Severn Trent Plc
Annual Report and
Accounts 2021

WONDERFUL ON TAP

Making a difference together

Making a Difference **Together**

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 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.

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.

Turnover (£m)

£1,693.9m

-0.8%

Profit before interest and tax ('PBIT') (£m)

£452.1m

-16.3%

Adjusted profit before interest and tax[1] ('PBIT') (£m)

£452.1m

28.3%

Households and businesses served

4.6m

Litres of drinking water supplied each day

2.0bn

Litres of waste water treated each day

3.1bn

Employees[2]

6,536

Business Services

Where we operate
Business Services operates in the UK and includes the following:

Green Power
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 businesses include our affinity and searches businesses.

Turnover (£m)

£134.7m

-2.3%

Adjusted profit before interest and tax[1] ('PBIT') (£m)

£25.8m

-28.3%

Profit before interest and tax ('PBIT') (£m)

£23.7m

-30.1%

Employees[2]

486

-10.2%

1 Alternative Performance Measures are defined in note 43 to the Group financial statements.
2. Average during 2020/21 See note 9 to the Group financial statements.

Highlights

Group turnover (£m)

£1,827.2m

-0.9%

Group profit before interest and tax ('PBIT') (£m)

£470.7m

-17.2%

Group adjusted profit before interest and tax ('PBIT') (£m)

£472.8m

-17.1%

Dividend per share (p)

101.58p

+1.5%

Basic earnings per share ('EPS') (p)

89.1p

+33.6%

Adjusted basic earnings per share ('EPS') (p)

105.4p

-27.8%

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' or words with a similar meaning, 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. This document speaks as at the date of the report.

Save as required by applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc. 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 United States, absent registration or an applicable exemption from the registration requirements of the United States Securities Act of 1933 (as amended).

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Our **Strategic Framework**

Purpose – **taking care of one of life's essentials**

At Severn Trent, we believe our clear social purpose helps drive the right strategic decisions for our business, our stakeholders and the environment we depend on.

It is underpinned by our strong Values and borne out in our culture which governs how we think and behave, from fostering a diverse and inclusive working environment to rewarding all of our people fairly.

Strategic outcomes

1 A company **you can trust**
Read more p21

2 A positive **difference**
Read more p22

3 **Lowest possible** bills
Read more p23

4 A service **for everyone**
Read more p24

5 An outstanding **experience**
Read more p25

6 Good to **drink**
Read more p26

7 Water **always there**
Read more p27

8 Waste water **safely taken away**
Read more p28

9 A thriving **environment**
Read more p29

Online at severntrent.com

Sustainability pillars

Taking care of the environment
- Ensuring a sustainable water cycle
- Enhancing our natural environment
- Making the most of our resources
- Mitigating climate change

Read more p50

Helping people to thrive
- Delivering an affordable service for everyone
- Providing a fair, inclusive and safe place to work
- Investing in skills and knowledge
- Making a positive difference in the community

Read more p50

Being a company you can trust
- Living our Values
- Balancing the interests of all our stakeholders
- Running our company for the long term
- Being open about what we do and sharing what we know

Read more p50

Online at severntrent.com/sustainability-strategy

Our Values

Online at severntrent.com

Culture

Our culture is focused on nurturing and promoting the health of the natural environment and the wellbeing of our customers, colleagues and communities.

Stakeholder engagement

Effective stakeholder engagement is a priority for every member of the Severn Trent team, from the frontline to the Board. Our emphasis is on tracking the outcomes of our engagement, encouraging a two-way dialogue and making sure this helps inform our decision making.

Read more p68

Rewarding our people

We are committed to rewarding all of our people fairly, sharing rewards with our communities through the Severn Trent Community Fund and returning value to our shareholders, many of whom are also our employees.

Read more p72

Online at severntrent.com

Purpose in **Action**

As a purpose-led business with a strong focus on our social impact, we were pleased to have made strong progress in a number of important areas, taking care of one of life's essentials and doing the right thing for our customers, our colleagues, society and the environment.

Triple Carbon Pledge

In 2019 we announced our Triple Carbon Pledge – committing to net-zero operational carbon emissions, 100% renewable energy and an all-electric fleet by 2030, subject to the availability of vehicles. In 2020 we also announced our decision to invest £1.2 billion in environmental initiatives including planting 1.3 million trees and boosting the biodiversity of 5,000 hectares of land in our region.

Read more p54

Advancing our response to climate change

We are determined to play a leading role in addressing the impact of climate change and mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future. In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative, committing us to significantly reduce our greenhouse gas emissions by 2030.

100%

Renewable energy
by 2030

100%

Electric vehicles (where available)
by 2030

Severn Trent Academy

Our Academy opened in Coventry in February 2021 and our range of learning programmes are already training our engineers and leaders of the future, giving our people opportunities for growth, development and more rewarding careers.

Read more p75

Supporting our suppliers

Along with our employees, our suppliers support us in serving our customers. During the year we accelerated payments to our supply chain, helping small and medium-sized enterprises in our region with crucial cash flow throughout the COVID-19 pandemic.

Severn Trent Community Fund

Our Community Fund donates 1% of our profits each year to projects in our local communities which need the most help, and so far we have awarded £1.5 million to 93 projects. This year we also launched our £1 million COVID-19 Emergency Fund and have donated to 339 local charities to help them deal with the effects of the pandemic. We also donated almost £1 million as part of our water saving charity challenge.

Caring for our colleagues

Our people are fundamental to delivering one of life's essentials and we believe our culture is what makes us special. You can read more about our 'Caring for Colleagues' and 'Share a Smile' campaigns launched during the year on page 17.

1.3m

Planting 1.3 million trees by 2030

Kickstart scheme

In January 2021 we welcomed the first of our 'Kickstarters' as part of our ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development.

Read more p22

Diversity and inclusion initiatives

Our teams are passionate about creating an environment where everyone can feel comfortable bringing their whole self to work. During the year we launched our new diversity and inclusion offering via our Academy and developed a specific diversity and inclusion focus in our employee QUEST survey.

Read more p73

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.

Delivering our Purpose and Living our Values

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 49,900 km of clean water pipes and over 92,800 km of sewer pipes.

Principal Risks: 2 and 3

Natural resources

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

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

Principal Risks: 2, 3, 6 and 7

Financial capital

We have a strong balance sheet and are able to access a range of capital markets to fund future operations.

Our combined STW and HD gearing is 64.5% (2019/20: 64.4%). Severn Trent Plc had undrawn committed facilities of £845 million during the year.

Principal Risks: 8 and 9

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.

ADDRESSING CLIMATE CHANGE AS A PRIORITY

Taking care of one of life's essentials at every step

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.

The green energy produced from food waste forms part of Severn Trent's Triple Carbon Pledge – achieving net-zero operational carbon emissions, 100% renewable energy and an all-electric fleet of vehicles, subject to the availability of vehicles, by 2030.

Food waste anaerobic digestion plants generating green energy

GENERATING & PRESERVING LONG-TERM VALUE

Physical assets

Replaced 48 km of our water mains (2019/20: 260 km).

Strategic outcomes: 7/8

Read more p27-28

Natural resources

We are on track to improve 5,000 hectares of land across our region by 2027.

We planted around 290,000 trees this year, on track to meet our 1.3 million target by 2030 as part of our Great Big Nature Boost.

Strategic outcomes: 2/9

Read more p22 and 29

Financial capital

Sector leading ODI performance.

Gearing close to the regulatory model leading to stable credit ratings.

Strategic outcomes: 1/3

Read more p21 and 23

We are committed to acting to protect our planet and lead the way in combating climate change in our industry. We do this through the important relationships we maintain with our key stakeholders.

Relationships

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: 2 and 3

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 7,000 people.

Principal Risk: 1

Our suppliers and contractors
Strong supplier relationships support our business operations in line with our modern slavery commitments.
We work with around 2,800 direct suppliers.

Principal Risk: 5

Our regulators
Our industry is regulated by Ofwat and several other regulators and public bodies.
We proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region. Read more on page 13.

Principal Risks: 4 and 10

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 for Severn Trent Water. Hafren Dyfrdwy customers continue to have the lowest average combined bills in Wales.

We helped over 150,000 customers through financial schemes (2019/20: c.70,000).

Strategic outcomes: 2/3/4/5
Read more p22-25

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

Over 15% of our graduates and apprentices are from a Black, Asian and minority ethnic backgrounds (2019/20: 30%).

Strategic outcomes: 1/2
Read more p21-22

Our suppliers and partners
Building sustainable relationships that provide mutual benefit.

Over 1,000 suppliers have signed up to our Sustainable Supply Chain Charter since 2016.

Strategic outcomes: 1/2/4/5
Read more p21-22 and 24-25

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

Strategic outcomes: 1/2/5/9
Read more p21-22, 25 and 29

Fulfilling Our Role in Society

Christine Hodgson
Chair

"Severn Trent's Purpose is to 'take care of one of life's essentials' and this year, more than ever, has underlined the importance of delivering our Purpose and living our Values in everything we do – delivering for our customers, inspiring our people, attracting investors, generating a positive impact for our communities and the environment and reinforcing that in the long term all those interests are aligned. Our strategy is working and we are confident that Severn Trent is in a strong position for the challenges and opportunities ahead."

101.58p
Dividend per share
2020: 100.08p

£470.7m
Group profit before interest and tax
2020: £568.2m

£1,827.2m
Group turnover
2020: £1,843.5m

Our Purpose
In our 2019/20 Annual Report we introduced our new company Purpose and Values which were developed collaboratively by our people, for our people. We know that what we do is crucial for everyone who lives and works in our region – be that in the water they drink, the jobs we create, the communities we support and the nature enjoyed by us all. Our Purpose of 'taking care of one of life's essentials' – underpinned by our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride – reflects the deep connection that we have with the communities we serve.

Now, more than ever before, we must lead with our Purpose and act as a force for good. Our AMP7 strategic outcomes – focused on the customers and communities we serve and the environment that *we depend on – are fully aligned with this objective. It is not only about* demonstrating that we are a socially responsible company, it is about doing great business in an authentic way to make a real difference for all of our stakeholders.

Our performance
The COVID-19 pandemic has dominated 2020/21 and has placed extraordinary demands on every one of us as individuals, families, communities and employees of an essential service provider. Our priority throughout the year has been ensuring our operational and financial resilience to serve our customers and play our part to make a positive impact for the good of our stakeholders and wider society, whilst also protecting the health and wellbeing of our employees.

This year has seen our Company successfully achieve a series of important milestones, culminating in Ofwat proposing on 17 May 2021 that we can invest £565 million (2017/18 prices) in our ambitious Green Recovery programme. This will deliver long-term growth for the Company alongside new investment to support our ESG ambitions. Read more on page 13. Our impressive operational performance is discussed in detail in Liv's Chief Executive's Review. In this report, I want to take the opportunity to look at the bigger picture by highlighting the positive difference we have made for our stakeholders, the resilience of our operations throughout the year, and underline our commitment to being a force for good in the communities we serve – which is now, more important than ever before.

Delivering for our customers while keeping our people safe
Our people take very seriously the responsibility that comes with providing an essential service that touches the lives of millions. Their passion and commitment shines through in everything they do – through embracing change or adapting to unexpected incidents and extreme weather events during the year. I have been humbled by the way in which they have continued to work safely on the front line or switched to working at home with remarkable adaptability. It has been particularly uplifting to witness the spirit in which our colleagues have taken on these challenges. I would like to record particular thanks to our people who continued to work on the front line throughout the COVID-19 pandemic, meeting customers, solving problems and working tirelessly to keep our services running smoothly 24 hours a day, seven days a week.

Our people were supported by the expert management of the evolving situation by our Executive Team – who had clear objectives to: ensure our people had access to the correct personal protective equipment ('PPE'); increase our internal communications to ensure our people were kept informed; and apply focus on employees' mental health during the lockdowns. The Company also continued to deliver on important projects throughout the pandemic to ensure the Company's long-term future resilience. Liv provides more detail within her Chief Executive's Review.

At an industry level, shockwaves from the tragic accident at *Avonmouth in December 2020 were felt across the sector and had* a profound impact across our business. In response to the event, we immediately suspended all activity related to Dangerous Substances and Explosive Atmospheres Regulations 2002 ('DSEAR') and undertook comprehensive surveys at all of our bioresources sites as well as a comprehensive review of all our high risk actions. *For those colleagues at Wessex Water who suffered personally, and* those families and friends affected, I extend my deepest sympathy.

Delivering resilient financial performance and sharing the rewards
Under our industry's regulatory framework, high levels of customer service create financial rewards through customer ODI outperformance. This means that we are able to share the benefits of our work with all stakeholders when we perform well. Over the course of AMP6, we reinvested £220 million generated by our outperformance back into our business, including supporting vulnerable customers, improving water quality and enhancing security. Additionally, it enabled us to support our communities through activities such as:

- Allocating over £1.5 million of funding through the Severn Trent Community Fund to 93 projects in our region;
- Donating an additional £1 million through our COVID-19 Emergency Fund to over 300 charities;
- Donating almost £1 million as part of our water saving charity challenge;
- Accelerating payments to our supply chain, helping small and medium-sized enterprises in our region with crucial cash flow at this challenging time; and
- Embracing the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development.

We are proud that, despite exceptionally challenging circumstances, we delivered excellent operational performance this year that enabled resilient financial results – with Group turnover of £1,827.2 million (down 0.9% from 2019/20). Adjusted earnings per share was 105.4 pence, down 27.8% from the prior year, and basic earnings per share was 89.1 pence, up 33.6% from the prior year. Liv and our Chief Financial Officer, James Bowling, will explain in more detail later in this report.

The Board is therefore proposing a final dividend of 60.95 pence per share to be paid on 16 July 2021, taking the total dividend for the year to 101.58 pence per share. We are pleased to be able to sustain our dividend commitments and continue our engagement with shareholders on performance against our strategy. I was also delighted to meet with a number of shareholders during the year.

Advancing our response to climate change
Climate change is a key challenge of our generation and, as a water company, we are better placed than many other businesses to experience and understand the scale of the challenge ahead. We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future. Further detail on our climate change action plan can be found within Liv's Chief Executive's Review and within our dedicated Sustainability Report, available on our website.

Demonstrating the Company's commitment to shareholders earlier this year, the Board announced on 24 March 2021 its intention to put its long-term approach to climate change before shareholders at the Company's Annual General Meeting ('AGM') on 8 July 2021. The Company will subsequently seek an advisory vote every three years on any material changes made or proposed to the plan. Further detail can be found in the Notice of Meeting, available on our website.

Additionally, the Remuneration Committee has considered the alignment of the Group's remuneration framework to support delivery of the Company's Sustainability Framework even more closely. The 2021 Remuneration Policy (the 'Policy') proposes the introduction of a second, sustainability-focused, performance measure in the Group's Long Term Incentive Plan ('LTIP'). Both the Policy and the LTIP Rules will also be put forward for shareholder approval at this year's AGM. Further detail can be found within the Directors' Remuneration Report on pages 123 and 131 and in the Notice of Meeting, available on our website.

Your Board
My focus continues to be on maintaining a strong, value-adding team, with a diverse range of professional backgrounds, skills and perspectives. Succession planning is a key priority for the Board and Nominations Committee and, to inform this work, I commissioned an externally facilitated Board Effectiveness evaluation during the year, which concluded that the Board operates very effectively and it was evident that the Board places a strong emphasis on ensuring that it considered the views of stakeholders in its discussions and decision making. You can read more about the Board Evaluation process on page 98.

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

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

Outlook
At the end of my first year as Chair of your Board, I have spent time reflecting on everything that I have learned about Severn Trent thus far – the talent and commitment of our employees, the focus on operational excellence and resilience, our contribution to society and our environmental achievements. This inspires me and reinforces that our strategy is working and that Severn Trent is in a strong position for the challenges and opportunities ahead. The impact of the COVID-19 pandemic will continue to present a degree of uncertainty for some time to come. However, we are well placed to respond to the challenges that may bring.

Finally, I want to thank everyone involved in this most challenging of years – our customers, communities, investors, regulators and suppliers. But above all, thank you to our colleagues, for their unfaltering commitment to fulfil our Purpose to 'take care of one of life's essentials'.

Christine Hodgson
Chair

Christine Hodgson meeting teams at Finham Thermal Hydrolysis Plant.

Sustainability at **the Heart of our Business**

Liv Garfield
Group Chief Executive

£470.7m

Group PBIT
2020: £568.2m

£1,827.2m

Group turnover
2020: £1,843.5m

£472.8m

Adjusted Group PBIT
2020: £570.3m

1.5%

Dividend increase
2020: 7.2%

£79m[1]

Net ODI reward
2020: Net reward of £35.3m

1. Our ODI outturn and percentage meeting or ahead of regulatory target (or within penalty deadband for compliance measures) reflects our in-period performance commitments – thereby excluding per capita consumption at end of period. ODI values for C-MeX and D-MeX are calculated based on published industry data. A definitive value will be published by Ofwat later in the year.

Advancing our response to climate change

"Climate change is a key challenge of our time and we're well placed to understand the scale of the challenge ahead. We're determined to play a leading role in mitigating the impact of climate change and ensuring that we are resilient to its impact – and in doing so, create value for all our stakeholders."

I'm delighted to present my Chief Executive's Review for 2020/21, providing you with an update on our performance and my personal highlights of the year.

This year, more than any other, has reinforced my view of Severn Trent's strengths, our Values and our resilience. We asked a lot of our people this year and I'm delighted that their efforts are reflected in our excellent performance. I want to thank each and every one of them for their amazing commitment – and for all they do for Severn Trent, our customers and communities – 24 hours a day, seven days a week. It is an honour to work alongside you.

As the COVID-19 pandemic unfolded – and our key workers focused on maintaining normal business operations for our customers – I was clear that we needed to focus on three key priorities for our stakeholders.

Firstly, we wanted to be there every step of the way for our customers. We supported customers struggling to pay – through the WaterSure scheme for those on low incomes and our Big Difference Scheme, which offers bill discounts of 10%-90% for eligible customers. We also introduced a temporary social tariff to help support our vulnerable customers through a challenging time and made sure that our vulnerable customers knew we were there for them with targeted communications and support through our Priority Services Register.

Secondly, we knew we had to help make a difference to our communities. So we established our £1 million COVID-19 Emergency Fund to support charities and community projects at the forefront of our region's COVID-19 response. We launched a virtual education zone to help parents with home-schooling – with activities, games and stories to inspire the next generation of water users.

And finally, we knew we needed to embrace and support our colleagues within Severn Trent, with a particular focus on mental health. Our 'Caring for our Colleagues' programme and Company-wide virtual events, 'Share a Smile' and 'Awesome Awards', lifted all of our spirits throughout the year. As ever, our priority remains the safety and wellbeing of our people and customers and we ensured that all our key worker employees had access to the correct PPE and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week. As reported last year, we did not make any redundancies or furlough 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.

You can read more about our COVID-19 response on pages 15-17 of this report.

Our performance – powered by our Purpose
Our Purpose to 'take care of one of life's essentials' – underpinned by our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride – is more important than ever. We believe that by living our Values in everything we do, we'll deliver really strong benefits for our colleagues, our customers, our communities, our shareholders and ourselves. And at the end of our first year in AMP7, we have made excellent progress and we're on a strong trajectory for the rest of this AMP, which will set us up to move seamlessly into the next AMP to come.

In terms of some of my highlights this year, it's clear that we've truly ingrained our performance culture in Severn Trent which has helped us deliver fantastic operational performance. We have delivered net customer ODI outperformance of £79 million for the year with all areas, including water, waste and retail, in reward.

I'm immensely proud of our operational performance – and it's down to our people who have worked tirelessly over the last year to keep our services running smoothly 24 hours a day. Their hard work has delivered year-on-year improvements of 8.9%, 30% and 60% in water quality complaints, blockages and Compliance Risk Index ('CRI') respectively – c.80% of our measures (across water, waste and retail) have met or exceeded target. We have also seen a 21% year-on-year improvement in pollution incidents this year, reinforcing that our relentless focus in this area has really begun to move the needle.

I talk a lot about customer service and customer experience and I'm delighted that we were highlighted in the Top 20 most improved organisations within the January 2021 UK Customer Satisfaction Index ('UKCSI') and are now in fifth position overall amongst utilities, and all of this against the backdrop of one of the lowest bills in England, at around £1 a day. However, £1 a day can still be a huge struggle for some customers, which is why we're also proud of the c.150,000 customers that we have supported from a financial perspective. We have also used our Community Fund to help provide support to people in our region.

Financial resilience and stability
Our resilient financial position was a factor in our decision to declare a final dividend in line with our AMP7 dividend policy of growth of at least CPIH. The Board considered carefully the Group's prospects and financial position; stakeholder interests including those of customers, shareholders, employees and our communities; and the Board's decision not to use any of the Government's COVID-19 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 (77% of our employees are also shareholders), the Board determined that based on the strong performance in 2020/21 and the underlying financial position of the Company it remains appropriate to recommend to shareholders that a final dividend for year ended 2020/21 be paid.

You can read more about our operational performance in the performance review and our financial performance in James' Chief Financial Officer's Review.

Our people: working safely to deliver for customers, every day of the year
Our Value, 'Showing Care', is central to how we keep our people and communities safe in all that we do. It's how we start every shift and every meeting and 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 20% improvement in Lost Time Incidents ('LTIs') this year.

