(128.1)	37.1	142.0	(5,850.0)
Cash flow	9.0	(128.1)	(199.0)	5.5	–	(35.6)	(348.2)
Fair value adjustments	–	–	(0.5)	–	23.3	–	22.8
Inflation uplift on index-linked debt	–	(2.2)	(31.8)	–	–	–	(34.0)
Foreign exchange	–	–	(6.7)	–	–	–	(6.7)
Other non-cash movements	–	(1.5)	–	(0.1)	–	(13.8)	(15.4)
As at 31 March 2020	**48.6**	**(1,251.9)**	**(5,058.5)**	**(122.7)**	**60.4**	**92.6**	**(6,231.5)**

Liabilities from financing activities comprise bank loans, other loans and leases.

40 CONTINGENT LIABILITIES

Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2019: nil) is expected to arise in respect of either bonds or guarantees.

41 FINANCIAL AND OTHER COMMITMENTS

a) Investment expenditure commitments

	2020 £m	2019 £m
Contracted for but not provided for in the financial statements	**287.6**	359.2

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 the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

b) Leasing commitments

The Group leases property, plant and equipment under non-cancellable operating leases. From 1 April 2019 the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (see note 2 for further details). At 31 March the Group had outstanding commitments for future minimum operating lease payments under these leases as follows:

	2020 £m	2019 £m
Within 1 year	**0.1**	2.8
1 - 5 years	**0.1**	4.2
After more than 5 years	**-**	10.5
	0.2	17.5

42 POST BALANCE SHEET EVENTS

Following the year end the Board of Directors has proposed a final dividend of 60.05 pence per share. Further details of this are shown in note 14.

43 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:

	2020 £m	2019 £m
Sale of services	**306.6**	335.0
Net interest income	**3.2**	3.8
	309.8	338.8

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2020 £m	2019 £m
Trade and other receivables due from related parties	**12.1**	2.3
Loans receivable from joint ventures	**92.6**	142.0
	104.7	144.3

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.

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 page 120.

	2020 £m	2019 £m
Short-term employee benefits	**7.4**	6.5
Share based payments	**4.2**	2.9
	11.6	9.4

44 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 alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. 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 in aggregate if of a similar type, 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 consistent 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 exclude the effects of exceptional items, amortisation of intangible assets recognised on the acquisition of subsidiaries, net (losses)/gains on financial instruments, current tax on exceptional items and on net (losses)/gains on financial instruments, exceptional current tax 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 39.

e) Effective interest cost

The effective interest cost 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.

$$\frac{\textit{(net finance costs - net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2020 £m	2019 £m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Capitalised finance costs	**44.2**	33.2
	221.5	213.6
Average net debt	**5,972.2**	5,547.7
Effective interest cost	**3.7%**	3.9%

This APM is used as it shows the average finance cost for the net debt of the business.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally inflation adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – inflation adjustments + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2020 £m	2019 £m
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Inflation adjustments	**(34.0)**	(39.7)
Capitalised finance costs	**44.2**	33.2
	187.5	173.9
Average net debt	**5,972.2**	5,547.7
Effective cash cost of interest	**3.1%**	3.1%

This is used as it shows the average finance cost that is paid in cash.

g) Underlying PBIT interest cover

The ratio of underlying PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{underlying PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding net finance costs from pensions	**177.3**	180.4
	ratio	ratio
PBIT interest cover	**3.2**	3.2

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.

h) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{(underlying PBIT + depreciation + amortisation)}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2020 £m	2019 £m
Underlying PBIT	**570.3**	573.6
Depreciation (including right-of-use assets)	**334.0**	315.4
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**30.8**	29.8
EBITDA	**935.1**	918.8
Net finance costs	**188.4**	194.2
Net finance costs from pensions	**(11.1)**	(13.8)
Net finance costs excluding finance costs from pensions	**177.3**	180.4
	ratio	ratio
EBITDA interest cover	**5.3**	5.1

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

44 ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

i) Underlying effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax, and current tax on exceptional items and on financial instruments, divided by profit before tax, net losses/gains on financial instruments, exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, and share of net loss of joint ventures accounted for using the equity method.