I was devastated to hear of the tragic accident at Avonmouth in December 2020 and its impact has been felt deeply by us all at Severn Trent. We extend our deepest condolences to colleagues at Wessex Water who suffered personally, and whose families have been affected. In response to this event, we immediately suspended activity associated with DSEAR and undertook comprehensive surveys at all of our bioresources sites as well as a comprehensive review of all our high risk actions.

"Through this exciting partnership with the Commonwealth Games, we'll build on our existing work and ambitions to deliver lasting social and environmental change by creating new green urban spaces, further enhancing biodiversity, promoting plastic-free thinking and delivering a carbon neutral legacy for generations to come."

Working in partnership with the Commonwealth Games

In March 2021, we were delighted to announce our partnership with the Birmingham 2022 Commonwealth Games to support their ambitions to make this the most sustainable games yet. We're proud to be leading on making it the first carbon neutral games through a range of offsetting initiatives including enhancing nature with 2,022 acres of forest in the Midlands region and 72 mini forests representing each competing nation. Like us, the games has an ambition to leave a positive lasting legacy for future generations and we look forward to working with them in the months to come.

I believe passionately in building an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Severn Trent has long been recognised as a global leader on gender equality and we were once again named as one of the country's top performers in the 2021 Hampton-Alexander Review – ranking second this year. In respect of broader diversity, we are working hard to increase diversity in our talent pipelines. This year, we launched our new inclusion programme to better enable careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups. We have also embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year olds with paid work experience and skills development – our first cohort of 'Kickstarters' joined the Company in January 2021.

We've also continued our investment in training and I was thrilled that the Severn Trent Academy opened its doors this year. Our range of learning programmes are already training our engineers and leaders of the future, giving our people opportunities for growth, development and more rewarding careers. You can read more on page 75.

I am delighted that, during a difficult year for many, our employee engagement score improved again this year – with an average score of 8.3, once again placing us in the top 5% of utilities globally. Colleagues scored the question, asking whether they would recommend us as a place to work to a friend, 8.5.

Outlook and thank you

We're proud of what we've achieved this year, and I am optimistic for the year ahead. The roll out of the COVID-19 vaccine gives me hope that the world will return to some sense of normality in the near future. And as the UK moves into recovery mode, we're ideally placed to play our part in the next phase through delivering our Green Recovery plans. We're absolutely delighted by Ofwat's encouragement for our Green Recovery plans, proposing to award Severn Trent with £565 million (2017/18 prices) across all of our project proposals. Our plans will see us delivering new, innovative trials to protect homes from flooding, increase water supplies and transform stretches of river. Our proposals will also create up to 2,500 jobs in the Midlands at a time when employment, and getting people back into work, is vital for our region. Read more about the projects we will deliver opposite.

I would like to recognise the contribution of the management team for their exceptional leadership across the Group, which has been particularly important in this past year. And we are grateful too for the stewardship, support – and challenge – from Christine and the Board.

Finally, to reinforce my warmest thanks to my colleagues and all those who supported them throughout a difficult year. We are a community of around 7,000 colleagues – who rely on our families, friends and support networks to help us be the best we can be. I am hugely grateful to everyone who helped Severn Trent – whether directly or indirectly – in supporting our customers, communities and each other over the last 12 months. You can emerge from this pandemic with a sense of pride in what we have done, and how we have helped the region we serve.

Liv Garfield
Chief Executive

Advancing our climate change action plans

As Christine highlighted in her report, even in the middle of the pandemic, we continue to look to the future. We are committed to playing our part in helping the UK become a sustainable, low carbon economy and the impact of climate change is considered in everything we do. We have made good progress on mitigating our impact and adapting to the challenges that climate change may bring, including the following:

100%

In May 2019, we made our Triple Carbon Pledge, committing to net-zero operational carbon emissions, 100% renewable energy and 100% electric fleet (where possible), by 2030.

£1.2bn

In March 2020, in support of our approach to climate change and broader sustainability agenda, we announced our intention to invest £1.2 billion to deliver a number of initiatives including planting 1.3 million trees, and boosting the biodiversity of 5,000 hectares of land in our region.

£565m

On 17 May 2021, Ofwat proposed to award us £565 million (2017/18 prices) to invest in our ambitious Green Recovery programme, aimed at delivering low carbon water sources, improving river quality and improving flooding resilience in the process. Read more on the page opposite.

In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative to deliver real reductions by 2030.

We have made excellent progress in reducing greenhouse gas emissions from our operations, with a total reduction of 60% to the end of 2020/21 driven by our procurement of 100% renewable-backed energy. Alongside this activity, we've also increased our own renewable energy self-generation equivalent from 51% to 53% this year. And as part of our ongoing commitment to credible reduction consistent with a 1.5°C global warming scenario by 2030, addressing the targets set by the Paris Climate Agreement, we have committed to delivering the following:

46%

A 46% reduction in Scope 1 and Scope 2 emissions by 2030, consistent with the guidelines set out by the Science Based Targets initiative.

A reduction in our Scope 3 emissions by engaging with over 70% of our supply chain to join us on the journey.

Of course, we are only part way through our journey – and it will require considerable effort – but I am proud that Severn Trent is taking a leading positive position in an area so critical to us all.

We are also committed to the recommendations of the Task Force on Climate-Related Financial Disclosures ('TCFD'), to provide our stakeholders with decision-useful information on climate-related risks and opportunities that are relevant to our business. This year's Annual Report includes a TCFD disclosure for the first time on pages 54 to 57, setting out our approach to implementing the recommendations of the TCFD, including how we think about the governance, strategy, risk management and metrics and targets, which underpin our approach. We aim to be fully compliant with the TCFD by the end of 2021 and will publish a dedicated TCFD Report in autumn 2021.

Green Recovery – life beyond the pandemic
I am delighted that the water sector was asked to play its part in the country's Green Recovery from the COVID-19 pandemic. Our region's economy has been one of the hardest hit by COVID-19 and, as a responsible business in our region, we proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region, through improving the environment and also creating jobs.

Our customers helped us to shape and develop the proposals and we have been delighted and encouraged by their positive engagement and feedback.

On 17 May 2021, Ofwat proposed to award us £565 million (2017/18 prices) to invest in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company alongside new investment to support our ESG ambitions. We are delighted with this outcome and have already started work on the new investments, aimed at achieving the below goals:

Make rivers safe for swimming
We're going to encourage wild swimming by trialling the creation of two bathing rivers in stretches of the River Leam and the River Teme. In transforming them so that they're healthy enough to swim in, we will also reinvigorate the pathway to how rivers in the UK can achieve 'good ecological status'. These investments will create more leisure opportunities, improving wellbeing, and bringing in a whole series of environmental initiatives that will benefit wildlife as well as local communities.

Be leaders on removing lead
Customer-owned supply pipes are a hidden financial and health liability for many people – over 40% of households don't have the savings to fix a burst, and up to half of all pipes could contain lead, which the World Health Organisation states is unsafe at any level in drinking water. Instead of tackling the lead by adding more chemicals, we're going to fix the problem at the source. In an ambitious pilot, we'll work with local plumbers across Coventry to replace 25,000 pipes. We'll also trial new approaches to 1,000 homes in Shropshire to reveal insight on how to tackle this national problem, withdraw chemical use, and reduce the estimated 25% of leaks that come from these customer-owned pipes.

Provide more water for more customers
We want to make sure that we're ready for the future by increasing water supplies by enough to serve a city the size of Derby. And we'll do it by using low carbon technology too, revealing new insights we can share with other companies to support the water sector's aim to be net zero by 2030.

Help customers save water
We're rolling out a large-scale trial of over 150,000 smart water meters. These will help customers use water more efficiently, while also helping us reduce leakage by enough to supply a town the size of Market Harborough. This will help reduce the need for future investment in water resources that the Government has forecast is needed across the entire country.

Protect homes from flooding
A new 'nature-based' approach, in Mansfield, is another way in which we're going to reduce flooding. Working closely with local councils to install natural surface flood defences such as green embankments, ponds and grassed areas. We're aiming to protect around 90,000 customers, reduce the broader harm that flooding brings to local communities and give local people a more pleasant natural environment to enjoy.

Accelerating environmental improvements
We'll support environmental improvement to 500 km of rivers, through accelerated delivery of our Water Framework Directive statutory obligations and improvements to storm overflows – delivering benefits five years earlier than we would have done without this opportunity to contribute to the Green Recovery.

On top of the long-term benefits for customers and the environment, these investments will directly create around 2,500 jobs in the Midlands at a time when employment, and getting people back into work, is vital for our region. And we'll be recruiting and training local people, using the brilliant facilities at our new Academy, to improve skills across our region.

Market and Industry Overview

Our water sector
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.

Looking to the next 25 years
At Severn Trent, we are absolutely committed to drive progress in the water sector now and for generations to come. We are first and foremost driven by our Purpose – 'taking care of one of life's essentials' – focused on the delivery of outcomes for the benefit of our customers and wider society, as well as our shareholders. In order to maintain the high-quality service our stakeholders expect of us, it is important that we anticipate and plan for long-term trends and issues likely to impact on our activities. We review this information as part of our long-term planning and our risk management process. Read more on page 38.

Over the next 25 years and beyond we have identified many challenges and opportunities that we are likely to be faced with and how our strategic priorities will help us tackle these challenges.

We are already underway with delivering our bold ambitions to make positive contributions to the environment and deliver tangible improvements for our customers, while ensuring bills remain affordable. Moving forward, working in partnership with other water and waste water companies is key to delivering water resource resilience for future generations to come.

Our 2020-25 Business Plan and our Water Resource Management Plan ('WRMP') are both available on our website and examine the challenges and opportunities we face and how we will focus our resources to meet them.

OUR BUSINESS PLAN FOR 2020-25

1%
of profits donated to charities and community groups

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

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

£6.8bn
Totex allowance

9%
average bill reductions

2,100km
of rivers improved

GOING FURTHER FOR SUSTAINABILITY

50%
reduction in pollutions by 2025

5,000
hectares of biodiversity improved by 2027

Working with our regulators and stakeholders

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as outlined below.

You can read more about how we engaged with our regulators and other stakeholders this year on pages 68-71.

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.

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.

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.

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 COVID-19 Response: Engaging at Every Stage

The impacts of COVID-19 are still 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.

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, continues to lead 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

1
BOARD OVERSIGHT

STAKEHOLDER ENGAGEMENT

2
STRATEGIC INCIDENT TEAM
MEMBERSHIP: EXECUTIVE COMMITTEE

4
INTERNAL CONTROL

3
TACTICAL INCIDENT TEAM
MEMBERSHIP: SENIOR LEADERS

1. The Board oversees the business's COVID-19 response and the Strategic Incident Team's response to the pandemic. It has directed senior leadership considered all scenarios associated with the pandemic, reviewed and considered potential response options, and set expectations for our approach with each of its stakeholders. The Board received regular updates on progress.

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 ensures 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, beyond and during the pandemic.

Focused on effective outcomes

March 2020

All of our buildings confirmed COVID-secure.

COVID-19 Emergency Fund announced to support local charities and non-profit organisations affected by COVID-19.

We kept customers reassured and informed throughout the COVID-19 pandemic through regular content across a number of channels, including emails, social media, TV and radio.

We confirmed that we would not be taking any Government support, making any redundancies or furloughing any of our employees as a result of COVID-19.

We helped SME suppliers by moving to immediate processing of payments and continued to invest in our capital construction projects.

April 2020

Launch of 'Caring for our Colleagues' campaign.
Launch of our online Severn Trent Education Zone.

At their request, we reduced Christine's fee, and Liv and James' salaries by 25% for the first quarter of 2021/22 and donated the equivalent amount to local charities supporting the response to COVID-19 in our region.

May 2020

Launch of our industry first SMS and WhatsApp contact channels to keep customers safe and maintain contact throughout the pandemic.

August 2020

Mapping COVID-19 through our sewers
Samples from a small number of sewage treatment works were sent to specialist labs to test for remnants of COVID-19 to aid researchers in narrowing down outbreaks in smaller geographical regions. Public health officials could then act quickly to target areas at greater risk of spreading the infection.

October 2020

Launch of Back-on-Track Scheme
We introduced a temporary social tariff – Back-on-Track – to help support our vulnerable customers through a challenging time.

Our Education Team launched live online lessons for children and to support parents with home-schooling.

January 2021

We proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in the Green Recovery of our region. Read more on page 13.

February 2021

Launch of our 'Share a Smile' campaign.

New mental health podcast called 'Elephant Talks' with our senior leaders sharing their own experiences of mental ill health, recovery and how they look after their wellbeing.

March 2021

Supporting our colleagues by providing information on the Government's COVID-19 vaccination programme, with colleagues who have been vaccinated sharing their own stories.

Launch of our new 'Have you heard about D.E.B.S' campaign (Domestic abuse Education, Bullying and Support) to support colleagues who may be concerned for their safety, either at work or at home.

Taking Care of our Stakeholders, Company and Colleagues

This section provides a snapshot of how we have approached the COVID-19 pandemic 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.

Supporting our customers

Our priority remains the safety and wellbeing of our customers and people, and we've more than doubled the number of customers we've helped to over 150,000.

In October 2020 we launched our Back-on-Track Scheme specifically designed to help those who may be struggling to pay their bill as a result of the pandemic.

We have kept customers reassured and informed throughout the COVID-19 period through regular content across several channels, including emails, social media, TV and radio.

Our Priority Services Register supports those customers that need additional support from us at certain times. We have doubled the number of our customers registered with us to 2.6% of our customer base (2019/20: 1.2%).

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.

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.

We made £3.5 million available as part of our Severn Trent Trust Fund for those who may struggle to pay their household bills.

Read more p23

Helping to make a difference to our communities

In 2020, in addition to helping our customers directly, we established a £1 million COVID-19 Emergency Fund and were able to support 339 local charities in dealing with the impact of the pandemic.

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, and have held nearly 300 online sessions.

We embraced the Government's Kickstart Scheme and have ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development.

We also offered an additional 69 graduate and apprentice placements this year.

Read more p22

"The way they have dealt with COVID, in terms of giving back to the community and their efforts to go and invest in the environment, understanding that, with the nature of their product, there is an inherent link between the sustainability of their natural environment and their licence to serve the community. I think that is really well conceived and quite prudent."

Magellan
(Investor)

"Thanks to support from Severn Trent's COVID-19 Emergency Fund, we have been able to keep our nature reserves buzzing and chirruping with wildlife, and open for local communities to enjoy throughout the pandemic. Thank you, Severn Trent!"

Paul Wilkinson
Nottinghamshire Wildlife Trust CEO

Ensuring the long-term success of our Company

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 pages 47-49.

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 dedicated COVID-19 Statement can be found on page 46.

Our resilient financial position was a factor in our decision to declare a final dividend in line with our AMP7 dividend policy of growth of at least CPIH.

Working with our suppliers and contractors

Throughout the year we have supported our supply chain by moving to immediate processing of payments. This policy has helped many of them through the pandemic with crucial cash flow.

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. This is an important focus given the role of our supply chain as key employers in our region.

We continued to invest on our capital construction projects throughout the year.

Taking care of our colleagues

Our priority remains the safety and wellbeing of our people and customers. We are supporting our key workers with the processes, PPE and other equipment they need to continue to deliver our essential services and all of our buildings were confirmed as COVID-secure early in the pandemic. Our plans were also approved by our Trade Unions.

In 2020 we announced that we would 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.

In 2019/20 we agreed an annual pay increase of 2.3% for the next three years to provide certainty and security for our employees and their families.

In April 2020 we launched a 'Caring for our Colleagues' campaign, providing support on mental and physical wellbeing, and supported individual care plans for our people living in a vulnerable situation. In February 2021 we launched 'Share a Smile', an eight-week campaign of exclusive employee events to help give our colleagues and their families something to look forward to during lockdown. We hosted four virtual events, a Comedy Night, Pub Quiz, Bingo and Rockaoke. We also created weekly activity packs with a host of ideas for our employees to do in their own time. Colleagues shared their experiences via our dedicated 'Share a Smile' intranet hub.

Read more p72-75

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 current 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)

Once again we saw an amazing 90% of our colleagues giving feedback in our engagement survey. We had a fantastic level of engagement with Severn Trent scoring 8.3 and Hafren Dyfrdwy 8.6 out of 10. 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.

For the first time ever we have a dashboard that includes diversity and inclusion (score: 8.8). Although we have scored well we know there is more to do. Our ambition is to have a workforce that reflects the communities we serve, and build an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best.

Lost Time Incidents ('LTI') (Per 100,000 hours worked)

We believe passionately that no one should be hurt or made unwell by what we do. We've achieved a 20% reduction in our LTI rate (our best-ever performance).

We have a comprehensive approach to health, safety and mental wellbeing. Throughout the pandemic we ensured that all our key worker employees had access to the correct personal protective equipment ('PPE') and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week.

Lowest possible bills

Value for money[2] (Percentage)

For the last decade we've had the lowest bills in the industry – and we still have one of the lowest bills in England. 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, customers' perception of the service they receive and the way we contribute to wider society.

A positive difference

40,728

2020/21

Education Programme[2,4] (Commitment)

This measure has changed for AMP7. Alongside our education programme we are also engaging with customers to drive behaviour change.

During the year, our Education Team launched online lessons to support our customers and communities across Severn Trent and Hafren Dyfrdwy with home schooling during lockdown. These interactive sessions ran four times a day across the week, providing children (and adults) with engaging lessons about the water cycle, the importance of looking after our sewers and caring for the environment. Since October 2020 we've live-streamed more than 500 hours of content and secured over 40,000 commitments.

A service for everyone

Help to Pay When You Need It[2] (% of customers)

Over the next five years we aim to support more customers who struggle to pay. We have provided assistance to 35% of our customers who needed support.

Our Big Difference Scheme, offering discounts of up to 90% for eligible customers, and our WaterSure scheme are supporting this activity. In response to COVID-19, we launched our Back-on-Track tariff to support those affected through the pandemic.

Read more on page 23.

Priority Services Register ('PSR')[2] (Percentage)

Our PSR is in place for customers that need additional support from us at certain times. Currently 2.6% of our customer base are registered with us.

We work with organisations across our region, including the energy industry, to identify customers that may benefit from being registered with us. Our ambition is to increase our priority services coverage to 9.7% of our customer base by 2025.

A thriving environment

2,632

2020/21

Biodiversity[2,4] (No. of hectares (ha))

Last year we set a bold ambition to improve over 5,000 ha of land (an area around the size of Gloucester) across our region and plant 1.3 million trees by 2030. This year we've improved 2,632 ha and planted c.290,000 trees.

By working across our own land and in partnerships, we will create a network of wildlife improvements across our whole region involving more than 70 different organisations in 2020/21, including the RSPB, Severn Rivers Trust and the National Forest.

The new Hedgerow and Woodland scheme has been a huge success, with farmers across our region able to plant c.139,000 diverse hedgerow and woodland saplings.

An outstanding experience

Customer Measure of Experience[2] (Index)

Ofwat's measure of customer experience ('C-MeX') places the same weighting on the perceptions of all of our customers as on those who contact us.

This year, our C-MeX score ranked ninth for Severn Trent and eleventh for Hafren Dyfrdwy in the sector. We recognise there is more to do particularly around service delivery and letting our customers know what is happening and when.

Developer Measure of Experience[2] (Index)

Ofwat's measure of service experience for developers ('D-MeX') directly compares us to our peers.

Our Developer Services customers rank us in upper quartile in Ofwat's D-MeX measure of customer experience demonstrating our approach is clearly one of the best across England and Wales. It is our ambition to lead the water industry in terms of our digital customer offering.

Good to drink

Compliance Risk Index[2] ('CRI') (Index)

The CRI is the Drinking Water Inspectorate's measure of water quality. Our final position in England for 2020/21 has not yet been confirmed, however we expect to see around a c.60% improvement year-on-year.

Our food factory mentality, bringing the expertise and control from food production industries into our water treatment works, alongside investment in our assets has resulted in our best-ever performance.

We're continuing to develop our flow cytometry capability, in order to rapidly identify issues and put mitigations in place.

Drinking water quality[2,4] (No. of complaints)

Over the last few years we have embarked on a programme to improve our water quality performance.

This year marks the fourth year-on-year improvement – a reduction of over 30% since 2016/17.

Our operational teams have flushed, conditioned and cleaned a record-breaking length of pipe.

This programme has contributed to a further 8.9% improvement this year, meeting our regulatory target for the first time.

Water always there

Supply interruptions[2,4] (No. of minutes)

Earlier this year, when we were in lockdown, we saw unprecedented demand for water across our region which resulted in some of our customers experiencing low pressure or interrupted supply, leading to a year-on-year deterioration in supply interruptions performance.

Our underlying run-rate for the second half of the year has been really positive – delivering a monthly performance that beats our stretching regulatory target.

We've delivered this through a focus on network response in our control centre and out in the field, tankering team activity and proactive asset maintenance.

Leakage[2,4] (Three-year average) (Megalitres per day ('Ml/d'))

Leakage is one of our most important measures and we have seen our lowest ever levels of District Metered Area ('DMA') leakage

Reducing leaks is a critical component to ensuring a sustainable water cycle; reducing stress on the environment through a reduction in the volume of water that needs to be abstracted and reducing the energy used to treat water and move it around our network.

We report leakage as the volume of water we lose from the network each day as a three-year average. This year has seen us reduce leakage by 2.2% starting us on our journey to delivering a 15% reduction from our 2019/20 baseline over the next five years.