(current year current tax charge in the income statement – current tax on exceptional items – current tax on financial instruments – current tax on amortisation of acquired intangible assets)

(PBT – share of net loss of JVs – exceptional items – net losses/gains on financial instruments – amortisation of acquired intangible assets)

	2020 £m	**2020 Current tax thereon £m**	2019 £m	2019 Current tax thereon £m
Profit before tax	**310.7**	**(36.2)**	384.7	(41.2)
Adjustments				
Share of net loss of joint ventures	**46.8**	**–**	0.4	–
Amortisation of acquired intangible assets	**2.1**	**–**	0.7	–
Exceptional items	**4.9**	**(0.9)**	9.6	–
Net losses/(gains) on financial instruments	**17.4**	**(2.6)**	(16.0)	(2.6)
	381.9	**(39.7)**	379.4	(43.8)
Underlying effective current tax rate		**10.4%**		11.6%

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 loss of joint ventures is excluded from the calculation because the loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

j) Operational cashflow

Cash generated from operations less contributions and grants received.

	2020 £m	2019 £m
Cash generated from operations	**928.1**	872.8
Contributions and grants received	**(39.6)**	(46.5)
Operational cashflow	**888.5**	826.3

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

k) Cash capex

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2020 £m	2019 £m
Purchase of property, plant and equipment	**777.2**	782.1
Purchase of intangible assets	**74.8**	35.1
Contributions and grants received	**(39.6)**	(46.5)
Proceeds on disposal of property, plant and equipment	**(12.9)**	(1.4)
Cash capex	**799.5**	769.3

This APM is used to show the cash impact of the Group's capital programmes.

45 SUBSIDIARY UNDERTAKINGS

Details of all subsidiary undertakings as at 31 March 2020 are given below. Details of the joint venture are set out in note 20. 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 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
Hafren Dyfrdwy Cyfyngedig	Severn Trent Pension Scheme Trustees Limited
Midlands Land Portfolio Limited	*Severn Trent PIF Trustees Limited*
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services 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 Defence Limited
Severn Trent Finance Limited	Severn Trent Services Holdings Limited
Severn Trent General Partnership Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (CW) Limited	Severn Trent SSPS Trustees 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 Water Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power (West London) Limited	Severn Trent WWIF Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent Green Power Composting Limited	

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Athena Holdings Limited	Hong Kong	100%	Ordinary
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

45 SUBSIDIARY UNDERTAKINGS (CONTINUED)

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Athena Holdings Limited	One 33, Hysan Avenue, Causeway Bay, Hong Kong
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Derwent Insurance Limited	6A Queensway, PO Box 64, Gibraltar
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 2020 under section 479C of the 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
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
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent General Partnership Limited	SC416614
Severn Trent Green Power (Ardley) Limited	5807721
Severn Trent Green Power (Hertfordshire) Limited	6771560
Severn Trent Green Power (North London) Limited	9689098
Severn Trent Green Power (West London) Limited	8308321
Severn Trent Green Power Composting Limited	4927756
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 Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Services UK Limited	8120387
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Trimpley Limited	10690056

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Profit for the year		**237.8**	216.5
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	15	**0.5**	(0.1)
Deferred tax on net actuarial gains	6	**(0.1)**	–
Deferred tax arising on change of rate	6	**0.2**	–
Other comprehensive income/(loss) for the year		**0.6**	(0.1)
Total comprehensive income for the year		**238.4**	216.4

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2020

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2018		235.1	117.7	160.7	2,958.4	3,471.9
Profit for the year		–	–	–	216.5	216.5
Net actuarial losses	15	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year		–	–	–	216.4	216.4
Share options and LTIPs						
– proceeds from shares issued	11,12	0.8	10.3	–	–	11.1
– value of employees' services		–	–	–	7.2	7.2
Dividends paid	19	–	–	–	(211.9)	(211.9)
At 31 March 2019		235.9	128.0	160.7	2,970.1	3,494.7
Profit for the year		–	–	–	237.8	237.8
Net actuarial gains	15	–	–	–	0.5	0.5
Deferred tax on net actuarial gains	6	–	–	–	(0.1)	(0.1)
Deferred tax arising from rate change	6	–	–	–	0.2	0.2
Total comprehensive income for the year		–	–	–	238.4	238.4
Share options and LTIPs						
– proceeds from shares issued	11,12	0.6	9.0	–	–	9.6
– value of employees' services		–	–	–	8.1	8.1
Dividends paid	19	–	–	–	(228.4)	(228.4)
At 31 March 2020		**236.5**	**137.0**	**160.7**	**2,988.2**	**3,522.4**

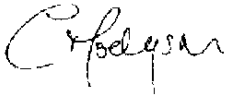
Included in retained earnings are profits of £1,221.2 million that arose from Group restructuring arrangements in previous years and are therefore not distributable. Distributable reserves are therefore £1,767.0 million.