Waste water taken away safely

Internal sewer flooding[2,4] (No. of incidents)

We've made a 16% year-on-year improvement, despite high-intensity storms in June and August effecting our sewer network.

In September 2020 we began our sewer sensors trial by installing more than 1,550 battery-powered smart units and we're planning to install a total of 40,000 by 2025.

These sensors will help prevent flooding from blockages caused by wet wipes, cooking fats and other unflushables by giving us a better understanding of what is happening in the sewers in real-time so we can take proactive steps to protect our customers and the environment.

External sewer flooding[2,4] (No. of incidents)

Reducing external sewer flooding was our major success story of the last five years. Our continued focus led to a 34% year-on-year improvement.

We know that any incidences of sewer flooding are a problem for our customers, and we know we still have more work to do We have started our roll out of smart sewer sensors across our network – allowing us to accurately target interventions and prevent the escape of sewage.

Waste water taken away safely

Public sewer flooding[2,4] (No. incidents)

This is the first year we've had a regulatory commitment to reduce flooding that impacts public open spaces. We worked hard during 2019/20 to set the foundations for our performance and are delighted to report we've made a further improvement during 2020/21.

Activities we have undertaken across our sewer network to reduce the number of blockages and sewage spills have really helped drive down the risk of public sewer flooding.

Pollutions incidents[2,4] (No. of incidents)

We've set ourselves a bold ambition to halve the number of pollution incidents by 50% by 2025 and we've made a fantastic start with a 21% year-on-year improvement.

We're continuing to expand our pollution monitoring and response capabilities In Sutton Park, one of the largest urban parks in the UK with significant societal and environmental importance, we have deployed 150 sensors alongside a part-time ranger to monitor activity.

Our financial KPIs

Group adjusted PBIT[3] (£m)

Group adjusted profit before interest and tax ('adjusted 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 31.

Group adjusted EPS[3] (pence)

Earnings per share ('EPS') is a key financial metric that indicates the Group's profitability after finance costs and tax. Adjusted 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 and the calculation of adjusted EPS is set out in note 15 to the financial statements.

Regulated gearing (percentage)

Regulated gearing is calculated as the Severn Trent Water 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 outperformance ('RoRE') (basis points)

Return on Regulated Equity outperformance ('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 determined across three main areas:

- total expenditure ('Totex') measured by 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 33

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, unless indicated otherwise.
3. Alternative performance measures are defined in note 43 to the Group financial statements.
4. Where possible we have used consistent data for 2020/21 which may differ from our APR20 reported value due to methodology changes for a number of ODIs.

Regulated Water and Waste Water Performance Review

We focus what we do towards our 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 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.

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1 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.

Engaging with our customers
Customers are at the heart of everything we do, and our proactive and continuous engagement ensures that we are truly able to understand what matters to them and deliver improvements in service. Customers have told us that they expect us to protect and improve the environment, help mitigate the effects of climate change and make a positive difference in the communities we serve. They have also told us that ensuring their bills are affordable remains a priority and we are committed to delivering against these expectations in all that we do.

Supporting our people
A happy and motivated workforce is vital to securing the trust of our customers and stakeholders and we continuously adapt how we listen, and respond to, the views of our people. We're delighted with this year's QUEST employee engagement scores in Severn Trent and Hafren Dyfrdwy (8.3 and 8.6 out of 10 respectively), placing us for a second year in a row in the top 5% of utility companies.

Our strongest performing areas were growth, loyalty and satisfaction which really reflects our efforts to create an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. Page 73 sets out our diversity and inclusion programme in more detail.

We believe that no one should be injured or made unwell by what we do and we were pleased with our best ever Health Safety and Wellbeing performance this year, with a 20% improvement in Lost Time Incident's ('LTIs') this year.

6th place in Tortoise Responsibility100 Index

We were proud to remain the highest-ranked utility company in the Tortoise Responsibility100 Index, which ranks FTSE100 companies on their commitment to key social, environmental and ethical objectives. We received first place for 'Good Business' (covering a range of measures from employee engagement to Fair Tax and research and development spend) and achieved second place for Poverty and Wellbeing, assessing performance on employee physical and mental wellbeing and real Living Wage accreditation.

Shareholder vote on our climate change approach

In order to demonstrate our commitment to shareholders, and wider stakeholders, on 24 March 2021 the Board announced its intention to put its long-term approach to climate change before shareholders, and seek a non-binding advisory vote on our ambitious plans to achieve them, at the Company's AGM on 8 July 2021. We believe it is important that shareholders, and other stakeholders, have the opportunity to engage with the plans we have developed to ultimately build trust.

Leading the way on gender diversity
Severn Trent has long been recognised as a global leader on gender equality. As at 31 March 2021, four members (33%) of our Executive Team and 22 members (42%) of our senior leaders were female, and we have been named second in the Hampton-Alexander Review for our performance in this area. We were ranked fifth in the UK (and 31st globally) in the Equileap Gender Equality Global Report and recognised as a global leader in the Bloomberg Gender-Equality Index, achieving a score of 71% (up from 53% last year). As at 31 March 2021, female representation in the Company was 28.6% (2,029 women) and 56% (5 women) on the Board. Page 104 sets out a gender breakdown of Directors, senior managers and employees of the Company.

A fair approach to tax
Tax is a very public way that all businesses contribute to the society that they serve. We were delighted to be awarded the Fair Tax Mark for the second year running in recognition of our commitment to managing our tax affairs responsibly, and supporting measures aimed at enhancing tax transparency.

2nd
in the Hampton-Alexander Review for our performance on gender equality

8.3
out of 10 employee engagement score, once again placing us in the top 5% of global utilities

2 A positive **difference**

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

Kickstart to the year
We have embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16 to 24 year olds into employment with paid work experience and skills development – with our first set of 'Kickstarters' having joined us in January 2021. This is a key opportunity to help change the lives and future outlooks for young people from our communities and equip them with the experience and skills that will stand them in good stead as they look to find full-time opportunities, possibly even within Severn Trent.

Each of our 'Kickstarters' will spend 25 hours a week with us for six months and whilst the programme is a wonderful opportunity for young people in our communities, we'll also benefit from new outlooks and fresh perspectives that they can bring.

Our employability scheme
For the past five years, we have 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 college. The programme has been hugely successful with many of our interns entering paid employment after their internships.

We've started looking at ways to expand the scheme to other partner colleges in different areas of our region.

Super sewer education
During the year, our Education Team adapted their programmes and launched live online lessons to support our customers and communities who were home schooling during lockdown. These one-hour interactive sessions ran four times a day, five days a week, providing children, and adults, with engaging and virtual lessons all about the water cycle, the importance of looking after our sewers and caring for the environment.

In December 2020, we also welcomed our new Secondary Education Team, focused on inspiring young people (Key Stage 3 and above) and community groups, particularly around preventing sewer blockages. The new team has made great initial progress and has already delivered a number of school sessions.

From April 2021, our education programme will focus on water efficiency and, through our partnership with the Commonwealth Games, will also promote messages in relation to sustainability and the importance of water as a precious and finite resource.

500
unemployed 16 to 24 year olds to be supported as part of our Kickstart Scheme

c.300
livestreamed sessions for schools and home learners

Our £1 million COVID-19 Emergency Fund

Early in the pandemic we established our £1 million COVID-19 Emergency Fund to support those at the forefront of our region's response. Whilst we already help thousands of customers who are struggling to pay their bills or who are vulnerable, our emergency fund gave additional support to community projects and charities, helping those most in need during these difficult times. Financial support is also available through a number of our schemes that thousands of our customers are already taking advantage of.

3 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
We share the belief with our customers that water should be affordable for all. Our customers' perceptions of value for money has remained stable at 67% this year, compared with 66% at the close of AMP6. We know that we're entering a challenging period as the full economic impacts of COVID-19 become clearer. However, we do so from a stronger position than we have seen in our recent history – and we've increased activity to raise awareness of support schemes available to customers to support them as we emerge from this period of prolonged uncertainty.

Our average combined bill for the year – around £1 a day – remains one of the lowest in the country, and we will continue to offer one of the lowest bills in AMP7. Our Hafren Dyfrdwy customers continue to have the lowest average combined bills in Wales.

Supporting our customers through COVID-19
As a regional business, with many of our people also being customers and members of the communities we serve, we take seriously the role we must play in supporting the communities hit hardest by the pandemic, which is why we awarded c.£3.5 million of funding to over 400 charities and not-for-profits in our region through our COVID-19 Emergency Fund, Community Fund and our Water Efficiency Savings Challenge.

We also made a real customer impact, issuing just under 4,000 trust fund grants to help our vulnerable customers through what has remained a challenging time and we also introduced a temporary social tariff called 'Back on Track' which has helped some of our customers, who have struggled to pay, apply for a reduction of up to 50% on their bill for 2021/22.

Supporting our Hafren Dyfrdwy customers

Our Purpose, taking care of one of life's essentials, helps shape our decision making, including creating societal value through our social and environmental commitments beyond those outlined in our AMP7 business plan.

COVID-19 has had a global impact and we are acutely aware that some of our customers will be experiencing affordability pressures. We have provided extra support for our customers in need through our vulnerability schemes including WaterSure and our Priority Services Register. Assistance is also available online through 'Here2Help', our social tariff which has helped 1,382 customers access the support they need.

We have been working closely with Welsh Government, the Consumer Council for Wales and stakeholders such as Dŵr Cymru to further understand the impacts of COVID-19 on customers and look at the additional support we can offer where needed. Partnerships have been established with Wrexham Borough Council, Powys and Wrexham Citizens Advice and Warm Wales to sign-post customers to the support we offer.

1,382
of our Hafren Dyfrdwy customers supported through our Social Tariff

Around £1 a day
average combined bill for the year

4 A service **for everyone**

We want everyone to have access to, and be able to afford, our services. This year, more than ever, has underlined the importance of our Purpose of taking care of one of life's essentials and delivering a service for everyone.

Improving affordability
We understand that even though our bills are low, some customers have difficulty paying and we continue to do everything we can to help those who are genuinely struggling.

This year we helped over 150,000 customers with their bills, equating to 35% of our customers who struggle to pay, through a range of measures. Our Big Difference Scheme helped over 67,000 customers with over £15.5 million of support by offering them a discount of between 10% and 90% on their average bills and our WaterSure scheme has supported over 15,000 customers with over £3 million. We've also, just as importantly, worked with customers providing tips and guidance to help reduce their usage.

Our Priority Services Register allows us to establish the specific needs of our customers and tailor our support. 2.6% of our customer base are now registered with us and we're working with organisations across our region to identify customers that may benefit from being registered. Our ambition is to increase our priority services coverage to 9.7% of our customer base by 2025.

Caring for our care leavers

In 2020, we launched an industry first initiative to provide financial support to care leavers as they move into independent living. A care leaver is an adult who has spent time living in the care system, away from their family. We partnered with Coventry City Council to support 400 young adults and fast-track them on to the Big Difference Scheme and receive up to 70% off their bills. We're proud to be the first utility company to join up with a local authority, offering this type of support to care leavers, and we hope to work with more local authorities across our region in the future.

Supporting accessibility
We're focused on being there for our customers – 24 hours a day, seven days a week – through whatever channel they choose. 53% of our customers choose to contact us through digital channels and we have set ourselves the ambition of leading the water industry in 'digital'. Customers can now contact us via social media (Facebook, Twitter, Instagram), WhatsApp, Apple Chat and Webchat. Our commitment was recognised at the UK National Contact Centre Awards this year.

Throughout the year we have focused on connecting our people to our customers on a deeper level through our cultural programme, Connected Customer Culture, and we've also improved our technology to include speech analytics and better call handling to improve our services even further.

We continue to learn and adapt to ensure our digital offer continues to meet customers' changing needs and provide the best experience possible for them.

c.150,000

customers helped with their bills during the year

2.6%

of our customer base reached through our Priority Services Register

5 An outstanding **experience**

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

Customer experience
We were highlighted in the Top 20 most improved organisations within the January 2021 UK Customer Satisfaction Index and are now in fifth position overall, and all of this against the backdrop of one of the lowest bills in England, at around £1 a day. In addition, we are upper-quartile in the 'experience' section of Ofwat's customer satisfaction measure ('C-MeX') which assesses the perceptions of all our domestic customers. However, when taking into account the views of customers who have specifically contacted us during the year, for example in regard to a leak, blockage or billing query, we rank in the median position. So, whilst we have much to be proud of with the successes outlined above, we recognise there is more to do particularly around service delivery and letting our customers know what is happening and when.

Our Developer Services customers place us in the upper quartile of Ofwat's measure of service for developers ('D-MeX'). It is our ambition to build on this success and lead the water industry in terms of our digital customer offering.

We are committed to improving our performance and offering the best service and experience to all our customers and developers.

2020 National Contact Centre Award Winners

As a company, we put customers at the heart of everything we do and we were delighted to win Training/Coaching Manager of the Year and Learning and Development Team of the Year at the 2020 UK National Contact Centre Awards. We were also thrilled to win a silver award at the European Contact Centre and Customers Service Awards for 'most effective management of peak demand'.

A new approach to customer experience in waste

During the year we implemented a new Waste Customer Management Centre in Derby, which focuses on complex activity that forms approximately 20% of total job volumes, but contributes to c.80% of customer dissatisfaction. We are positive that this dedicated approach will drive improvements to the end-to-end customer journey within waste.

Accelerating our digital transformation
Our digital strategy is focused on improving our customers' experience whilst also driving efficiencies to free up critical teams to resolve complex customer issues. This year, we introduced a customer-centric tech solution for our contact centres – a key stage in our journey – which saw delivery of more advanced telephony capabilities, in-queue call back functionality and enhanced call recording abilities.

In response to COVID-19, we promptly implemented COVID-secure working and home working capability for our contact centre staff to ensure that we could be there for our customers throughout the pandemic and continue to deliver great customer experience and operational performance.

6 Good to **drink**

Providing a safe supply of water for our customers to enjoy is at the very heart of our Purpose of taking care of one of life's essentials.

Strong performance on water quality
Our additional investment over the last few years has continued to improve our performance on water quality complaints. This year marks the fourth year-on-year improvement – a reduction of just under 9% since last year and a 30% reduction in complaints since 2016/17. Our operational teams have also relined over 48 km of water mains this year.

The Compliance Risk Index is the Drinking Water Inspectorate's measure of water quality and we've seen significant improvements delivering c.60% year-on-year in Severn Trent and c.70% in Hafren Dyfrdwy. We are utilising technology, allowing us to more quickly address issues, ensuring we maintain exceptional quality water to our customers' taps.

Our performance has been helped by our approach to asset health in the round with our 'Overall Equipment Effectiveness' approach delivering tangible benefits through: reducing planned work volumes and associated time to complete the tasks, reducing cost and improving asset performance.

Severn Trent's Environmental Protection Schemes ('STEPS')

Our STEPS grant schemes offer farmers and land managers – both owners and tenants – financial and technical support, to invest in tailored solutions to help tackle diffuse water pollution, protect and maintain biodiversity, and support the natural environment. STEPS has been running since 2015 and we've awarded more than 1,900 grants. Funding is prioritised for projects that will have a greater impact on our pollution reduction targets.

2020 Alliancing and Partnership Initiative of the Year – Farming for Water

In 2015, we launched the Farming for Water scheme, aimed at reducing water pollution from agricultural practices and improving biodiversity across the region. In simple terms, we set the goal of reducing pollution from agriculture – pesticides, nitrate and cryptosporidium – entering our water system.

The recognition is a real testament to the hard work our teams and partners have put in over the past five years and the great relationships we've cultivated at all levels.

Catchment management
When it comes to improving water quality, prevention is always better than a cure and we've continued to make investments to ensure that the water that enters our rivers is as clean as possible in the first place. Our Catchment and Biodiversity Team has developed new ways of working with farmers, community groups and Non-Government Organisations ('NGOs') to safeguard the delivery of our Biodiversity and Farming for Water initiatives.

During the year we held 1,811 meetings with farmers in our region and are on track to meet our ambitious engagement target of 9,000 farmers by 2025. Our Farming for Water initiatives can help us reduce phosphate levels by 50% more than traditional treatment technology.

Last year we set a new bold ambition to improve 5,000 hectares (an area around the size of Gloucester) across our region by 2027 and we have delivered 2,632 hectares of improvements this year alone.

You can read more about our approach to Catchment Management in our Sustainability Report in the 'Enhancing our Natural Environment Cycle' section.

7 Water **always there**

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

Maintaining supply
At 11 minutes 21 seconds, we once again saw how unexpected events can impact performance. Our underlying run-rate for the second half of the year has been really positive – delivering a monthly performance that beats our regulatory target. We've delivered through a focus on: network response in our control centre and out in the field; reacting quickly and getting our teams out on the ground as soon as possible to re-direct water and repair the asset; and to further minimise the time our customers go without supply, we temporarily restore supply with our in-house team injecting water directly into the network.

Our proactive maintenance strategy is essential as we have thousands of assets on the network – our focus this year has been on the most critical valves, which thousands of customers rely on to ensure their water can be re-directed in the event of an interruption to supply. We are pleased that we have met our mains bursts target.

Water demand
Our water efficiency programme has experienced a number of successes this year including our schools education programme, providing water-efficiency advice through home visits to 11,866 customers; installing 83,000 water meters, and offering free and subsidised water-saving devices to customers. With the help of our customers, we've saved c.25 million litres a day between 2015 and 2020, and our aim is to achieve per capita consumption of 118 litres per person, per day by 2045.

For our Welsh customers, we've embraced the Welsh Government's ambitions for a lead-free Wales by beating our year one target for lead pipe replacement four times over.

World Water Innovation Fund ('WWIF')

Through our WWIF we work with 12 partners globally to collaborate on a range of circular economy and carbon offsetting projects including heat recovery from sewers, cellulose recovery and ammonia and hydrogen recovery initiatives. Read more in our Sustainability Report in the 'Building an Innovative Business' section.

Interconnector

By 2050 the UK is projected to be home to an extra 12 million people, adding pressure on an already diminishing water supply. We continue to play our part on a national level by working with Affinity, United Utilities and Thames Water on interconnector schemes to take raw water from the North West to the South East. Each scheme of the project is at different stage of development and work continues to ensure that the carbon and environmental impacts are understood and mitigated as far as practicable.

Improving pressure
Our customers told us how important water pressure was for them. Understanding pressure variations and behaviour in our network with data-led insight means we are not only able to carry out timely proactive maintenance, creating a calmer network, and improve the service for our customers. We have exceeded our target on our two pressure commitments: resolution of low pressure complaints and persistent low pressure.

Reducing leakage
Reducing leakage is a priority for us and we have set a goal to reduce it by 15% by 2025 and we exceeded our target this year.

With an extensive network of loggers, our teams constantly monitor our network, checking for subtle changes in flow rate and pressure that may indicate leaks, and their expertise, combined with the technology we use, means we are able to detect a large percentage of leaks before they become an issue for the public. This year we have achieved our lowest ever level of District Metered Area ('DMA') leakage helping us to achieve a 2.2% year-on-year reduction.

We know we need to go further and our aspiration is to achieve a 50% reduction by 2045. The Ofwat Innovation Fund is one way we can explore and understand new opportunities. We are pleased that Hafren Dyfrdwy secured funding to investigate if existing fibre networks (e.g. broadband, traffic signalling/monitoring) can be used to detect leaks alongside partners Focus Sensors, Costain, Dŵr Cymru and Portsmouth Water.

92%
of our customers' pressure issues resolved first time

2.2%
leakage reduction year-on-year

8 Waste water **safely taken away**

Every day we take 3.1 billion litres of our customers' waste water away, ready to be made safe to return to the natural environment.

Reducing sewer flooding and blockages
We invest tens of millions cleaning over 32,000 sewer blockages each year. The accelerated 'Blockbuster' work we initiated and continued into this year has been key in delivering across our flooding and pollutions commitments.

We've made a 16% year-on-year improvement on internal sewer flooding, despite high-intensity storms in June and August. In early 2021 we set up a Flooding Improvement Team to collaborate on the single goal of making us more 'Storm Secure' in the future. This team have been looking at a range of improvement areas such as: using data and predictive modelling; accelerating our flood mitigation plans; improving our customer journey; and improving information flows when flooding happens. We've also been working closely with our industry flood risk management partners and our local MPs.

We know we have more to do to reduce sewer flooding further. In September 2020 we began our sewer sensors trial by installing more than 1,500 battery-powered smart units in Wolverhampton and we're planning to install a total of 40,000 by 2025. These sensors will help prevent flooding from blockages across our region caused by wet wipes, cooking fats and other non-flushables which could lead to flooding or pollution incidents and also gives us a much clearer understanding of what is happening in the sewers in real time so we can react proactively to protect our customers and the environment.

The Secret Science of Sewage

The BBC Two TV programme which aired in March 2021 went behind the scenes at our largest sewage treatment works at Minworth, educating viewers all about the wonderful world of sewage and what our waste can tell us about the way we live. The programme also looked at the revolutionary science that has the potential to discover new life-changing medicine and other valuable resources hidden inside sewage.

Sewer network in Stroud

In March 2021, we announced plans to invest £25 million to improve the sewer network in Stroud by installing over two miles of pipes and upgrading many of the old Victorian sewers in the town. This is one of the largest projects we will invest in over the next five years and will provide those living in Stroud with a resilient sewer network, helping to protect homes and businesses from blockages and flooding.

Alongside investment in infrastructure we're also working with our communities and industries to reduce the amount of Fats, Oils and Greases ('FOGs') that end up in our sewers. Around 70% of blockages on our network are caused by customers flushing non-flushable wipes or FOGs down toilets and sinks – a challenge we must tackle. Our new Inspect and Resolve service continues to see reductions in repeat blockages and targeted network investments have yielded strong benefits.

Performing on pollutions
Since 2011 there have been 57% fewer incidents per 10,000 km sewer (total pollution incidents category 1-3) and this year we've had one of our best performances during the year, with a 21% reduction on category 1-3 waste pollution incidents, which puts us on track to hit our target to halve pollutions by the end of the AMP.

Protecting asset health
Developing a proactive, predictive approach to asset maintenance is critical to our future success. Over the past 12 months we have invested in new technology including vibration monitoring meters to determine asset health and the use of thermal imaging equipment to detect unwanted energy sources or energy losses which may affect asset or process health. Whilst the use of this technology is in its early stages, we are already observing the benefits and the technology is enabling us to take preventative action and keep our sites running smoothly.

9 A thriving **environment**

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

A positive impact on our environment
We want to drive significant environmental improvement through our biodiversity programme, and we are pleased to have made a very strong start to the AMP. Enhancing biodiversity helps build resilience in our natural ecosystems, boosting the health and quality of several areas including woods, soils, rivers and wetlands. Our biodiversity enhancements will improve water quality and therefore make this vital resource more sustainable.

Last year we announced our intention to invest £1.2 billion in environmental initiatives in order to reduce emissions, improve the environment, and support customers, through programmes such as our Great Big Nature Boost. This year we have improved 2,632 hectares of our land, which is c.53% of our bold ambition to improve 5,000 hectares across our region by 2027.

We quickly adapted our planned improvement activity in response to COVID-19 lockdown restrictions and weather fluctuations during the year. The Biodiversity and Ecology Team focused on alternative ideas including a hedgerow restoration scheme for farmers and our 'tree guard amnesty'. The partnerships we have built – including with the National Trust, Wildlife Trust, Rivers Trust and RSPB – and our relationships with our regulators – including the EA, DWI, Natural England and Natural Resources Wales – continue to make a positive contribution and we look forward to building on this.

Working with the Woodland Trust, we have planted around 290,000 trees this year and remain on track to meet our 1.3 million target by 2030. This will help provide natural protection against the worst effects of climate change.

Converting sewage waste into hydrogen
Through collaboration with researchers from Coventry University and the Organics Group we are pioneering efforts to turn waste ammonia captured at our sewage treatment facility into green fuel. Currently we destroy the waste ammonia due to its toxic properties, but the exciting programme could see it captured and converted into hydrogen. If trials are successful, we have the potential to recover up to 10,000 tonnes of green ammonia each year from our waste water treatment plants which could be converted into 450 tonnes of hydrogen.

Helping deliver the first ever carbon neutral Commonwealth Games
In March 2021, we were delighted to announce our role as the Official Nature and Carbon Neutral Supporter of the Birmingham 2022 Commonwealth Games. We are proud to be leading on making it the first carbon neutral games through a range of offsetting initiatives including enhancing nature with 2,022 acres of forest in the Midlands region and 72 mini-forests representing each competing nation. Like us, the games have an ambition to leave a positive lasting legacy for future generations and we look forward to working with them in the months to come.

Supporting the Green Economic Recovery
We support the Government's approach to investing in a Green Recovery and, as a responsible business in our region, we proposed an ambitious package of investments aimed at delivering long-term, sustainable benefits for current and future generations in our region, through improving the environment and also creating jobs.

On 17 May 2021, Ofwat announced that we had been given the go ahead to invest £565 million (2017/18 prices) in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company alongside new investment to support our ESG ambitions. We are delighted with this outcome and have already started work on the new investments, aimed at supporting the wider national agenda on climate change, delivering long-term flooding resilience, addressing national river quality, reducing water consumption, improving additional water supply resilience and acting as a leader on removing lead from customer-owned supply pipes. In addition, our Green Recovery projects will create direct employment opportunities with us over the next four years and further employment opportunities with our delivery partners and in the wider supply chain. Read more on page 13.

Our customers helped us to shape and develop the proposals and we have been delighted and encouraged by their positive engagement and feedback. In a survey of 1,000 of our customers, 98% supported or strongly supported our package of investment areas.

New THP facility at Stoke Bardolph

In 2020 we received permission from the EA to vary our existing environmental permit for our Stoke Bardolph Sewage Treatment Works enabling us to construct a new Thermal Hydrolysis Plant ('THP') and biogas upgrading unit. Commissioning of the new plant is almost complete and the THP plant is being used for the pre-treatment of all sludges prior to digestion, facilitating the production of an enhanced sludge product at this site. The biogas plant upgrades the biogas produced on-site through anaerobic digestion and makes it suitable for injection into the National Gas Grid for onward use by end consumers. The new plant increases the efficiency of our gas production and our contribution to a net-zero carbon UK.

Resource Recovery and Innovation Centre

Our Resource Recovery and Innovation Centre at Spernal provides a full-scale plug-and-play testbed where we can develop new technologies and undertake demonstrations and trials in a safe, controlled environment. We are investigating technology, including how low energy treatment processes aid the recovery of materials from waste water.

Business Services Performance Review

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 three areas: Green Power; Operating Services; and Property Development.

Leading on self generation

Our Green Power business recycles over 600,000 tonnes of green and mixed food waste each year. The green energy produced from food waste forms part of Severn Trent's Triple Carbon Pledge – achieving net-zero operational carbon emissions, 100% renewable power and an all-electric fleet of vehicles by 2030, where available.

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, and this year, we were pleased in Green Power to deliver our record level of generation at 267GWh of renewable energy from nine Anaerobic Digestion ('AD') sites as well as our wind, solar and hydro plants.

We kept our eight food waste plants open throughout the national lockdown, to prevent food waste from heading to landfill. As a result, we saw a 17% increase in the amount of domestic food waste that arrived at our doors between March and July. During this period, our operational teams went the extra mile, recycling 126,000 tonnes and producing 50,000MWh of electricity – enough to power 11,900 homes. At the same time, our compost sites recycled over 17,000 tonnes of garden waste, producing around 8,500 tonnes of compost. Despite the increase in domestic food waste received, full-year generation was behind budget (notwithstanding a 1% increase year-on-year) due to the fall in commercial food waste volumes as a consequence of to the impact on the hospitality sector from COVID-19.

Severn Trent Green Power shortlisted as recycling business of the year 2020

Now in their 17th year, the Awards for Excellence in Recycling and Waste Management recognise innovation, dedication and success within the waste and recycling industries, local authorities and the wider sector. We are delighted that we were selected as a finalist in the 'Organics Recycling Business of the Year' category. Being shortlisted is a great achievement and a testament to the hard work of the team over the past year.

Pumpkin Power

In October 2021, teams based across eight depots in the Midlands, Oxfordshire, South Wales and London took delivery of over 50,000 pumpkins at their food waste plants after Halloween. As the pumpkins break down through the AD process, biomethane gas is naturally released and is then injected back into the local gas grid or converted into electricity, which can be exported to the local electricity grid, decarbonising the energy we all use. At the end of this process, we're left with a by-product that acts as an excellent fertiliser, rich in nitrates, which is great for farming – effectively returning food waste to the ground it was grown in. Converting the food waste into green gas and electricity on site also allows our sites to be self-sustainable, consuming less energy than we create.

In April 2020 we were proud to win a five-year contract with Peterborough City Council to manage the City's food waste and convert it into renewable energy. Peterborough's food waste will be treated at Severn Trent Green Power's North London AD facility in London Colney, Hertfordshire, where 50,000 tonnes of household and commercial food waste is treated each year. Enough to power almost 6,000 homes. This site alone has the net carbon benefit equivalent of taking 71,000 cars off the road.

Delivering on customer service

Operating Services achieved its best ever performance on over 75% of its contract key performance indicators. We performed strongly throughout the year in regards to our Ministry of Defence ('MOD') contract, delivering our best-ever performance across product and service failures and our leakage performance was industry leading.

The Coal Authority contract has delivered best-ever PBIT performance, achieving over £1 million for the second year running.

Our water hygiene business has continued to grow and has achieved its best performance yet and our searches business has seen improvements year-on-year with house buyers taking advantage of the Government's temporary reduction in Stamp Duty Land Tax ('Stamp Duty'), despite a slow start to the year.

Our Property Development business also performed well as a consequence of Stamp Duty reductions, despite ongoing uncertainty of economic conditions.

Chief Financial Officer's Review

James Bowling
Chief Financial Officer

At the end of a challenging year I'm pleased to report a resilient financial performance in line with our expectations.

As expected, our turnover reflected the rebasing of tariffs under the price review and the significant impact of the COVID-19 lockdowns. This time last year we guided to a £50 million to £85 million reduction in revenue, and we have seen the impact at the low end of this range, as higher domestic usage helped mitigate the significant decline in non-household consumption. Under the regulatory model we will be able to recover shortfalls in this year's allowed wholesale revenue in 2022/23. This decline in revenue was offset on a reported basis by a £33 million reclassification of deferred income and diversions income now released to revenue (previously credited to operating costs).

Adjusted PBIT was down 17.1% to £472.8 million. In addition to the impact of lower revenue, we spent more through our net labour, hired and contracted and other cost lines to support our strong customer ODI performance, and saw anticipated increases in power and chemical costs and depreciation. Our bad debt costs were down year-on-year, as strong household customer cash collections helped reduce our underlying bad debt charge, only partly offset by the additional provision we have made to account for forecasted COVID-19 related rises in unemployment. Business Services PBIT was also lower, in part due to lower energy prices and also the timing of property transactions during an unsettled year.

Reported Group PBIT was down 17.2% to £470.7 million (2019/20: £568.2 million).

We continue to benefit from both low inflation on our index-linked debt and fixed debt issued at low interest rates in recent years. Our effective interest cost was 30 bps lower at 3.4% (2019/20: 3.7%) and our effective cash cost of interest was flat at 3.1% (2019/20: 3.1%).

We have recognised our £8.9 million share of Water Plus' loss for the year and the £4.9 million of exceptional losses that were disclosed but not recognised in the previous year. Last year we recorded losses of £46.8 million in relation to Water Plus, mainly arising from impairment losses due to the expected impacts of COVID-19. After obtaining £70 million of external finance during the year the business is now well placed to benefit from increased economic activity after lockdown.

Our full effective tax rate was 20.6% and our adjusted effective tax rate was 11.4%, up from 10.4% in 2019/20 largely due to lower pension contributions in the year.

Reported Group profit after tax increased to £212.2 million (2020: £158.8 million). Basic earnings per share increased to 89.1 pence, (2019/20: 66.7 pence) and adjusted basic earnings per share were down 27.8% to 105.4 pence per share, in line with expectations.

Operational cash flow was £860.3 million, a reduction of £28.2 million as a result of lower PBIT partially offset by higher depreciation and amortisation and improved cash collection from household customers. Cash capex was £206.3 million lower than the previous year, when we completed major end of AMP6 projects. Net cash outflow before changes in net debt was £170.2 million (2019/20: £348.2 million).

A summary of our financial performance for the year is set out below:

	2021 £m	2020 £m	Change £m	Change %
Turnover	1,827.2	1,843.5	(16.3)	(0.9)
Adjusted PBIT	472.8	570.3	(97.5)	(17.1)
Adjusting items	(2.1)	(2.1)	-	-
PBIT	470.7	568.2	(97.5)	(17.2)
Net finance costs	(187.1)	(188.4)	1.3	0.7
Gains/losses on financial instruments, share of results of joint venture and impairment of loans receivable	(16.4)	(69.1)	52.7	76.3
Profit before tax	267.2	310.7	(43.5)	(14.0)
Tax	(55.0)	(151.9)	96.9	63.8
Profit for the year	212.2	158.8	53.4	33.6

Our net debt was £6,443.8 million (2020: £6,231.5 million) and regulated gearing was 64.5% (2020: 64.4%) reflecting strong capital management despite the impact of low inflation on our RCV. In April 2021 we renewed our £1.0 billion revolving credit facility, extending its maturity to 2026. Our cash flow requirements are now funded to December 2022.

Our RoRE for the year was 5.8%, 190 bps above the base return of 3.9%. This outperformance came from our customer ODIs, following continued outperformance on our Waste measures and improvements in Water and financing, as the continued reduction in our effective interest cost exceeded the drag of lower inflation in the year compared to Ofwat's Final Determination assumption. This outperformance was partly offset by higher totex reflecting early investment to enhance our resilience and support ODI performance and the COVID-19 related bad debt charge.

Changes to segmental presentation
Last year the Bioresources and Developer Services businesses were managed by, and included in, Business Services. Both of these businesses which form part of the appointed businesses of Severn Trent Water and Hafren Dyfrdwy, are included in the regulatory settlement determined by Ofwat and are now managed by our Regulated Water and Waste Water Team. We have therefore amended our segmental presentation to include Bioresources and Developer Services within our Regulated Water and Waste Water business.

We have restated the prior year segmental analysis to present both years on a consistent basis. Details of the adjustments made are set out in note 5 to the financial statements.

Regulated Water and Waste Water

	2021 £m	2020 (restated) £m	Change £m	Change %
Turnover	**1,693.9**	1,708.1	(14.2)	(0.8)
Net labour costs	**(156.0)**	(151.8)	(4.2)	(2.8)
Net hired and contracted costs	**(187.5)**	(174.6)	(12.9)	(7.4)
Power	**(100.0)**	(94.2)	(5.8)	(6.2)
Raw materials and consumables	**(61.3)**	(54.9)	(6.4)	(11.7)
Bad debts	**(40.5)**	(42.5)	2.0	4.7
Other costs	**(181.5)**	(147.3)	(34.2)	(23.2)
	(726.8)	(665.3)	(61.5)	(9.2)
Infrastructure renewals expenditure	**(151.0)**	(149.6)	(1.4)	(0.9)
Depreciation	**(364.0)**	(352.8)	(11.2)	(3.2)
Adjusted PBIT	**452.1**	540.4	(88.3)	(16.3)

Turnover for our Regulated Water and Waste Water business was £1,693.9 million (2019/20: £1,708.1 million) and adjusted PBIT was £452.1 million (2019/20: £540.4 million).

The key components of the £14.2 million decline in revenue were:

- A below-inflation annual increase in regulated revenue, largely as a result of the price review rebasing of tariffs at the start of AMP7 (£15 million).
- An increase of £33 million from the reclassification of deferred income releases and diversions income (previously credited to operating costs and infrastructure renewals expenditure – see note 2).
- A net decrease of £50 million due to lower consumption by commercial customers, partially offset by increases in domestic usage during the national lockdowns and the dry summer period.
- Other net decreases as a result of legacy refunds to non-household retailers and other adjustments (£12 million).

We carried forward ODI rewards from AMP6 of approximately £191 million in nominal prices. Our turnover in the year ended 31 March 2021 includes £38.2 million from these rewards.

Net labour costs of £156.0 million were up 2.8% compared to the prior year. Gross employee costs increased due to the annual pay award of 2.3% and insourcing of design activity in our Capital Delivery Team. This was partially offset by higher capitalisation of employee costs, largely related to this insourcing activity.

Net hired and contracted costs were £12.9 million (7.4%) higher. Investment in activities to reduce blockages and enhance biodiversity and in new technology licence increased costs. We also brought in additional temporary resources to respond to the hot weather period in early summer.

Power costs were up £5.8 million due to the expected rise in pass-through costs and additional consumption to meet higher household demand for water, with some offset from an increase in self-generation and lower variable tariffs in the first half of the year.

Raw materials and consumables increased by £6.4 million due to chemical costs on new Water Framework Directive schemes, and COVID-19 related consumables.

Household cash collection was 5% higher year-on-year - 3.5% from higher tariffs and consumption and 1.5% from improved targeting of older debt. As a result, the element of our bad debt charge relating to historical collections reduced by £9.4 million to £30.9 million. Despite this strong performance, and the range of social tariffs we have made available for struggling customers, our expectation is that the rise in unemployment forecast by the Bank of England for next year will result in more customers falling into arrears. In anticipation of this, and based on the forecast available at the year end, we recorded an additional bad debt charge of £9.6 million (2019/20: £2.2 million) against amounts already billed but not yet collected at the year end. Taken together, our bad debt charge as a percentage of household revenue was 3.0% (2019/20: 3.2%).

Reported other costs rose by £34.2 million. Before the £15.5 million reclassification of deferred income releases to turnover, other costs were up £18.7 million. This increase was primarily due to:

- A £6.0 million subscription for the new Ofwat Innovation Fund for AMP7, which is offset within our household tariffs in turnover.
- Increased insurance charges of £3.9 million.
- A £3.6 million increase in Community Support during the pandemic.
- A number of smaller items including £2.2 million higher business rates (due to inflationary increases this year and significant rebates in the prior year).

Reported Infrastructure renewals expenditure was £1.4 million higher in the year. Before the reclassification of £17.5 million of diversions income to turnover, expenditure was £16.1 million lower due to the completion of significant AMP6 projects last year, including our Trunk Mains Renewal Programme.

Depreciation of £364.0 million was £11.2 million higher than the prior year. Major AMP6 projects that were brought into service and other additions increased the depreciable asset base by around 7%; the effect of this was partly offset by a £9.8 million reduction in the depreciation charge following a review of useful lives for significant mechanical and electrical assets.

Return on Regulated Equity ('RoRE')
RoRE is a key performance indicator for the regulated business and reflects our combined performance on totex, customer ODIs and financing against the base return allowed in the Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2021 and for the five-year period ended on that date is set out in the following table:

	2020/21 %
Base return	3.9
Enhanced RoRE returns	0.3
ODI outperformance[1]	1.7
Totex performance	(0.7)
Financing outperformance	0.6
Regulatory return for the year[2]	**5.8**

1. ODI performance includes PCC and forecast D-MeX outturn.
2. Calculated in accordance with Ofwat guidance set out in RAG 4.07.

We have delivered RoRE of 5.8% in the year, outperforming the base return by 1.9% as a result of:

- ODI performance of 1.7%, driven by continued strong performance on waste measures, including blockages and sewer flooding, and improvements in water measures, including water quality, CRI and low pressure.
- Our totex position of (0.7)% reflects early investment to enhance our resilience and support ODI performance, as well as the higher COVID-19 related bad debt charge.
- Financing performance of 0.6%, from the continued reduction in our effective interest cost, offset by the drag of lower inflation in the year compared to Ofwat's Final Determination assumption.

Business Services

	2021 £m	2020 (restated) £m	Increase/(decrease) £m	Increase/(decrease) %
Turnover				
Operating Services and Other	**82.8**	84.4	(1.6)	(1.9)
Green Power	**51.9**	53.5	(1.6)	(3.1)
	134.7	137.9	(3.2)	(2.4)
Adjusted PBIT				
Operating Services and Other	**20.9**	21.7	(0.8)	(3.7)
Green Power	**2.6**	6.6	(4.0)	(60.6)
Property Development	**2.3**	7.7	(5.4)	(70.1)
	25.8	36.0	(10.2)	(28.3)

Business Services turnover was £134.7 million (2019/20: £137.9 million) and adjusted PBIT was £25.8 million (2019/20: £36.0 million).

In our Operating Services business, turnover and adjusted PBIT decreased by £1.6 million and £0.8 million respectively, largely driven by lower volumes in the Property Searches business during the national lockdown in the first half of the year.

In Green Power, turnover decreased by £1.6 million and adjusted PBIT decreased by £4.0 million. Adjusted PBIT was impacted by lower wholesale energy prices in the first half of the year and the higher cost of purchasing alternative feedstocks to compensate for less hospitality industry food waste during lockdowns.

Profits from Property Development were £5.4 million lower as there were no individually significant disposals in the current year, as guided. We remain on track to deliver £100 million of PBIT from property sales by 2027.

Corporate and other
Corporate costs were £5.9 million (2019/20: £8.6 million), with the reduction largely due to releases of provisions relating to prior year corporate transactions that are no longer required. Our other businesses generated PBIT of £0.7 million (2019/20: £3.0 million).

Exceptional items before tax
We recorded no exceptional operating costs (2019/20: nil).

In 2019/20 we recorded exceptional losses before tax of £51.7 million 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 on our loans due 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 considered these items to be exceptional.

Net finance costs
Net finance costs for the year were £1.3 million lower than the prior year at £187.1 million. Average net debt increased to £6,263.6 million (2019/20: £5,972.2 million) but our effective cash cost of interest (excluding indexation adjustment on index-linked debt and pensions-related charges) was 3.1% (2019/20: 3.1%). Interest cost on index-linked debt decreased by £14.8 million due to lower inflation, and as a result our effective interest cost fell to 3.4% (2019/20: 3.7%).

Capitalised interest of £30.4 million was £13.8 million lower year-on-year due to the lower level of capital activity compared to last year.

Our earnings before interest, tax depreciation and amortisation ('EBITDA') interest cover was 4.7 times (2019/20: 5.3 times) and adjusted PBIT interest cover was 2.6 times (2019/20: 3.2 times). See note 43 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
- Changes in the regulatory model from RPI to CPIH.

We hold interest rate swaps with a net notional principal of £653 million 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 £8.2 million (2019/20: loss of £9.8 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 around 82% of our estimated wholesale energy usage for 2021/22.