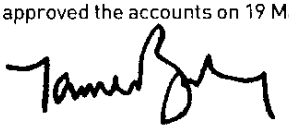
COMPANY BALANCE SHEET
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 £m	2019 £m
Non-current assets			
Intangible fixed assets	2	**0.1**	0.1
Tangible fixed assets	3	**0.6**	0.5
Right-of-use assets	4	**1.0**	–
Investments in subsidiaries	5	**3,346.0**	3,337.9
Deferred tax asset	6	**1.5**	1.6
Trade and other receivables	7	**855.5**	659.8
		4,204.7	3,999.9
Current assets			
Trade and other receivables	7	**27.3**	23.8
Current tax receivable		**2.6**	25.2
Cash and cash equivalents		**7.7**	1.9
		37.6	50.9
Current liabilities			
Borrowings	8	**(9.9)**	(4.5)
Trade and other payables	9	**(120.7)**	(147.1)
Provisions for liabilities	10	**(5.3)**	(3.6)
		(135.9)	(155.2)
Net current liabilities		**(98.3)**	(104.3)
Total assets less current liabilities		**4,106.4**	3,895.6
Non-current liabilities			
Borrowings	8	**(292.0)**	(88.3)
Trade and other payables	9	**(280.9)**	(298.9)
Retirement benefit obligations		**(7.9)**	(8.6)
Provisions for liabilities	10	**(3.2)**	(5.1)
		(584.0)	(400.9)
Net assets		**3,522.4**	3,494.7
Capital and reserves			
Called up share capital	11	**236.5**	235.9
Share premium account	12	**137.0**	128.0
Other reserves	13	**160.7**	160.7
Retained earnings		**2,988.2**	2,970.1
Total capital and reserves		**3,522.4**	3,494.7

The profit for the year is £237.8 million (2019: £216.5 million).

Signed on behalf of the Board which approved the accounts on 19 May 2020.





Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company number: 02366619

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 EMPLOYEE NUMBERS

The average number of employees during the year was 10 (2019: 11).

2 INTANGIBLE FIXED ASSETS

	Purchased software £m
Cost	
As at 1 April 2019 and 31 March 2020	**0.2**
Amortisation	
As at 1 April 2019 and 31 March 2020	**(0.1)**
Net book value	
At 31 March 2020	**0.1**
At 31 March 2019	0.1

3 TANGIBLE FIXED ASSETS

	Assets under construction
Cost	
At 1 April 2019	0.5
Additions	0.1
At 31 March 2020	**0.6**
Depreciation	
At 1 April 2019 and 31 March 2020	**–**
Net book value	
At 31 March 2020	**0.6**
At 31 March 2019	0.5

4 RIGHT-OF-USE ASSETS

a) The Company's leasing activities

The Company leases property with the lease agreement covering a fixed period of 10 years.

The contract does not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contract does not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases for the year ended 31 March 2020:

	2020 £m	2019 £m
Depreciation charge of right-of-use assets:		
Property	**0.1**	–
Total depreciation of right-of-use assets	**0.1**	–
Interest expense included in finance cost	**0.1**	–

There were no expenses for leases that are classified under the short-term or low-value exemption.

c) Balance sheet

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	£m
Right-of-use assets	1.1
Borrowings	(1.1)

The balance sheet includes the following amounts relating to leases:

	31 March 2020 £m	1 April 2019 £m
Right-of-use assets:		
Property	**1.0**	1.1
	1.0	1.1

There were no additions to right-of-use assets.

	31 March 2020 £m	1 April 2019 £m
Lease liabilities:		
Current	**0.1**	0.1
Non-current	**1.0**	1.0
	1.1	1.1

At 31 March 2019, the Company had no property, plant and equipment financed by finance leases.