Share of loss of joint venture
In common with other participants in the non-household retail market, Water Plus has been significantly impacted by the COVID-19 outbreak, the resulting lockdowns and the effects on commercial customers. Water Plus' revenue was around £150 million lower than the previous year and in these difficult trading conditions it incurred a loss after tax of £17.7 million. During the year Water Plus obtained £70 million of external debt facilities and, since the year end, along with our joint venture partner, we have each converted £32.5 million of the revolving credit facilities we have advanced to Water Plus to equity and consider this to form part of our long-term investment in Water Plus at the year end. The business is now well placed to benefit from the recovery as economic activity increases after lockdown.

We have recognised our share of Water Plus' loss after tax for the year (£8.9 million) and the £4.9 million of exceptional losses not recognised in the prior year.

We have updated our assessment of expected credit losses on our loans to Water Plus and reduced the provision recorded by £3.6 million.

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 was higher than the statutory rate, reflecting non-deductible items charged to our income statement such as depreciation charged on assets which are not eligible for capital allowances and on which no deferred tax is provided, partially offset by tax credits arising from overpayments in the previous year. Cash tax payments were reduced by the benefit of tax allowances on our capital programme and contributions to our pension schemes.

	2021 £m	2020 £m
Tax incurred:		
Corporation tax	**30.0**	26.7
Business rates and property taxes	**83.6**	81.6
Employers' National Insurance	**28.0**	28.9
Environmental taxes	**6.7**	6.6
Other taxes	**5.5**	4.9
	153.8	148.7

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2020/21", which will be made available at www.severntrent.com/sustainability-strategy/reports-and-publications/tax/ when our Annual Report and Accounts is published in June.

The corporation tax charge for the year recorded in the income statement, before exceptional taxes, was £55.0 million (2019/20: £59.2 million) and we made net corporation tax payments of £23.2 million in the year (2019/20: £33.9 million). The difference between the tax charged and the tax paid is summarised below:

	2021 £m	2020 £m
Tax on profit on ordinary activities before exceptional taxes	**55.0**	59.2
Tax on exceptional items	**-**	0.9
Exceptional deferred tax charge arising from rate change	**-**	91.8
Tax effect of timing differences	**(28.2)**	(120.9)
Current tax credits recorded in Other Comprehensive Income or equity	**(0.4)**	(9.5)
Overprovisions in previous years	**3.6**	5.2
Corporation tax payable for the year	**30.0**	26.7
Repayments received	**-**	(0.4)
Payments relating to prior years	**-**	4.5
Overpayments in the year	**-**	3.1
Overpayments in prior years offset in the current year	**(6.8)**	-
Net tax paid in the year	**23.2**	33.9

Net tax paid in the year of £23.2 million (2019/20: £33.9 million) includes £4.9 million paid to Water Plus for consortium relief (2019/20: nil).

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 £26.8 million (2019/20: £31.0 million) and the deferred tax charge was £28.2 million (2019/20, before the exceptional deferred tax charge arising from the change of rate: £29.1 million).

Our full effective tax rate this year was 20.6% (2019/20: 48.9%), which is higher than the UK rate of corporation tax (19%), due to items of expenditure that are not deductible for tax (2019/20: higher mainly due to the exceptional deferred tax charge).

Our adjusted effective current tax rate was 11.4% (2019/20: 10.4%) (see note 43).

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 adjusted 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.

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the deferred tax liability would have been £286 million higher.

Profit for the year and earnings per share
Total profit for the year was £212.2 million (2019/20: £158.8 million).

Basic earnings per share from continuing operations increased by 33.6% to 89.1 pence (2019/20: 66.7 pence). Adjusted basic earnings per share was 105.4 pence (2019/20: 146.0 pence). For further details see note 15.

Cash flow

	2021 £m	2020 £m
Operational cash flow	**860.3**	888.5
Cash capex	**(593.2)**	(799.5)
Net interest paid	**(186.2)**	(184.2)
Proceeds on sale of subsidiary	**0.7**	-
Net payments for swap terminations	**(0.2)**	(0.3)
Net tax paid	**(23.2)**	(33.9)
Free cash flow	**58.2**	(129.4)
Dividends	**(240.2)**	(228.4)
Issue of shares	**11.8**	9.6
Change in net debt from cash flows	**(170.2)**	(348.2)
Non-cash movements	**(42.1)**	(49.2)
Change in net debt	**(212.3)**	(397.4)
Opening net debt	**(6,231.5)**	(5,834.1)
Closing net debt	**(6,443.8)**	(6,231.5)

	2021 £m	2020 £m
Bank loans	**(1,011.1)**	(1,251.9)
Other loans	**(5,471.3)**	(5,058.5)
Lease liabilities	**(121.3)**	(122.7)
Net cash and cash equivalents	**44.0**	48.6
Cross currency swaps	**31.9**	60.4
Loans due from joint venture	**84.0**	92.6
Net debt	**(6,443.8)**	(6,231.5)

Operational cash flow was £860.3 million (2019/20: £888.5 million). The impact of lower PBIT was partially offset by higher depreciation and amortisation and improved collection from household customers.

Net cash capex of £593.2 million (2019/20: £799.5 million) was above our expectation of £580 million as we made a fast start to our AMP7 programme.

Our net interest payments of £186.2 million (2019/20: £184.2 million) were broadly in line with the previous year as the impact of higher net debt was largely offset by lower finance costs. Our net tax payments were £23.2 million, a decrease of £10.7 million, mainly due to quarterly instalment payments higher than the corporation tax payable in the prior year.

We received £11.8 million (2019/20: £9.6 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 £212.3 million in net debt (2019/20: £397.4 million).

At 31 March 2021 we held £44.0 million (2020: £48.6 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2020: 13 years). Including committed facilities, our cash flow requirements are funded until December 2022.

Net debt at 31 March 2021 was £6,443.8 million (2020: £6,231.5 million) and balance sheet gearing (net debt/net debt plus equity) was 84.9% (2020: 83.4%). Severn Trent Water Group net debt, expressed as a percentage of estimated RCV at 31 March 2021 was 64.5% (2020: 64.4%).

The estimated fair value of debt at 31 March 2021 was £1,449.5 million higher than book value (2020: £951.8 million higher). The increase in the difference to book value is largely due to the impact of higher inflation expectations on the fair value of our index-linked debt.

In December 2020 we issued £100 million 35-year CPIH linked debt at a premium of around £22 million. The notes carry a coupon of 0.01%.

Our policy for the management of interest rates is that at least 40% of our borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2021 interest rates for 67% (2020: 64%) of our gross debt of £6,603.7 million were fixed; 8% were floating and 25% were index linked. We continue to carefully monitor market conditions and our interest rate exposure.

Our long-term credit ratings are:

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

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

Pensions

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

The most recent formal actuarial valuations for 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 Severn Trent Pension Scheme ('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
- Annual deficit reduction payments of £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 (£2.7 million in 2020/21).

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 2020 and no deficit reduction contributions to the Section are required.

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 £367.7 million (2020: £234.0 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.

On an IAS 19 basis, the funding level reduced to 88% (31 March 2020: 91%).

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	2,414.1	(2,648.1)	(234.0)
Amounts credited/(charged) to income statement	53.4	(63.2)	(9.8)
Actuarial gains/(losses) taken to reserves	212.7	(374.7)	(162.0)
Net contributions received and benefits paid	(79.8)	117.9	38.1
At end of the year	**2,600.4**	**(2,968.1)**	**(367.7)**

The income statement includes:

- Current service costs on the Dee Valley Water Scheme, which remains open to further accrual but is closed to new members, and past service costs relating to Guaranteed Minimum Pension ('GMP') equalisation. Together these amounts were £0.5 million;
- Scheme administration costs of around £3.9 million; and
- Net interest on scheme liabilities and expected return on the scheme assets – together a cost of £5.4 million.

At the previous year end there was a short-lived increase in corporate bond spreads that increased the discount rate applied in calculating the scheme liabilities. Corporate bond spreads were around 100 bps lower at 31 March 2021 but the impact of this on the discount rate applied was mitigated by a 50 bps increase in gilt yields. The net reduction in the discount rate increased the scheme liabilities by around £150 million.

Inflation expectations have increased by around 70bps since the previous year end and this increased scheme liabilities by around £290 million.

Changes to demographic assumptions reduced scheme liabilities by around £34 million. This included an update to the most recent CMI data tables and also a weighting to allow for the high mortality experienced in 2020.

The actual outturn in the year for inflation and other assumptions was better than expected and this reduced scheme liabilities by £31 million.

The scheme assets increased in value by around £213 million more than the return included in the income statement in the year.

Contributions paid to the STPS in the year included:

- The amounts due under the asset-backed funding arrangements of £24.8 million;
- A payment of £11.4 million that was deferred from the March 2020 deficit reduction payment to April 2020; and
- A one-off supplementary payment of £1.3 million.

There were also normal contributions of £0.2 million to the Dee Valley Water Scheme and payments of benefits under the unfunded scheme amounting to £0.4 million.

Dividends

In line with our policy for AMP7 to increase the dividend by at least CPIH each year, the Board has proposed a final ordinary dividend of 60.95 pence per share for 2020/21 (2019/20: 60.05 pence per share). This gives a total ordinary dividend for the year of 101.58 pence (2019/20: 100.08 pence).

The final ordinary dividend is payable on 16 July 2021 to shareholders on the register at 28 May 2021.

Our **Approach to Risk**

We think of risk as those things that could prevent us delivering our strategic objectives. Risk manifests itself in both negative and positive impacts. In identifying and categorising risk, we consider the causes, including people, process, assets and external factors, and the control environment. The successful delivery of Severn Trent's strategic objectives depends on the effective identification, understanding and mitigation of risk.

2020/21 risk landscape
This year has seen some long-term risks manifest, as a consequence of the UK's Brexit negotiation process, and short-term shocks, such as the COVID-19 pandemic. The EU-UK Trade and Cooperation Agreement, signed on 30 December 2020, avoided a no-deal Brexit, but there remains some additional risk associated with the movement of goods between the EU and UK. The implications for our supply chain, particularly in relation to chemical supplies, have been carefully managed, with dedicated working groups continually reviewing market conditions and monitoring demand against market availability. We have also approved new framework agreements for our capital supply contracts to provide additional flexibility and prevent excessive supplier concentration.

Towards the end of 2019/20, the COVID-19 pandemic presented immediate, and longer-term, human, social, economic and business effects that have potential to shape the operating context for Severn Trent for years to come. Our initial focus was on maintaining operational performance in a COVID-secure way, continuing to deliver our essential services without interruption whilst protecting our employees.

At an industry level, shockwaves from the tragic accident at Avonmouth in December 2020 were felt across the sector and had a profound impact across our business. In response to the event, we immediately suspended all DSEAR activity and undertook comprehensive surveys at all our bioresources sites as well as a comprehensive review of all our high-risk actions.

February 2021 saw a cyber attack against a water treatment plant in Florida, US. The attacker attempted to alter the chemical dosing of the water, after gaining remote access to the treatment systems. The attack was promptly identified and no damage or injury resulted. The incident highlights the importance of cyber security within the water sector. Severn Trent commits significant resources and financial investment to maintain the integrity and security of assets and data (see Principal Risk 4 for more information).

Risk appetite statement
Severn Trent's Purpose is 'taking care of one of life's essentials'. No business is free of risk and to achieve our strategic objectives we often need to take calculated risks. We will, however, only accept risk that is consistent with our Purpose, Values and strategy. Risks we accept must be well understood, so that we can manage them effectively.

Our sector has inherent risks, particularly due to the nature and scale of our operational infrastructure and the importance of our activities to the health, safety and wellbeing of our people and the communities we serve. More widely, the sector is subject to political, regulatory and financial market risk, as well as risks arising from developments in technology, stakeholders' evolving expectations and climate change.

Within the Severn Trent Group, we operate both regulated and non-regulated businesses, which have different risk profiles and tolerances. Our water and waste water regulated businesses are monopoly providers that are economically regulated and characterised by relatively stable, inflation-linked cash flows. Our non-regulated businesses have more variable cash flows and operate in less predictable, competitive environments.

In some areas, we have risks for which we have little or no appetite. Even though we have implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

Our risk priorities
In addition to managing the inherent risks associated with our business, we prioritise the following:

The **health, safety and wellbeing** of our people and the communities we serve is our top priority, and we have no appetite for risks brought on by unsafe actions.

Protecting the **environment** is a key long-term commitment. We aim to enhance the water environment and improve biodiversity. We are determined to play a leading role in addressing the impact of climate change through mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future.

In areas such as our approach to **financing**, we look to take measured risk consistent with providing the best long-term value for our customers and shareholders.

The Board has overall responsibility for determining the nature and extent of the risks in which Severn Trent participates and for ensuring that risks are managed effectively across the Group.

Overseeing risk
Our approach to risk management is designed to enable the business to deliver its strategic objectives while managing the inherent uncertainty that can manifest itself as both opportunities and threats to these outcomes.

We have an established Enterprise Risk Management ('ERM') process and control framework that enables us to effectively identify, evaluate and manage these risks to inform decision making in support of creation of value in a sustainable way. Our approach cannot eliminate all risk entirely, but ensures we have the right structure to effectively navigate the challenges and opportunities we face, and only accept risk that is appropriate to achieving our strategic objectives.

We operate a top-down and bottom-up model of risk management that ensures both a clear articulation of risk appetite and a comprehensive process of risk identification. Our risk management framework opposite show the groups involved in risk across Severn Trent.

Top-down

The Board has overall responsibility for oversight of risk and for maintaining a robust risk management and internal control system. The Board recognises the importance of identifying and actively monitoring our strategic, reputational, financial and operational risks, and other longer-term threats, trends and challenges facing the business.

The Executive Committee reviews strategic objectives and assesses the level of risk taken in achieving these objectives.

The Audit Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of the risk management and internal control processes during the year.

This top-down risk process helps to ensure the bottom up risk process, described below, is aligned to our current strategy and objectives.

Bottom-up

Operating in the water sector means risk management is embedded throughout our processes, from day-to-day asset operation and monitoring, medium-term deployment of capital investment to long-term modelling of asset health, performance, and societal and environmental changes.

Our strong continuous improvement culture ensures that risk discussions happen at all levels of the business, resulting in risks being identified, categorised, and entered into the ERM system.

Risk reporting

The ERM process is operated 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. Standardised criteria are used to consider the likelihood and velocity of occurrence and potential financial and reputational impacts.

The potential causes, impact and mitigating controls related to each risk are well documented. 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 then 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 action plans to improve controls where necessary.

Risk management framework

	Risk Governance	**Board** • Sets the risk culture. • Defines and regularly reviews risk appetite.	• Challenges the level of risk taken to pursue objectives. • Makes risk-informed decisions and provides oversight for key strategic risks.	• Responsible for effective risk oversight of enterprise-wide risks at Group level. • Undertakes annual assessment of Principal Risks.
Top-down	**Risk Oversight**	**Executive Committee:** • Supports the Board in the management of risk. • Assesses the level of risk taken to achieve objectives; challenges the AMP7 Business Plan. • Approves significant risk mitigation strategies assigned to individual members of the Executive Committee. • Sets and evaluates risk tolerances. • Identifies and assesses Principal and Emerging Risks. • Signs-off the ERM risk framework.	**Central ERM Team:** • Applies the ERM framework. • Owns the corporate ERM management system. • Monitors and reports key risk information, including response plans and risk tolerance. • Establishes best practice risk processes across the Group. • Provides guidance and training for Risk Champions and Risk Co-ordinators. • Assists with the identification and assessment of Principal and Emerging Risks. • Facilitates risk escalation process.	**Audit Committee:** • Supports the Board in monitoring significant risks, tracking progress against risk mitigation plans. • Reviews effectiveness of our risk management and internal control processes; tests key controls in risk response plans. **Internal Audit:** • Provides assurance for significant risk mitigation strategies. • Assesses effectiveness of the risk programmes by analysis of key controls. • Evaluates internal control environment.
Bottom-up	**Risk Management**	**Strategic Planning:** • Longer-term, holistic risk response plans, e.g. Water Resources Management Plan ('WRMP') and AMP7 Business Plan. • Establishes critical controls to ensure the operational effectiveness of essential services.	**Service Area Boards:** • Capital investment programme management. • Implement strategic risk management processes, such as WRMP. • Identify and monitor Emerging Risks and opportunities. • Assess all categories of risk at an operational level.	**Business Unit & Risk Champions:** • Day-to-day risk and incident management, e.g. Severn Trent Operational Risk Management ('ST-ORM') and Drinking Water Safety Plans ('DWSP'). • Identify, assess and respond to risks at a local level. • Continual monitoring of risks assigned within the business unit. • Produce risk response plans and strategies. • Define, implement and monitor key controls. • Follow ERM risk framework.

Our **Principal Risks**

Our Principal Risks

The Directors have carried out a robust assessment of the Principal Risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, to identify risks that could:

- Adversely impact the safety or security of the Group's employees, customers and assets;
- Have a material impact on the financial or operational performance of the Group;
- Impede achievement of the Group's strategic objectives and financial targets; and/or
- Adversely impact the Group's reputation or stakeholder expectations.

This list does not comprise all the risks that the Group may face, and they are not presented in order of importance.

The nature and profile of these risks is updated each year to reflect the changing risk landscape. This year sees ten Principal Risks being reported.

There may be additional risks that emerge in the future and we undertake regular horizon scanning to identify and report these to the Board.

Risks can present significant value creation and possibilities for innovation. Our Principal Risks, detailed from pages 40 to 45, include an 'Opportunities' section for each risk describing possible future events which, should they occur, could have a positive effect on the achievement of objectives or potentially reduce the risk exposure further.

Strategic outcomes

A company **you can trust**

A positive **difference**

Lowest possible bills

A service **for everyone**

An outstanding **experience**

Good to **drink**

Water **always there**

Waste water **safely taken away**

A thriving **environment**

Stakeholders

1 Our customers

2 Our colleagues

3 Our communities

4 Shareholders and investors

5 Suppliers and contractors

6 Regulatory and Government

Movement

Increase in risk exposure

No change in risk exposure

Decrease in risk exposure

New risk

HEALTH & SAFETY

RISK 1.

Due to the nature of our operations, we could endanger the health and safety of our people, contractors and members of the public.

Strategic outcomes	Stakeholders
	1 2 5 6

Risk mitigations

- The Group's Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do.
- A well-established Health, Safety and Wellbeing Framework to ensure all 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. The Framework is subject to regular review.
- Monitoring of our supply chain through Site Manager Forums and on-site inspections, including Health and Safety reviews to ensure compliance.
- Health and safety bulletins cascaded throughout the Group, including the supply chain.
- A dedicated Health, Safety and Wellbeing toolkit, called Safety Net, that allows real time data recording to capture, analyse and report on all Health, Safety and Wellbeing incidents and implement targeted interventions in a timely manner.

Change in year

In 2020/21, we did not experience any major safety incidents or fatalities and have achieved our best ever LTI rate, which equates to 20% fewer LTIs than last year.

We instigated a full review of all our high-risk activities, following the Wessex Water tragedy at Avonmouth, and have refreshed our approach to monitoring, training, documentation and assurance.

COVID-19 impact

Following the emergence of COVID-19, we have reviewed our framework and processes and revised working practices to ensure we keep people as safe as possible while delivering our essential services. Throughout the year, we have remained closely aligned to Government advice and guidance, with over 50% of our workforce working from home. For employees required to attend work, the focus has been on ensuring that workplaces are COVID-secure with extensive risk assessments continuing to be carried out on a weekly basis at all our facility-managed locations.

We have also run a very effective 'Caring for your Colleagues' campaign since March 2020 aimed at supporting both the physical and mental wellbeing of all our employees.

In response to the COVID-19 pandemic, we have revised working practices to ensure we keep people as safe as possible whilst delivering our essential services.

Opportunities

Continue to work with our extensive supply chain to share best practice and promote safe working.

SERVICE FAILURE & ASSET RESILIENCE

RISK 2.

Failure to provide a safe and secure supply of drinking water to our customers and the potential for reduced public confidence in water supply.

Strategic outcomes	Stakeholders
	1 3 4 5 6

Risk mitigations

- Comprehensive resilience plans, such as our WRMP and Drought Plan feed into our capital investment programme and Business Plan.
- Key operational employees are required to complete mandatory Water Quality Competency training.
- Investment in in-house capability to bolster response teams and facilitate an accelerated response to maintain supplies whilst repairs are undertaken, complemented by our new Academy facility.
- 24/7 control centre monitoring of our operations and assets, including real time telemetry coverage from our loggers. See Principal Risk 5.
- Strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change see Principal Risk 6.
- Regular updates to processes, standards and operational procedures.

Change in year

For 2020/21, we have separated our clean water and waste water operations into two Principal Risks to reflect the distinct risk profiles and mitigation strategies.

COVID-19 impact

In response to COVID-19, we implemented appropriate social distancing and safe working practices to keep all of our sites operational during the pandemic.

COVID-19 led to changes in usage profiles, with lower business usage and increased household demand. Our network proved to be resilient throughout this period.

Opportunities

Trial and implement new technologies and innovation to improve our water treatment processes and network operations, such as leakage detection, which can help us achieve the 15% reduction performance commitment.

SERVICE FAILURE & ASSET RESILIENCE

RISK 3.

Failure to effectively transport and treat waste water and the potential for reduced public confidence in our waste water system.

Strategic outcomes	Stakeholders
	1 3 4 5 6

Risk mitigations

- Strategic modelling to assess potential changes to supply and demand on our waste network, to reduce service issues and potential damage to the environment. See Principal Risk 7.
- 24/7 control centre monitoring of our operations and assets, including real time telemetry coverage. See Principal Risk 5. This is supported by our new in-house waste Network Response Team and Wet Well Cleansing Team, as well as installation of more than 1,500 sewer sensors.
- Key operational employees are required to complete mandatory training programmes to ensure continued competency with evolving standards.
- Educational programmes with customers to promote safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat.

Change in year

For 2020/21, we have separated our clean water and waste water operations into two Principal Risks to reflect the distinct risk profiles and mitigation strategies.

COVID-19 impact

In response to COVID-19, we implemented appropriate social distancing and safe working practices to keep all of our sites operational during the pandemic.

The Company participated in COVID-19 community testing programmes, helping to identify infections through waste water testing.

Opportunities

Opportunities to trial and implement new technologies and innovation to improve our treatment processes and capacity to reduce power usage and generate more green electricity, helping achieve our ambitious sustainability targets (Principal Risk 6).

CYBER SECURITY & TECHNOLOGY RESILIENCE

RISK 4.

Cyber threats cause damage to key infrastructure assets, interruptions to core systems or data loss resulting in a negative impact on our reputation, operations, regulatory (including GDPR) compliance or finances.

Strategic outcomes	Stakeholders
	1 2 3 4 5 6

Risk mitigations

- Dedicated Information Security Team and Data Privacy Officer responsible for monitoring information security and cyber threat.
- All employees complete mandatory annual cyber security and GDPR training.
- A robust operational security programme, including physical access controls, on-site system protection and remote system protection. A programme of regular internal and third-party testing of our security network and systems.
- An effective vulnerability management system, including penetration testing of publicly accessible systems, behavioural alerts, patching processes, data disposal and access control, including Multi-Factor Authentication.
- Working closely with third-party IT service partners to manage risk and improve technical standards.
- Migration to Cloud platforms improving the resilience of our disaster recovery and business continuity plans.
- All operational and office sites have business continuity and crisis management plans in place, which are tested on a regular basis.

Change in year

The level of this risk has not changed from the prior year, reflecting that, whilst companies continue to be subject to an increasing number of attempted cyber attacks, we have stepped up our investment in and development of mitigation controls.

COVID-19 impact

The COVID-19 pandemic has created new cyber security threats and there has been an increase in cyber-related events nationally and globally during the pandemic. However, there have been no material instances impacting Group operations.

Opportunities

Take advantage of new technologies, as they become available, to help protect our systems and data.

CAPITAL PROJECT DELIVERY & SCHEME RESILIENCE

RISK 5.

Failure to design or deliver to time and cost capital projects that ensure the resilience of our operations and safety of our assets.

Strategic outcomes	Stakeholders
	1 4 5 6

Risk mitigations

- Framework agreements covering multiple contractual partners, to provide a flexible and diverse supply chain.
- Use of a gated capital process to provide assurance around design and delivery.
- *AMP7 projects grouped into Major Critical, Critical, Major and Standard, allowing us to tailor our process to suit project type.*
- Implementation of an in-house design team for AMP7.
- Dedicated quality and assurance teams who perform in-depth quality reviews.
- Regular contract review and performance meetings, including Key Performance Indicators ('KPIs') review and proactive supplier and market assessments.
- *Appropriate regular training for contract management teams.*
- *Investment plans that balance affordability, efficiency and value, both in economic terms and other value areas like natural capital see Principal Risk 7.*

Change in year

A strong start to AMP7 following our fast-track status, has allowed us to improve engagement with our contractor partners by providing early visibility of designs through integrated project teams.

COVID-19 impact

We were able to implement appropriate social distancing and safe working practices to keep all our capital programmes on track, and accelerated activity where the consequences of lockdown (such as quieter roads and availability of resources) supported our activity.

Opportunities

Use the experience and expertise from within our supply chain to design and deliver projects more efficiently and effectively.

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 6.

Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services.

Strategic outcomes	Stakeholders
	1 2 3 4 5 6

Risk mitigations

- Scenario modelling and data reviews, to develop an understanding of the impacts climate change could have on our essential services. See Principal Risks 2 and 3.
- Our AMP7 Business Plan supports increased resilience against the potential impacts of climate change through capital scheme delivery. See Principal Risk 5.
- Climate Change Steering Groups bringing together expertise from across the business.
- Strong engagement with our supply chain to drive environmental leadership.
- In 2019, we announced our Triple Carbon Pledge – committing us to net-zero carbon emissions, 100% renewable energy and an all-electric fleet by 2030, where available. See Our TCFD Disclosures on pages 54 to 67 for further details.
- In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science Based Targets initiative, committing us to significantly reducing our greenhouse gas emissions by 2030.

Change in year

On 26 May 2020, we successfully completed our inaugural Sustainable Bond issue raising £300 million for 20 years with a coupon of 2.0%. This was the first bond issue under our Sustainable Finance Framework, with the proceeds being used for green and social purposes.

COVID-19 impact

The potential for accelerated long-term or rapid short-term changes in customer usage patterns due to COVID-19 impact on lifestyle and working patterns.

Opportunities

Continued engagement with stakeholders, including our supply chain, to target innovation, on the mitigation of Scope 1, 2, and 3 emissions.

CLIMATE CHANGE, ENVIRONMENT & BIODIVERSITY

RISK 7.

We fail to positively influence natural capital in our region.

Strategic outcomes	Stakeholders
	1 2 3 4 5 6

Risk mitigations

- Strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including river water quality, pollution incidents, biodiversity improvements and environmental compliance.
- Use of catchment management approaches to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity.
- Modelling to estimate the impact of increasing pressures on nature, for example, from climate change, such as, drought or extreme weather events (see Principal Risk 6) and biodiversity loss that has potential to impact ecosystems.
- In-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.

Change in year

Our involvement in the 2022 Birmingham Commonwealth Games creates a platform to further enhance our local environment. We have committed to creating 2,022 acres of new forest as part of this programme, as well as helping make it the first ever carbon neutral games.

COVID-19 impact

COVID-19 caused delays in a number of our plans that were reliant on delivery through NGO partners and community groups. Despite these challenges, we managed to deliver biodiversity enhancements on over 2,000 hectares of land in year one, through creating alternative biodiversity grant schemes for farmers and projects with alternative delivery routes.

Opportunities

Engagement with our supply chain and customers to promote biodiversity and use of our redundant land to lead the way in our region.

FINANCIAL LIABILITIES

RISK 8.

Failure to fund our Severn Trent defined benefit ('DB') pension scheme sustainably.

Strategic outcomes	Stakeholders
	2 4 6

Risk mitigations

- The Company agreed the triennial actuarial valuation as at 31 March 2019, including repair payments of c.£55 million per annum until 2022.
- Interest rate, inflation and equity risk are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustee in considering The Pensions Regulator's consultation on its funding code of practice.
- Deficit recovery plans are agreed by the Company, setting out the cash contributions required from Severn Trent to the Scheme.
- We are represented on the Investment Committee of the Scheme and the investment policy is formally approved by the Group Financial Director.

Change in year

While our pension deficit has increased on an IAS 19 basis, to £367.7 million (2020: £234.0 million), this is predominantly due to a short-lived spike in corporate bond yields around March 2020, which has since normalised.

We have worked with the Trustees to consider and respond to The Pensions Regulator's consultation on the funding code of practice.

COVID-19 impact

Whilst there has been an increase in national mortality rates due to the pandemic, the impact on long-term mortality is as yet unclear. We are monitoring this with the Company's and Scheme's actuaries.

Opportunities

Work with The Pensions Regulator to introduce positive changes for fund schemes that benefit our scheme members, shareholders and customers.

FINANCIAL LIABILITIES

RISK 9.

We are unable to ensure sufficient liquidity to meet our funding requirements.

Strategic outcomes	Stakeholders
	2 4 6

Risk mitigations

- The Group's Treasury activity is overseen by our Treasury Committee with support from dedicated advisers.
- The Group has a diversified capital structure, in both tenor and access to global debt capital markets to mitigate risks.
- The Group maintains liquidity headroom of at least 18 months. The Severn Trent Water revolving credit facility was recently refinanced providing liquidity for a further seven years.
- Group cash balances are deposited across a range of investment grade counterparties to spread and mitigate risk.
- The proportion of the Group's debt maturing in any AMP period does not exceed 40% of the Group's total debt to reduce refinancing risks.
- Treasury policy statements and procedure manuals are in place and operating effectively. These are reviewed at least annually.

Change in year

We continue to be active in various Debt Capital Markets and have recently issued £400 million of new debt in the sterling market and a £100 million CPIH debt issue.

The Group recently refinanced its £1 billion revolving credit facility for five years (with two one-year extensions).

COVID-19 impact

We continue to stress test our business plans by 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 pages 47 to 49.

Opportunities

Maintaining strong liquidity levels, a strong credit rating and an attractive ESG profile, will allow us access to a broad range of financial markets optimising the Group's financing costs.

POLITICAL, LEGAL & REGULATORY

RISK 10.

Accelerating changes in the political, legal environment and environmental obligations increase the risk of non-compliance.

Strategic outcomes	Stakeholders
	4 6

Risk mitigations

- Fast-track status for our Severn Trent Water PR19 Final Determination provided early sight over the AMP7 period enabling a prompt start on our plans.
- Engagement with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector, sharing our experience where possible.
- Established Governance Framework, policies and training ensuring our ongoing compliance with all applicable laws and regulations, including Competition Law and GDPR, for the operation of separate Wholesale and Retail business and between our Group businesses. This is subject to regular review.
- Control frameworks subject to regular review, on at least an annual basis, to take account of changes to legislation, regulation and our business.
- External legal advisers providing detailed reviews in respect of upcoming legislation that may affect the Group.

Change in year

There has been no significant change in the year. We await Ofwat publishing the framework and detail for PR24 in late May 2021. This will provide insight into the direction of the industry.

COVID-19 impact

We have supported Ofwat's COVID-19 initiatives, such as continued review and support for business retailers and the Green Recovery programme to boost national investment. Read more on page 13.

Opportunities

Engage with regulators to fast-track positive changes for our communities and the environment.

Emerging **Risks**

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 continually identify and monitor Emerging Risks with good top-down and bottom-up approaches. Management considers changing, new or emerging risks through regular review and discussion. More locally, our network of ERM Co-ordinators, ERM Champions and risk owners use techniques such as cross-functional workshops and PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis. This culminates in an Emerging Risk horizon map reported annually to the Audit Committee and Board. We closely monitor Emerging Risks that may, with time, become either complete ERM risks, incorporated into our existing corporate risk reporting process; have potential to be superseded by new Emerging Risks; or cease to be relevant 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	Continued macroeconomic uncertainty post-pandemic and adjustment to new processes set out in the EU-UK Trade and Cooperation Agreement.	Economic	**Medium**
Performance challenges	The greater disaggregated regulatory framework in AMP7 with new and more challenging operational performance targets requires us to adapt to meet our ambitions over the remaining years of the AMP.	Operational	**Medium**
Accelerating customer expectations	We have experienced a shift in customer expectations and will need to be flexible in adjusting our plans over the coming years.	Reputational	**Short – Medium**
Energy security	Despite the UK having a reliable energy system with electricity supply from a diverse range of sources, as a large energy user we are susceptible to extended power disruptions. To increase our resilience to such events, increasing our self-generation capability from renewable energy sources is being investigated as part of our Climate Change Adaptation Strategy (from page 54).	Technology	**Medium**
Micro plastics	Understanding and addressing the impact of micro plastics – including on natural resources and customers' health.	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**

Dedicated COVID-19 Statement

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. We have a well-rehearsed approach to incident management and while COVID-19 presented many unique challenges, the governance structure we implemented in response to the pandemic provided a stable foundation from which we could respond to the changing situation. You can read more about our COVID-19 response on pages 15 to 17. COVID-19 assumptions are built into our budget and business plan processes and you can read more about financial resilience testing in our Viability Statement on pages 47 to 49. 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 regular updates on the Group's COVID-19 response in order to assess, monitor and respond to the evolving impact of COVID-19 on our operations and business, including impacts for all of our stakeholders.

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 31 to 37.

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.

AMP7 runs to 31 March 2025 and Severn Trent Water has developed its plans to deliver the operational and financial performance set out in Ofwat's Final Determination. We have based our assessment of prospects for the next four years on these plans, subject to modifications resulting from the impacts of the COVID-19 pandemic (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 – 2030 (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. We 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 identified the water industry as likely to be amongst the least affected by the COVID-19 pandemic, but we are not immune to the impacts on the wider economy. In the last year we have, as expected, seen a reduction in consumption from non-household customers following the restrictions implemented by the Government. We have thankfully seen only limited changes in household customer payment behaviour, but recognise that there may be a lag between the change in family household financial circumstances (for example unemployment) and the change in cash collections. We have increased the availability of our range of social tariffs to help mitigate this. There was also a sharp reduction in inflation during 2020 and 2021 that will impact our revenue in financial year 2021/22 and continued low inflation in 2021 would impact revenue in 2022/23. We have updated our model of the likely impacts of COVID-19 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 Government advice and water sector specific guidance from our regulator Ofwat. We have applied our stress tests, including a 'third wave' of COVID-19, to this adjusted plan.

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 and the impacts of the COVID-19 pandemic increase the uncertainty 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 39 to 46, 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 severe impact from a new variant of COVID-19 resulting in 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 a possible new variant of COVID-19 are based on a number of assumptions and experience gained over the last 12 months. We have modelled a further period of 'lockdown' and restrictions which might result in more severe impacts on total revenues and household bad debts, together with a larger and longer reduction in inflation, and an impact on ODIs earned.		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 AMP8. 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 £92 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 8 – page 44**	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 operational failure or other exceptional event with a very significant financial impact The Group's ERM process has identified a number of risks including 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 1 – page 40** **Risks 2-3 – page 41** **Risk 4 – page 42** **Risk 6 – page 43**	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 the 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.	**Risks 2-3 – page 41**	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.

Scenario tested	Related Principal Risk	Mitigating actions
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 10 – page 45**	Reduce discretionary expenditure in the short term. In the medium term implement an efficiency and cost reduction programme 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 and 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 107.

This Viability Statement is subject to review by Deloitte, our external auditor. Their Audit Report is set out from page 159.

Assessment of viability

The Board has assessed the viability of the Company over a seven year period to March 2028, 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 2028.

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.

Sustainability at the Heart of our Approach

As a company taking care of one of life's essentials, 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 has been clear for some time, but over the past 18 months we have worked hard to ensure it focuses on the areas we know can have a genuine impact for our region – climate change mitigation and resilience, reducing waste, taking care of nature, taking care of our people, customers and communities – and doing all of this in a transparent and genuine way.

We launched our framework in March 2020 and announced our intention to invest £1.2 billion over the next five years and we are on track to do exactly that, with the opportunity to go even further with the Green Recovery proposals we submitted to Ofwat earlier this year. Read more on page 13.

Across our Annual Report and Sustainability Report we continue to improve the transparency of our reporting, making the information accessible for our stakeholders. This includes following the principles of the Global Reporting Initiative ('GRI') with a mapping to the relevant Sustainability Accounting Standards Board ('SASB') initiatives and continuing to evolve our climate risk disclosures in line with the Task Force on Climate-related Financial Disclosures ('TCFD') guidelines.

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 2015 Paris Agreement, aiming for net-zero carbon and supporting the UK's energy transition.

Linked SDGs

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

We have mapped the United Nation's Sustainable Development Goals ('SDGs') to the pillars of the Sustainability Framework.

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

Commitments to Climate Change Timeline

2021

Science Based Targets
Submitted to SBTi in March including a 46% reduction in Scope 1 and 2 emissions and over 70% engagement target on Scope 3 emissions.

Net-Zero Roadmap
At our Capital Markets Day in September we will outline our roadmap to net zero by 2030 in more detail.

Green Recovery
Commencing work on additional projects to support nature, net zero and climate resilience as part of the Green Recovery. Read more on page 13.

Strategic Direction
We will reveal our 30-year Strategic Roadmap alongside our Environment Strategy and detail of how we will continue to adapt to changing climate.

Shareholder vote on our climate change approach
In March 2021, the Board announced its intention to put its long-term approach to climate change before shareholders, and seek a non-binding advisory vote on plans to achieve them, at the AGM on 8 July.

2022

Electric vehicle charging
Over 350 charge points installed over 65 sites.

Commonwealth Games
Supporting the games with their Carbon Neutral and Nature ambitions by planting over 2,022 acres of forest.

2023

Electric vehicles
Commitment to purchase electric vans from 2023 onwards (where available).

2025

Delivering on our AMP7 ambitions including:

- 50% reduction in pollutions;
- 15% reduction in leakage;
- Improving the quality of over 2,100 km of rivers.

2026

All company cars electric (where available).

2027

Biodiversity enhanced in over 5,000 ha in our region.

2030

- 100% electric fleet, where available.
- Net-zero operational carbon emissions including 46% reduction in Scope 1 and 2 emissions.

Water always there

As part of our approach to becoming more resilient to climate change while reducing our own impact we have proposed a project to utilise new abstraction rights, build more storage and move water through our river system to provide over 100 Ml/d of additional water to support water-scarce homes and businesses.

Reducing pollutions

We have made great strides in reducing category 1-3 waste pollutions by 21% this year through careful management of our pipes and treatment works and educating customers, but we know we must do more to reach our 50% reduction ambition by 2025.

Our targets

We recognise the growing threat of climate change and we want to lead the way in reducing emissions of greenhouse gases. That's why we have set our 2030 Triple Carbon Pledge and committed to meet science-based carbon targets.

This means not only reducing our own operational emissions from the assets we own and operate, but also going further to reduce emissions in our supply chain.

Our Triple Carbon Pledge by 2030:

Reach net operational greenhouse gas emissions of zero
The definition of this was set out in our industry 'Net-Zero Roadmap' published in November 2020.

100% of our vehicles will be electric, where available
For vans and HGVs this may mean using alternative fuels like hydrogen depending on how the market evolves.

100% renewable energy
This means all the energy we use will be direct from a renewable source or via a supplier from a renewable-backed source.

We submitted our targets for verification to the Science Based Targets initiative in March 2021. Science Based Targets go further than our Triple Carbon Pledge targets by including our supply chain.

Our targets to 2030 are only the first part of our journey and ambition. Beyond 2030 we want to go beyond net zero and reduce emissions entirely.

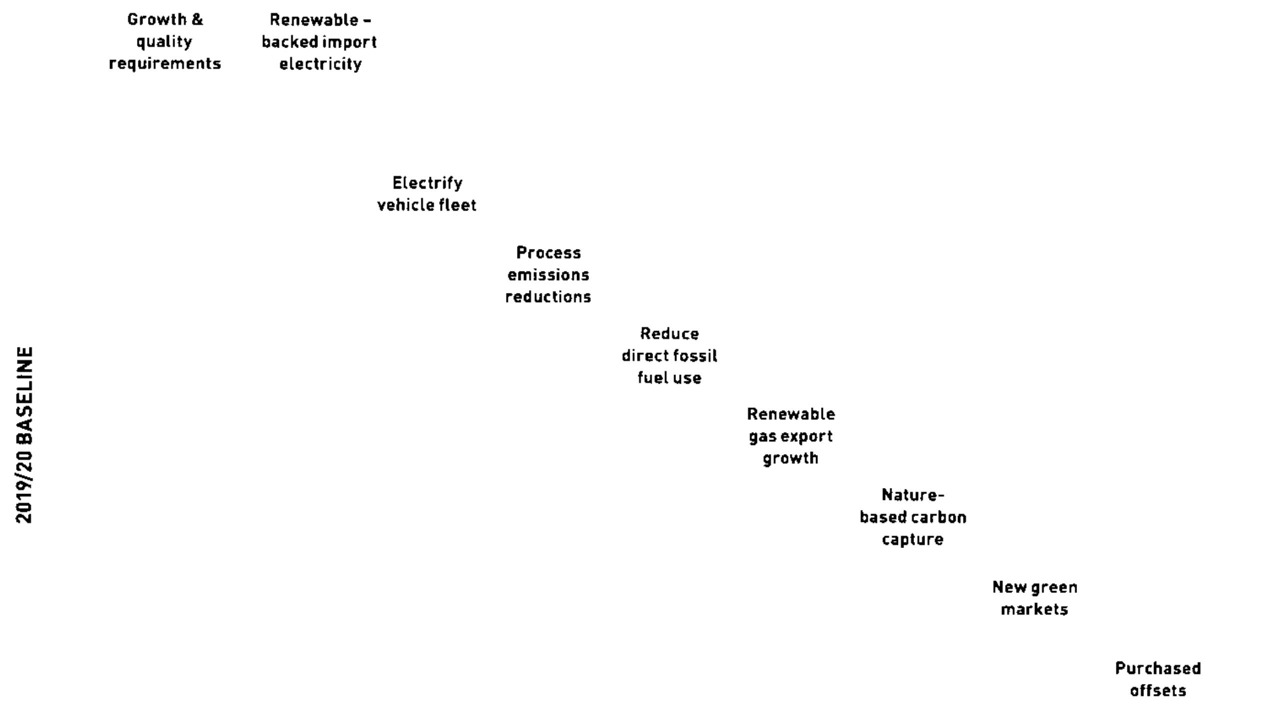
Our road to operational net zero by 2030

Our plans are constantly evolving and there will be large changes in this area, but our current roadmap is made up of a mix of actions ranging from reductions to offsets.