Net lease obligations were as follows:

	2020 £m	2019 £m
Within 1 year	**0.1**	–
1 – 2 years	**0.1**	–
2 – 5 years	**0.3**	–
After more than 5 years	**0.6**	–
Included in non-current liabilities	**1.0**	–
	1.1	–

5 INVESTMENTS IN SUBSIDIARIES

	£m
As at 1 April 2019	3,337.9
Additions	8.1
As at 31 March 2020	**3,346.0**

Details of principal subsidiaries of the Company are given in note 45 to the Group financial statements.

6 DEFERRED TAX

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 April 2018	–	1.5	1.5
Credit to income	*0.1*	–	*0.1*
At 1 April 2019	0.1	1.5	1.6
Charge to income	(0.1)	(0.1)	(0.2)
Charge to equity	–	(0.1)	(0.1)
Credit to equity arising from rate change	–	0.2	0.2
At 31 March 2020	**–**	**1.5**	**1.5**

7 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Current assets		
Other amounts receivable	**6.9**	6.5
Prepayments	**–**	0.4
Amounts owed by group undertakings	**20.4**	16.9
	27.3	23.8
Non-current assets		
Loans receivable	**–**	32.4
Amounts owed by group undertakings under loan agreements	**855.5**	627.4
	855.5	659.8
	882.8	683.6

8 BORROWINGS

	2020 £m	2019 £m
Current liabilities		
Bank overdraft	**9.8**	4.5
Lease liabilities	**0.1**	–
	9.9	4.5
Non-current liabilities		
Other loans	**291.0**	88.3
Lease liabilities	**1.0**	–
	292.0	88.3
	301.9	92.8

At the balance sheet date the Company had £100 million (2019: £100 million) undrawn borrowing facilities.

9 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Current liabilities		
Trade payables	**0.1**	0.3
Social security and other taxes	**0.1**	0.1
Other payables	**4.6**	4.0
Accruals	**1.1**	3.4
Amounts due to group undertakings	**114.8**	139.3
	120.7	147.1
Non-current liabilities		
Accruals	**1.5**	–
Amounts due to group undertakings	**279.4**	298.9
	280.9	298.9
	401.6	446.0

10 PROVISIONS

	Insurance £m	Other £m	Total £m
At 1 April 2019	5.0	3.7	8.7
Charged to income statement	(1.8)	2.5	0.7
Utilisation of provision	(0.1)	(0.8)	(0.9)
At 31 March 2020	**3.1**	**5.4**	**8.5**

	2020 £m	2019 £m
Included in:		
Current liabilities	**5.3**	3.6
Non-current liabilities	**3.2**	5.1
	8.5	8.7

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.

11 SHARE CAPITAL

	2020 £m	2019 £m
Total issued and fully paid share capital		
241,537,324 Ordinary Shares of 97 17/19 pence (2019: 240,943,929)	**236.5**	235.9

At 31 March 2020, treasury shares of 3,581,338 (2019: 3,774,921) were held at a nominal value of £3.5 million (2019: £3.7 million).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19 pence		
At 1 April 2018	240,222,617	235.1
Shares issued under the Employee Sharesave Scheme	721,312	0.8
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 31 March 2020	**241,537,324**	**236.5**

12 SHARE PREMIUM

	2020 £m	2019 £m
At 1 April	**128.0**	117.7
Share premium arising on issue of shares for Employee Sharesave Scheme	**9.0**	10.3
At 31 March	**137.0**	128.0

13 OTHER RESERVES

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2018, 31 March 2019 and 2020	**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.

14 SHARE BASED PAYMENT

For details of employee share schemes and options granted over the shares of the Company, see note 37 to 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.

15 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 (2019: £0.4 million). There were no amounts outstanding for contributions to the defined benefit schemes (2019: 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.

16 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 to the Group financial statements.

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 £54.1 million (2019: £58.1 million) and the guarantees for the Severn Trent Water loan is for the amount due.

The Company has also made available to Water Plus a revolving credit facility of £32.5 million. At 31 March 2020 the amount drawn was nil (2019: £32.5 million).

17 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 other's overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2020, the Company had no contingent liabilities (2019: nil).

18 POST BALANCE SHEET EVENTS

Following the year end the Board of Directors has proposed a final dividend of 60.05 pence per share.

19 DIVIDENDS

For details of the dividends paid in the years ended 31 March 2020 and 31 March 2019 see note 14 to the Group financial statements.