Key

Reduce | Replace | Growth and quality requirements

Remove | Offset



Our approach

Our approach to reducing emissions follows the carbon hierarchy, looking to reduce and avoid first before looking to offset or remove carbon emissions.

Supply chain emissions
We do not control the supply chain and we need markets and companies to change to find solutions. For example, at present we need chemicals to treat water to meet drinking water standards. We must work with the supply chain to find zero carbon ways of manufacturing and delivering these chemicals or find alternatives in order to achieve carbon zero treatment processes.

Process emissions
Emissions of nitrous oxide and methane from waste and sludge treatment are now our largest source of greenhouse gas emissions. There are currently no feasible, or affordable alternatives to our current method of treatment and capturing will be expensive.

Offsets
It's possible we won't be able to completely avoid all current emissions. Therefore, in order to achieve zero carbon in the long term, carbon removal technologies will need to be available on the market which are not currently affordable or feasible.

Biogenic emissions
CO_2 is produced from sewage treatment, the combustion of biogas and the production and combustion of biomethane. Currently, we estimate but don't report these emissions because the equivalent carbon is taken in by the food grown which ultimately becomes the waste we treat and they are therefore 'short-cycle' emissions.

Markets
For some areas of our work, there are no feasible alternatives or technology readily available on the market. Where we can't develop the solutions alone, we need markets to adapt and make these available so we can find the best way to adopt the solutions. This includes carbon removal, capture and storage technologies which are not currently affordable.

Our Approach to **Climate Change**

1st

Water company in the UK to commit to developing Science Based Targets

2030

Signatory to the UN Climate Change Race to Zero campaign, pledging to deliver a net-zero water supply for customers by 2030

Triple Carbon Pledge

Pledge extended with new target:

- Net-zero operational carbon emissions by 2030
- 100% energy coming from renewable sources by 2030
- 100% electric fleet by 2030, where available

Our approach to climate change

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with decision-useful information on climate-related risks and opportunities that are relevant to our business. We seek to put sustainability at the heart of everything we do and this section sets out our approach to implementing the recommendations of the TCFD, including how we think about the governance, strategy, risk management and the metrics and targets which underpin our approach. As a company that relies on people, communities and the environment, sustainability is central to our strategy. Our strategy focuses on the positive impact we can have on the communities we serve and on the environment that we rely on. In supporting the creation of value – be that economic, environmental or social – we deliver sustainable value for all of our stakeholders. Our Sustainability Framework on page 50 is fully embedded into our overall strategy and draws together our environmental, social and governance ambitions. These are delivered as part of our Business Plan and are fully embedded in the way we work. Additional information can be found in our Sustainability Report.

Five-year TCFD disclosure roadmap

We have a strong track record of improving environmental performance and are committed to continually enhancing our reporting against the TCFD recommendations.

YEAR ONE

2019/20

In 2019/20 we made our first TCFD disclosure within our Sustainability Report. During the year we undertook a gap analysis to better understand our material risks and opportunities and embed climate change modelling into our approach.

YEAR TWO

2020/21

In 2020 we established our dedicated TCFD Working Group and established our five year TCFD Roadmap. We continue to develop a full TCFD disclosure aligned to other documents due for release this year including our Climate Change Adaptation Report, Strategic Direction Statement and new Environment Strategy.

Board statement on its commitment to the 2015 Paris Agreement
The Severn Trent Plc Board believes that the 2015 Paris Agreement is an important step forward in addressing the serious risks of climate change and recognises the constructive contribution we can play in tackling climate change and help the transition to a low carbon economy. It is our ambition to be a net-zero company by 2030 by building on the work we have been undertaking for many years to reduce emissions across our business and within our supply chain. In March 2020, we were the first water company in the UK to commit to developing Science Based Targets. This means that we will develop longer-term commitments to make real reductions to emissions, in line with the 2015 Paris Agreement to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C. These commitments are based on emissions targets under Scope 1 (direct emissions arising from owned or controlled sources), Scope 2 (indirect emissions arising from energy purchase) and Scope 3 (indirect emissions arising within the value chain).

During 2020/21, the Company has focused on developing targets, which include a combined Scope 1 and 2 target to sit alongside our existing emissions reduction commitments, our Triple Carbon Pledge of net-zero operational emissions, 100% energy coming from renewable sources, and 100% electric fleet by 2030, where available. From 2015 to 2020, Severn Trent has self-generated more than 50% of Severn Trent Water's electricity needs from renewable sources, reduced net carbon emissions by 40% and invested £350 million in improving a third of the rivers in its region. Additionally, we have also committed to plant 1.3 million trees and revive 5,000 hectares of land to support our plan to reduce carbon. In January 2021, we announced that we have signed up to the UN Climate Change Race to Zero campaign, pledging to deliver a net-zero water supply for customers by 2030. Led by the United Nations Framework Convention on Climate Change ('UNFCCC'), we joined other companies from around the world to rally leadership across businesses, cities, regions and investors for a healthy, resilient and zero carbon recovery.

Our net-zero scope, definition and journey align with the wider water industry commitment to reach net zero as a sector by 2030. Our Scope 3 categories make up a significant part of our overall emissions and as such we have set a Scope 3 target to engage with our supply chain and set Science Based Targets on 73% of their emissions and have worked to identify where our biggest areas of opportunity lie. We will use this to continue to build our understanding, gain a more accurate and complete picture of our current position, and use this insight to build an ambitious but achievable reduction target.

The information provided in this section, in conjunction with our wider Annual Report and Accounts and separate Sustainability Report, demonstrate how we have embedded climate-related risks and opportunities into our strategy and business model; the progress we're making on our journey; the metrics and targets we have set ourselves over the next several years, and our approach to understanding and mitigating the risks posed.

The tables on the pages 56 and 57 set out where stakeholders can find further information on how we have applied the recommendations of the TCFD and the Paris Agreement goals, including where additional information on our climate-related financial disclosures can be found within this report. We will continue to evolve and enhance our reporting against the TCFD framework, and we welcome feedback on our approach.

YEAR THREE

2021/22

In September 2021 we intend to publish a full TCFD disclosure, expanding on the information here, six months ahead of the target timeline outlined by Government. This will allow us to continue to embed and mature our processes across the Group, which will naturally be built into our ongoing business planning processes for this AMP and form a key component of the Price Review process.

YEAR FOUR

2022/23

In the spirit of improvement our 2022/23 disclosures will include quantitative data surrounding our Scope 3 carbon reduction work with our supply chain. It will form part of proposals to Ofwat which will be submitted in 2023. We will also explore the role that the Task Force for Nature-related Financial Disclosures ('TNFD') could have in our long-term thinking.

YEAR FIVE

2023/24

We recognise the importance of continually reviewing the effectiveness of our approach and established mechanisms and this will be a core focus for us in year five as well as refreshing our risk assessments across both the Group and wider supply chain.

Climate-related **Financial Disclosure Statement**

TCFD FOCUS AREA	WHERE CAN I FIND OUT MORE?
Governance Disclose the organisation's governance around climate-related risks and opportunities	See Climate-related Governance on page 58 See Governance Report on pages 80 to 153
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	See Climate-related Strategy on pages 58 to 60 See business model on pages 6 to 7
Risk Management Disclose how the organisation identifies, assesses and manages climate-related risks	See Climate-related Risk Management on pages 61 to 63 See Our Approach to Risk on pages 38 to 39 See Principal Risks on pages 40 to 45
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	See Climate-related Metrics and Targets on page 64 See Sustainability Report on our website

DISCLOSURE OBJECTIVE	OUR PROGRESS
• Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	The Board and individual Directors possess significant climate-related expertise (as outlined on page 97). As such, our Board has a sound basis from which to consider the risks and opportunities presented by a changing climate. To further strengthen our governance around climate-related risk and opportunities, we have constituted a TCFD working group to oversee the implementation of the TCFD recommendations. This approach ensures that key management teams throughout the business, including Strategy, Risk, Finance, Treasury and Compliance, have an aligned approach in respect of climate-related matters to support delivery of the Group's overall climate strategy.
• Describe the climate-related scenarios the organisation has identified over the short, medium and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	As a company providing an essential service drawn from nature, we know that our sector is particularly vulnerable to the effects of climate change. Our in-depth scenario analysis, which looks at a range of climate futures, enables us to identify areas within our value chain which may be more sensitive to the impacts of climate change, and to ensure that we make investments to enhance resilience without over-investing. In addition to our physical risk assessment, we understand that a changing world may have different political, technological or market pressures than we do today. That's why we seek to drive our strategy to meet the needs of the future and ensure that we assess a range of future scenarios to understand our resilience.
• Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Environmental risk management is a well-established part of our risk management processes and is embedded throughout our organisation. We have made progress in the last 12 months on developing our scenario analysis, integrated with our long-term planning such as the Drainage and Waste Water Management Plan ('DWMP') and Water Resources Management Plan ('WRMP'), and in identifying both the risk themes and detailed risk assessment across our value chain, as shown on pages 62 to 63. The sector has shown resilience to changing environmental and output quality expectations in the past, as the expectations of customers and regulators have changed. Given the uncertainty around climate risk, a key focus for our risk management approach is achieving a co-ordinated approach to data capture, modelling and regulation for the sector as a whole.
• Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. • Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions, and the related risks. • Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The provision of clean, safe water, and the treatment of waste water is core to our business. As such, we have a number of key metrics and targets that assess our ability to reduce the risk when providing these core services, and ensuring that we can continue to deliver for generations to come. In addition to ensuring we can adapt to climate change, we are committed to mitigating our impact on climate change. We have committed to Science Based Targets, set a Net-Zero Ambition by 2030 and released our Net-Zero Roadmap (see pages 54 to 55).

Climate-related Governance

Our Sustainability Governance Framework
Our governance processes are aligned with the Group's Sustainability Framework – ensuring that the Board is effective in its: oversight of the Group's Sustainability Framework; consideration of climate-related risks and opportunities; and scrutiny of management's assessment and management of climate-related risks and opportunities.

The Board delegates certain sustainability oversight and climate-related risk oversight activity to its Board Committees to support the continued delivery of the Group's Sustainability Framework. Detail is provided opposite, including cross-reference to where you can find additional information throughout this Annual Report and in our separately published Sustainability Report.

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 company you can trust. This is integral to the way we operate.

Addressing the challenge of climate change is core to our strategy and is therefore at the centre of many Board considerations and decision making throughout the year. This requires robust governance to empower business areas in the management of climate-related risks and opportunities. Our Sustainability 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 (read more on page 59). Strong governance of sustainability issues, including climate change specifically, extends below the Board to a number of management committees and our TCFD working group, as shown in the infographic.

Climate-related Strategy

Mitigating climate change
Climate change is one of the greatest challenges our society will face this century and we are better placed than many to understand the scale of the problem.

Sustainability is central to the long-term success of our business, and central to this approach is our Sustainability Framework as set out on page 50. This focuses on our environmental, social and governance ambitions – the areas that our stakeholders have told us are most important to them. This includes playing our part in the UK's Green Recovery and more information can be found on page 13.

As part of our Triple Carbon Pledge, we will contribute to reducing the impact of our activities on climate change and ensure that we make a positive contribution to the environment. Read more about our targets and approach to climate change mitigation on page 12.

Adapting to climate change
As a company providing an essential service drawn from nature, we know that our sector is particularly vulnerable to the effects of climate change. In fact, we've already felt the impacts of extremes in weather over the past few years. Providing water and treating waste water are key to our operations, and requires a sector-wide approach and long-term strategic thinking to ensure that the risks affecting our ability to provide these services are mitigated.

Hotter, drier summers may lead to water shortages, and wetter winters with more intense rainfall could exceed sewer capacity, resulting in flooding. Realising opportunities through our demand reduction programmes may also increase the headroom available to meet additional demand requirements. There may also be significant changes to the political, legal and regulatory environment, increased levels of opportunity arising from technological developments and renewable energy programmes, and changing consumer focus toward environmental activities.

These risks and opportunities are currently assessed as part of our overall ERM system outlined on pages 38 and 39.

Assessing the transitional risks of climate change
During 2020/21 we carried out a strategic review looking at key trends to assess the resilience of our strategy in consideration of a changing environment. This activity identified eight trends related to the environment and climate change, adoption of maturing and low carbon technologies, and evolving socio-demographics, which we felt would be the most influential in shaping the next three decades and inform our strategic thinking. By stressing different levers of change, we assessed five possible scenarios which we associated with potential futures within a range of warming between 1.5°C and 4°C. This qualitative exercise enabled us to assess the future direction of our core strategy to ensure that we are resilient to a changing environment.

The outputs of the strategic planning process, which summarises our strategic response to the trends and their implications will be published in 2021.

Sustainability Governance Framework

Strong governance of sustainability issues, including over climate-related risks and opportunities specifically, extends below the Board to a number of Board and management committees, as outlined below.

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, led by our Chair Christine Hodgson, has ultimate responsibility for sustainability. Oversight of the Group's sustainability strategy is a matter reserved for the Board. The Board provides rigorous challenge to management on progress against goals and targets, and ensures the Group maintains an effective risk management and internal control system, including over climate-related risks and opportunities.

Sustainability-related discussions take place at all Board meetings and the Chair of the Corporate Sustainability Committee provides a detailed update on sustainability matters at every Board meeting, through a standing agenda item. The Board possesses a high-level of sustainability expertise, with individual Directors possessing a variety of skills and experience relating to areas such as environmental science, climate change and social responsibility.

Biographies
Read more p 86 – 87

Board Activities
Read more p 92 – 94

Board Skills Matrix
Read more p97

Roles and Responsibilities
Read more p95

↓ **Informing** **Reporting** ↑

THE BOARD DELEGATES CERTAIN SUSTAINABILITY OVERSIGHT MATTERS TO ITS PRINCIPAL COMMITTEES

Corporate Sustainability Committee

Meeting frequency:
At least four times per year

Supports the Group's sustainability strategy by scrutinising progress and providing guidance and direction to the Sustainability Framework.

Responsible for reviewing the Group's non-financial risks and opportunities, including climate-related risks.

Four members of the Board sit on the Committee, including the Chair, and the CEO has a standing invitation to attend meetings.

Read more p116 – 119

Nominations Committee

Meeting frequency:
At least four times per year

Supports the Group's sustainability strategy through monitoring the Board's overall structure, size, composition and balance of skills. Sustainability expertise is given sufficient prominence in Board succession planning and recruitment activity.

Sustainability expertise is listed as a key skill for Board appointment long-lists in our selection processes

Read more p101 – 106

Remuneration Committee

Meeting frequency:
At least four times per year

Supports the Group's sustainability strategy through alignment of the Group's remuneration policies and procedures to reinforce achievement of our sustainability aims.

In addition to ESG measures which already form part of the annual bonus scheme metrics, this year the Committee has agreed the development of a carbon reduction performance measure in the LTIP (in addition to the existing RoRE measure).

Read more p120 – 153

Treasury Committee

Meeting frequency:
At least four times per year

Supports the Group's sustainability strategy through incorporation of sustainability into the Group's financing strategy.

A key area of focus for the Treasury Committee has been the recent introduction and subsequent monitoring of our Sustainable Finance Framework, under which the Group can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities.

Read more p114 – 115

Audit Committee

Meeting frequency:
At least four times per year

Supports the Group's sustainability strategy through ensuring that risk is effectively managed across the Group, including climate-related risks and opportunities

The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.

Read more p107 – 113

↓ ↑

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

The Chief Executive has overall responsibility for climate change and environmental matters. Responsibility for the development and implementation of the Group's strategy, including in relation to sustainability, rests with the Chief Executive, who is supported by STEC.

Sustainability Framework
Read more p50

STEC Members
Read more p88

STEC DELEGATES CERTAIN CLIMATE-RELATED RISK AND OPPORTUNITY OVERSIGHT MATTERS TO ITS MANAGEMENT COMMITTEES

Sustainability Steering Committee

Facilitated by Severn Trent's dedicated Sustainability Team, Executive and senior management oversee performance and progress against our Sustainability Framework.

The Committee is responsible for identifying and reviewing climate-related risks and opportunities.

Energy Steering Committee

Sets the Group's overall energy strategy and targets, ensuring that robust plans are in place to deliver them. Monitors progress and performance against plans.

Strategic Risk Forum

A cross-business group which takes a holistic view of ERM risks and focuses on horizon scanning to identify new and emerging risks, including climate-related risks.

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.

The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.

TCFD Working Group

The TCFD working group was established in 2020 to provide oversight and drive implementation of the TCFD recommendations and the Group's wider climate change strategy. The Group reports to the Severn Trent Executive Disclosure Committee and the Severn Trent Corporate Sustainability Committee. It includes representatives from business areas including strategy, risk, finance, treasury and compliance.

Climate-related Strategy continued

Our risks and opportunities
In order to align with the recommendations of the TCFD, we have outlined examples of the risks and opportunities relevant for our business, and how our business could be impacted by a changing climate. Whilst these risks are assessed as part of our long-term horizon scanning, we also assess these risks more frequently as part of our five-yearly AMP reporting cycles. More information on some of these risks and the potential financial implications on our business can be found within our CDP climate disclosure on our website at https://www.severntrent.com/sustainability-strategy/reports-and-publications.

The time horizons over which our risks are assessed are outlined below. More detail on our risk management approach will be detailed in our disclosure in September 2021.

Risk assessment period	Time horizon	Commentary
Short term	**0 – 1 years**	Short-term risks include dynamic risk assessments and assessments during schemes, which are generally limited to one year ahead.
Medium term	**1 – 10 years**	This is the range of our business planning period – we set a plan in 2018/19 which will deliver through to 2030.
Longer term	**10 – 80 years**	Generally, our risk assessment approach limits to a 25-year look-ahead – but as many of our assets have asset lives longer than that, risk can be assessed much further in some instances (e.g. scheme design). For our WRMP and DWMP we have tested scenarios forecasting 80 years ahead to identify any gaps or shortfalls in our schemes, which contributes to our decision making when considering future capital schemes.

Assessing the physical risks of climate change
We assess and monitor the physical risks arising from climate change on water resources as part of our WRMP which addresses uncertainty around those long-term impacts. Our DWMP uses a similar approach to evaluate the impacts of climate change on our waste water systems.

Our WRMP uses the best practice UKCP09 and UKCP18 datasets which are based on the Special Report on Emissions Scenarios ('SRES') and Relative Concentration Pathway ('RCP') scenarios and cover a range of climate impacts. We have tested the full range of UKCP09 scenarios on our investment decision making and have produced a plan that takes a proportionate approach to mitigating for climate uncertainties. Whilst the UKCP09 climate change scenarios present us with a wide range of potential impacts, almost all of the scenarios point to a long-term loss of deployable output due to changing weather conditions. As a result, we have proposed ambitious leakage and demand management measures for AMP7 that complement our longer-term plans to improve water supply reliability. Our full climate change modelling approach will be described in detail within our WRMP and DWMP. Ongoing work using the Met Office's revised UKCP18 climate models will explore a wider range of climate models based on the IPCC's RCP scenarios. The scenarios which provide the foundation of the UKCP09 and UKCP18 models used in our analysis are outlined below.

Graph indicating the climate scenarios used as part of our ongoing physical risk assessment process. RCP and SRES climate models provide the foundation for the UKCP09 and UKCP18 climate modelling used for our WRMP and DWMP.

Climate-related Risk Management

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. You can read more on page 38. Details of our Sustainability Governance Framework are set out on page 59. This sets out the governance arrangements that support the Board in discharging its duties in respect of identifying, assessing and managing climate-related risks.

On behalf of the Board, the Severn Trent Plc Audit Committee assesses the effectiveness of the Group's ERM process and internal controls to identify, assess, mitigate and manage risk. An overview of the Group's risk management governance process is provided below and further detail is set out in the Audit Committee report on page 111.

The management of risk is embedded in our everyday business activities and climate-related 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 outlined above. During the year we established a new Strategic Risk Forum independent from the ERM Team, to help provide a strategic lens to, and review of, our existing and emerging risks.

We've disclosed our key climate change risks and adaptation actions in our last Climate Change Adaptation Report and we'll be updating this assessment and action plan later this year. This includes a review of weather impacts and latest climate projections. You can view this on our website.

A schematic setting out how this process interacts with our overall Governance Framework is set out below.

SEVERN TRENT PLC/SEVERN TRENT WATER LIMITED BOARDS

The Board provides rigorous challenge to management and ensures the Group maintains an effective risk management and internal control system, including climate-related risks and opportunities. The Board delegates oversight of certain climate-related risks oversight activity to its Board Committees to support the continued delivery of the Group's sustainability strategy.

Reporting ↑

CORPORATE SUSTAINABILITY COMMITTEE

Responsible for reviewing the Group's non-financial risks and opportunities, including climate-related risks.

Informing ↓

AUDIT COMMITTEE

Supports the Group's sustainability strategy through ensuring that risk is effectively managed across the Group including climate-related risks and opportunities.

Reporting ↑

Informing ↓

SEVERN TRENT PLC EXECUTIVE COMMITTEE

Onward oversight, management and reporting through the Group's established Governance Framework.

Reporting ↑

Informing ↓

STRATEGIC RISK FORUM

Consolidated Business Unit information reported to this Committee, with onward reporting to the Severn Trent Plc Executive Committee on a six-monthly basis for review and challenge.

QUARTERLY RISK IDENTIFICATION PROCESS AND HORIZON SCANNING WITH INDIVIDUAL BUSINESS UNITS

The business is required to review all current and developing risks which could impact on the achievement of strategic objectives. This process includes assessing risk drivers, including climate-related risks, and their potential impact and likelihood of crystallisation.