FIVE YEAR SUMMARY

Continuing operations	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Turnover	**1,843.5**	1,767.4	1,696.4	1,638.0	1,753.7
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**570.3**	573.6	539.8	520.1	503.4
Net exceptional items before tax	**(51.7)**	(9.6)	(12.6)	16.6	1.0
Amortisation of acquired intangible assets	**(2.1)**	(0.7)	–	–	–
Net interest payable before (losses)/gains on financial instruments and exceptional finance costs	**(188.4)**	(194.2)	(219.5)	(205.1)	(209.3)
(Losses)/gains on financial instruments	**(17.4)**	16.0	(6.7)	(1.8)	7.7
Results of associates and joint ventures[1]	**–**	(0.4)	0.2	(1.8)	0.1
Profit on ordinary activities before taxation	**310.7**	384.7	301.2	328.0	302.9
Current taxation on profit on ordinary activities	**(30.1)**	(31.8)	(32.9)	(36.3)	(51.3)
Deferred taxation	**(29.1)**	(39.4)	(28.7)	(22.4)	(13.7)
Exceptional tax	**(92.7)**	1.8	–	52.2	78.6
Profit on ordinary activities after taxation	**158.8**	315.3	239.6	321.5	316.5
Results from discontinued operations	**–**	–	13.2	21.1	14.8
Profit for the year	**158.8**	315.3	252.8	342.6	331.3
Net assets employed					
Fixed assets	**9,954.8**	9,337.7	8,660.1	8,315.7	7,810.8
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(1,142.0)**	(992.6)	(956.0)	(916.8)	(798.4)
Derivative financial instruments[2]	**(158.5)**	(95.1)	(104.3)	(161.1)	(166.3)
Net retirement benefit obligation	**(234.0)**	(452.9)	(519.8)	(574.6)	(309.5)
Provisions for liabilities and deferred tax	**(945.1)**	(798.9)	(726.5)	(657.5)	(694.7)
	7,475.2	6,998.2	6,353.5	6,005.7	5,841.9
Financed by					
Called up share capital	**236.5**	235.9	235.1	234.7	234.3
Reserves	**1,007.2**	928.2	761.8	688.6	783.1
Total shareholders' funds	**1,243.7**	1,164.1	996.9	923.3	1,017.4
Non-controlling interests	**–**	–	–	–	1.1
Net debt[3]	**6,231.5**	5,834.1	5,356.6	5,082.4	4,823.4
	7,475.2	6,998.2	6,353.5	6,005.7	5,841.9
Statistics					
Earnings per share (continuing) – pence	**66.7**	133.4	101.8	136.8	133.5
Underlying earnings per share – pence	**146.0**	145.8	120.5	115.7	102.1
Dividends per share (excluding special dividend) – pence	**100.1**	93.4	86.6	81.5	80.7
Dividend cover (before exceptional items and deferred tax)	**1.5**	1.6	1.4	1.4	1.3
Gearing[4] – %	**83.4**	83.3	84.4	84.6	82.6
Ordinary share price at 31 March – pence	**2,280.0**	1,976.0	1,844.0	2,382.0	2,173.0
Average number of employees					
– Regulated Water and Waste Water	**5,824**	5,680	5,660	5,273	5,236
– Other	**972**	900	605	596	2,122

1 Excludes exceptional share of net losses of joint venture.

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 sustainability and innovation.

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

OTHER INFORMATION

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 may 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 ('ADRS')

Severn Trent has a sponsored Level 1 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 9.00am to 5.00pm Monday to Friday (excluding public holidays in England and Wales).

** Lines are open Monday to Friday, 8.00am to 4.30pm for dealing, and until 6.00pm for enquiries (excluding public holidays in England and Wales).

FINANCIAL CALENDAR

Ex dividend date – final dividend	11 June 2020
Record date to be eligible for the final dividend	12 June 2020
AGM	15 July 2020
Interim management statement – Q1 year ended 31 March 2021	15 July 2020
Final dividend payment date	17 July 2020
Interim results announcement – year ended 31 March 2021	26 November 2020
Ex dividend date – interim dividend	3 December 2020
Record date to be eligible for the interim dividend	4 December 2020
Interim dividend payment date	6 January 2021

All dates are indicative and may be subject to change.

Consultancy, design and production
www.luminous.co.uk

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Registered in England and Wales
Registration number: 2366619

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