AMP BUSINESS PLANNING PROCESS WITH INDIVIDUAL BUSINESS UNITS

This process includes identification and assessment of potential risk drivers, including climate-related risks, over short, medium and long-term horizons. Potential impacts are factored into the Group's long-term business planning process and individual management plans set out below. Planning occurs both on an annual basis and long-term as part of our established Price Review process.

• WRMP • DRMP • Carbon Reduction Plans • Climate Change Adaptation Report • Strategic Direction Statement • Environment Strategy

Examples of our climate-related risks and opportunities
within our value chain

WATER IS COLLECTED

WATER IS CLEANED

CLEAN WATER IS DISTRIBUTED

Failure to meet demand
Hotter, drier summers, changes to precipitation patterns and increased demand for water may impact upon water availability and usage, making it more difficult to provide a safe and secure supply of drinking water

Damage to infrastructure
Extreme changes to precipitation may result in damage to our water infrastructure

Minimising water use
Minimising water use will increase the headroom available to meet water demand and may reduce infrastructure requirements

Minimising leakage
Minimising leakage will increase the water available for use, reducing demand requirements in the future and enhance our reputation with customers

Our Principal Risks that relate to climate change or will be exacerbated by climate change

- Failure to provide a safe and secure supply of drinking water to our customers and the potential for reduced public confidence in water supply (Principal Risk 2).
- Failure to effectively transport and treat waste water and the potential for reduced public confidence in our waste water system (Principal Risk 3).
- Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services (Principal Risk 6).
- We fail to positively influence natural capital in our region (Principal Risk 7).
- Accelerating changes in the political, legal environment and environmental obligations increase the risk of non-compliance (Principal Risk 10).

Impact on our business
The risks and opportunities identified have helped to form our business strategy, ensuring we minimise environmental harm whilst meeting our regulatory requirements as a highly regulated water utility. Our strategy also ensures we are working to realise opportunities that will arise in a changing future. Deferring from the targets we have agreed with Ofwat may ultimately impact upon our customer ODIs which are reported as part of our annual reporting process (see pages 18 and 19). In addition, our WRMP and DWMP identify capital investment requirements which are regularly reviewed as part of our five-yearly AMP cycles. You can read more about the impacts of some of these risks on our organisation's business, strategy and financial planning within our CDP disclosures, within the WRMP and DWMP, and within the strategic review which will be published in 2021.

Due to the long-term horizons over which our modelling takes place, and the inherent uncertainty in climate projections, there is significant uncertainty over the rate at which climate change will take place, the impact of change and therefore the forecasting potential of our modelling. Our adaptive approach enables us to highlight risk response requirements to Ofwat as part of our WRMP and DWMP, and ensures we make investments to enhance resilience within a range of climate futures, without over-investing.

We work with Ofwat and other water utilities to ensure a sector-wide approach to infrastructure resilience, enhancing our ability to meet demand across the UK in line with Governmental objectives.

CUSTOMERS ENJOY OUR SERVICES

WASTE WATER IS COLLECTED

WASTE WATER IS CLEANED

WATER IS RECYCLED TO THE ENVIRONMENT

Increased consumer awareness
Increased awareness over value of water in an increasingly resource-stretched world may improve the effectiveness of customer engagement programmes

Meeting our mitigation commitments
Meeting our climate change mitigation commitments will enhance our reputation with stakeholders and mitigate potential increases in the cost of carbon

Renewable energy generation
Increasing our ability to generate energy from waste will decrease our operational energy costs and may provide additional opportunities in a world transitioning to a higher renewable energy mix

Changes in consumer behaviour
Market changes in consumer behaviour may result in lower public confidence in our operational performance if our environmental targets are not met

Flooding and pollution
Changes to precipitation and increased variability in weather patterns may increase the risk of sewer flooding and pollution events, negatively impacting water quality and resulting in a negative impact on customer confidence

Increased and more stringent environmental regulation
Changes to the political and regulatory environment may result in more stringent regulations, penalties and fines around water quality or pollution events, and may increase the cost of carbon

Opportunities **Physical risks** **Transitional risks**

The negative impacts of climate change and the associated risks mean that we want to do our part to mitigate climate change. Our Triple Carbon Pledge ensures that carbon reduction is embedded within our corporate strategy.

Resilience of our strategy
Our 2020/21 strategic review looks at the resilience of our strategy against various political, economic, social, technological, legal and environmental trends, and the results of this study will be published in 2021.

Our continual review of the physical risks associated with climate change as part of our WRMP and DWMP ensures that we continually reassess our strategy to ensure that uncertainty over future climate scenarios is managed effectively.

Our Sustainability Report, WRMP and DWMP outline the key actions we are taking to:

- Reduce the harmful effects of carbon, and consequently our operational energy costs through our Triple Carbon Pledge
- Increase water availability through enhanced and better-connected infrastructure in a sustainable way
- Engage with our customers to reduce water usage and reduce blockages which can lead to flooding and pollution events
- Enhance the resilience and efficiency of our infrastructure to reduce leakage and ensure protection against a changing climate
- Enhance our nature-based solutions to create or restore habitats whilst decreasing the risk of flooding and pollution
- Improve our monitoring to increase our understanding of pollution events
- Work across the landscape to slow the flow of water during heavy rainfall
- Increase sewer and storage capacity to reduce the risk of flooding and pollution
- Generate energy from waste through our anaerobic digestion plants
- Upgrade our digestion plants to a more efficient and higher energy yielding thermal hydrolysis process
- Recycle our biosolids for use as agricultural fertiliser, contributing to a more circular economy
- Actively work with Government and other stakeholders to change the way we all value water
- Contribute to positive regulatory change by advocating for mandatory water labelling, minimum standards for building regulations and water-fitting regulations

Read more about our progress within our Sustainability Report in the chapter 'Looking after the world around us: Building back greener'

Climate-related Metrics and Targets

Mitigating climate change – reducing our greenhouse gas ('GHG') emissions
We have been committed to reducing our carbon emissions since 2002 and continually improve on emissions reductions processes. In 2020 we met our carbon performance commitments as detailed in our 2020 regulatory return and are the first water utility to have submitted SBTs based on the Paris Agreement's highest level of ambition, to limit global temperature to 1.5°C above pre-industrial levels. This includes setting ambitious Scope 3 targets and working with our supply chain to reduce emissions. In addition to setting globally recognised SBTs, during 2021 we have also pledged our commitment to net zero with a more ambitious 2030 target (compared to the 2050 target for SBTs). In order to realise our ambitions, we have set the following targets:

- Reducing our Scope 3 emissions by working with over 70% of our supply chain to set their own emissions targets
- Ensuring that all new company cars will now be electric
- Installing over 350 electric car charging points over 65 sites, to be completed by the end of 2021
- Having the potential to cover 100% of our electricity needs from our own renewable sources or through Power Purchase Agreements by 2030
- Developing procedures for our suppliers to demonstrate they are measuring and reducing their emissions and to ensure we are meeting our targets to reduce Scope 3 emissions

More information about the activities we are undertaking to minimise our impact can be found within the Journey to Net Zero (see pages 54 to 55) and Carbon and Energy Performance (see pages 65 to 67) sections of this report, and our separate Sustainability Report. Details of how sustainability-focused performance measures are included in our LTIP can be found on pages 123 and 131 of the Directors' Remuneration Report.

Assessing our progress
This year, we are going beyond mandatory requirements and reporting on our supply chain emissions. Our full emissions reporting, including Scope 3 emissions reporting, can be found within the Carbon and Energy Performance section of this report. The methodology behind how we report on, account for, and gain assurance on our GHG emissions is also outlined further in the Carbon and Energy Performance section.

Adapting to climate change – measuring our progress
We measure and manage a wide range of metrics which help us to assess how well we are doing to minimise our risks in a changing future. Our regulatory performance commitments relating to water leakage, pollution events, customer satisfaction and water quality help us to manage our risks by reducing our impact in these areas.

Our targets around per capita consumption and smart meter installations help to assess and understand water usage to identify areas where our educational programmes will have the most impact to increase water headroom.

Our leakage reduction targets ensure that we measure our progress toward increased operational efficiency and protect our reputation in a more environmentally conscious future.

Supply interruption targets ensure that we measure and assess our ability to supply to our customers, even when extremes in weather impact upon our infrastructure.

Monitoring the occurrence and frequency of flooding and pollution events ensures that we reduce our environmental impacts and enhance our systems to accommodate changes to weather patterns, reducing the impact that changing regulation may have on our business.

Measuring our energy generation from biogas and the waste recycled to agriculture ensures that we contribute to a circular economy and reduce our carbon footprint, protecting us against changes to energy prices.

Our target of net-zero operational carbon emissions by 2030 exceeds the Government's target of 2050 and ensures that we are leading the path to a more resilient and sustainable economy.

Science Based Targets

Scope 1, 2 and 3 targets

Submitted to SBTi by March 2021 to align to a 1.5°C pathway

Carbon and Energy Performance

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. Our 2030 commitment is to generate or procure 100% renewable energy and move our fleet to 100% electric vehicles, where available.

We have also set Science Based Targets for our operational emissions and for our supply chain (Scope 3) emissions. Our operational reduction is in line with the more ambitious 1.5°C temperature rise scenario. For our supply chain, we commit that 70% of our emissions from 'purchased goods and services', 'capital goods', 'upstream transportation distribution' and 'waste generated in operation', will have Science Based Targets by 2025. We submitted these targets for verification by the Science Based Targets initiative in March 2021.

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 score each company on the quality and completeness of responses.

This year, we are disclosing more information about our GHG emissions and energy use, going beyond the mandatory requirements and including supply chain emissions for the first time.

This year we reduced our net operational emissions on the market basis, primarily through our switch to procuring 100% renewable-backed energy via our import contracts. We continue to generate more renewable energy than any other UK water company and now generate the equivalent of 53% of Severn Trent Water Limited's energy needs, up from 51% in 2019/20.

To reduce our operational emissions further we will continue to focus on improving our energy efficiency to offset the additional demands of growing population and more stringent treatment quality requirements and we will continue to procure 100% renewable-backed electricity. We will also continue to electrify our fleet and encourage employees to take up lower-carbon electric cars. Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and deliver financial benefits for our customers and investors.

As we have already taken steps to reduce our Scope 2 emissions, we are now focusing on our Scope 1 emissions and particularly our emissions of methane and nitrous oxide from our sewage and sludge treatment processes. These emissions are not as clearly aligned with financial incentives and require new science, technology and innovation to understand and solve. This year, we have invested in direct monitoring of our methane and nitrous oxide emissions from sewage and sludge treatment for the first time and are sharing our approach and data across the industry to aid understanding and collaboration on solutions to this difficult area.

Report on greenhouse gas ('GHG') emissions

This is the eighth year Severn Trent has been required to report GHG emissions. For Severn Trent Water, which accounts for 93% of our total Group emissions, we have been publicly reporting on our emissions since 2002. For the second year, we are also reporting our energy use and generation data and provide 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 2020 to 31 March 2021. We report our location-based and market-based emissions separately and for the first time we also report on five Scope 3 categories – goods and services, capital goods, waste generated in operations, business travel and upstream transportation and distribution. We will disclose more of our Scope 3 emissions from next year, in line with our new Science Based Targets.

The GHG data we report 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 subjected to the GHG Protocol Corporate Accounting and Reporting Standard. In Scope 1 and 2, we have included the emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. Emissions from our supply chain and from assets which we do not own but operate on others behalf are included in our Scope 3 category. We have now baselined our Scope 3 emissions and this year we report on Scope 3 emissions from business travel, energy transmission and distribution losses and outsourced sludge tanker activity as part of our operational footprint. These are areas where we have robust data collection processes already. We report on emissions from our other Scope 3 categories in a separate table. We are collecting more data on the remainder of our supply chain and will report on more of our Scope 3 emissions next year.

For our net operational carbon footprint, we include the benefit of renewable electricity which we export and also a carbon benefit from the biomethane we export to the grid, but only where we have not sold an associated green gas certificate. Where we have sold a green gas certificate, we do not include the carbon benefit in our net number overleaf.

Our emissions are calculated using the updated 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 15' (released April 2021). 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. All emissions arise in the UK.

Annual Operational Emissions – Location and Market Based

Operational Greenhouse Gas Emissions (Tonnes CO_2e)	2020/21 Location based	2020/21 Market based
Scope 1 Emissions (Combustion of Fossil Fuel on Site)	29,945	29,945
Scope 1 Emissions (Process Emissions)	116,257	116,257
Scope 1 Emissions (Transport Fleet)	17,914	17,914
Scope 2 Emissions (Electricity Purchased for Own Use)	182,768	1
Scope 3 Emissions (Business Travel)	343	343
Scope 3 Emissions (Outsourced Sludge Tankers)	3,340	3,340
Scope 3 Emissions (Electricity Transmission and Distribution)	15,718	–
Total Annual Gross Operational Emissions	366,285	167,800
Emissions benefit of the renewable electricity we export	40,648	40,648
Emissions benefit of the renewable biomethane we export (for which we retire green gas certificates)	21,354	21,354
Total Annual Net Operational Emissions	**304,282**	**105,797**

Supply Chain Emissions
The table below shows our estimated Scope 3 emissions which are not included as part of our operational footprint. These emissions are part *of our new Science Based Targets. We will be disclosing more data on these areas in future. Our primary source of emissions is capital work* and we have developed a tool to estimate carbon from capital schemes which we will be using in future to estimate emissions impacts and use in decision making.

Other Scope 3 Greenhouse Gas Emissions (Tonnes CO_2e)	Annual Emissions
Chemicals purchased (2020/21 volumes using Carbon Accounting Workbook)	52,783
Upstream Well to Tank Emissions from Gas and Fuel Use (2020/21 volumes using Carbon Accounting Workbook)	8,715
Capital Goods (2019/20 Baseline Estimate)	250,546
Other Purchased Goods and Services (2019/20 Baseline Estimate)	107,927
Upstream transportation and distribution (2019/20 Baseline Estimate)	17,140
Disposal of waste generated in operations (2019/20 Baseline Estimate)	6,440

Operational Greenhouse Gas Emissions – Historic Trend
This table shows our historic emissions data alongside the current year in a comparable format to demonstrate our reduction trend. This also *shows our total Scope 1 and 2 emissions normalised by total Group revenue.*

Operational Greenhouse Gas Emissions (Tonnes CO_2e)	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Scope 1 Emissions (Combustion of fuel and operation of facilities)	132,535	132,406	134,584	138,131	134,307	132,360	156,014	164,115
Scope 2 Emissions (Electricity purchased for own use)	330,679	357,756	337,028	294,426	279,393	217,726	199,635	182,768
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700	350,086	355,649	346,883
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	62,003
Market-based carbon accounting benefit from supply of REGO-backed renewable energy	–	–	–	–	–	34,818	35,784	182,768
Total Annual Net Operational Emissions	441,542	451,285	426,527	390,488	368,367	268,283	259,987	102,113
Annual GHG intensity ratio (tCO_2/unit)	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Gross Location-Based Operational GHG emissions of Severn Trent per £m turnover	260.8	277.1	259.5	237.0	244.2	198.1	192.9	190.0

1. 'REGO' – Renewable Energy Guarantees of Origin scheme

Report on Energy
In line with the latest energy and carbon reporting requirements, below is further information on our energy consumption and generation for the last three years across the Severn Trent Group. This is source data for the carbon data reported above and is tracked internally on a monthly basis. All data is collected from metered data for electricity and gas imports and exports. 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 2020 to 31 March 2021. All energy is used in the UK.

The figures below include the large quantity of renewable biogas from organic waste, which we generate from sludge and food waste and then either combust in combined heat and power engines or export to the National Gas grid. Overall energy use has risen this year. Our most significant change is a large increase in natural gas import which has been driven by the commissioning of two new heat-intensive sludge treatment processes and our deployment of natural gas CHP. We have also increased our export of biomethane into the gas grid and decreased the amount of biogas we combust in CHP. Electricity consumption rose by 0.6% this year due to increased demand for water, particularly during the summer of 2020 and increased electrical demand from the first full year of operation of a number of capital projects completed last year, such as our Birmingham resilience scheme.

Energy type	Source	Units	2018/19	2019/20	2020/21
Electricity	Electricity Imported	GWh	771	780	784
	Electricity Generated from Renewable Sources and Used on Site	GWh	198	194	196
	Electricity Generated from Renewable Sources and Exported	GWh	114	184	174
Gas Fuels	Gas Imported from the Grid	GWh	52	44	120
	Biogas Generated and Combusted on site	GWh	745	922	872
	Biomethane Generated and Exported to the Grid	GWh	166	181	245
Liquid Fuels	Fuel Used by Plant (gas oil and diesel)	GWh	20	20	23
	Fuel Used by Company Fleet	GWh	62	70	77
	Fuel Used for Business Travel (personal cars)	GWh	7	6	4
Totals	**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**	**2,076**
	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**	**1,008**
Normalised Metrics	Total Energy per Unit of Revenue	GWh/£m	1.05	1.11	1.14
	Energy Imported per Unit of Revenue	GWh/£m	0.52	0.50	0.55
	Clean Water Electricity Use per Unit Treated	kWh/Ml	714	698	718

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, overseen by an Energy Steering Group.

Over the course of the last year we have invested £5.6 million of capital in specific energy efficiency and flexibility schemes to control energy demand and reduce energy use. Over the course of the last six years we have invested £26 million in energy efficiency. These capital schemes include proactive maintenance on our most energy-intensive assets, such as pumps and air blowers, and investment in improved controls and monitoring 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 e-learning for all employees, and detailed energy training, for example on pump efficiency, for specific roles.

We are transitioning our fleet from fossil fuels to electric vehicles with the aim of 100% by 2030, where available, 5% of our company cars are now electric and we continue to deploy more dedicated site charging points. This year we launched a new staff scheme for electric vehicles.

Our aim is that by 2030 all energy that we use comes from a renewable source. That means it is either directly renewable or covered by a renewable-backed source of gas or electricity with REGO or green gas certificates. Achieving this target will require electrification, which will increase our use of electricity in order to phase out the use of fossil fuels our business and the use of biofuels and green hydrogen to replace diesel.

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 Section 172 Statement on pages 76 to 78, 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 its decision making.

STAKEHOLDER	HOW WE ENGAGE AT BOARD LEVEL	HOW WE ENGAGE ACROSS THE COMPANY
Our Customers **In serving our customers, we want to provide both value and a great experience. Our consultation with customers helped our Severn Trent Water Limited 2020-25 Business Plan to be fast-tracked by Ofwat.**	• Customer-shareholders engage with the Board and submit questions in advance of our Annual General Meeting. • Customer delivery performance is discussed at every Board meeting. • Customer perceptions of value for money reported to our Corporate Sustainability Committee. • Extensive customer engagement shapes our strategy and business plan.	• Quarterly meetings with CCW at management level. • Frequent discussion and consultation with our online customer community • Quarterly tracking of customer perceptions against key indicators including trust and satisfaction • Created new online self-service options for customers and made it easier to check for and report problems through our 'Check My Area' app and 'Report a Problem' services. • Ensured customers could contact us 24/7. • Launched our new Water Alert System. • Introduced new two-way messaging functionality through SMS, WhatsApp and Apple chat channels.
Our Colleagues **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 encourage them to do their best in all that they do.**	• A dedicated virtual employee engagement event, 'Ask Our Board', was held in May 2021. • Employee-shareholders have the opportunity to meet the Board and submit questions to the AGM. • The Chair, Non-Executive and Executive Directors attend Company Forum meetings and provide feedback at Board meetings. • Company Purpose and culture, talent development and our People Strategy are discussed at Board meetings. • The Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board. • The Board considers our employee engagement – QUEST – survey results and steps taken to address feedback.	• Employees are invited to attend the 'Ask Our Board' events. • In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. • Continual internal communication to employees on COVID-19 impacts and mental and physical health awareness. • At our 'Bouncing Back Stronger' event at Carsington Water in September 2020, we took c.500 of our senior managers through our approach to bouncing back stronger from the impacts of COVID-19. • Our Executive Committee and senior leaders led our 'Share a Smile' campaign, providing four virtual events for everyone in the Company, with the aim of lifting spirits throughout the COVID-19 pandemic.

The principles underpinning s.172 are not only considered at Board level, they are part of our culture. They are 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 from page 80.

This section also includes high-level detail of stakeholder engagement below Board level and how we have delivered on feedback received, and signposts where further information is provided throughout this Annual Report. You can also read more in our separately published Sustainability Report which can be found on our website. We welcome any feedback from our stakeholders.

WHAT MATTERS TO THEM	HOW WE DELIVERED ON FEEDBACK THIS YEAR
• Customer service and performance • Leakage and supply reliability • Affordability and value for money • Assistance in times of need • Responsible investment	• **Improved ODI performance scores during the year with c.80% of ODIs (across water, waste, environment and customer) having met or exceeded target** • **Improved UK Customer Service Index scores achieving UQ for utilities** • **Supported 35% of customers who needed support** • **Provided over £15.5 million of support through our Big Difference scheme and over £3 million of support through our WaterSure scheme**
• Health, safety and wellbeing • Diverse and inclusive workplace • Opportunities to reach full potential • Open and honest environment • Fair pay and reward	• **Our employee engagement survey ranked us in the top 5% of utility companies globally** • **Achieved 8.3 out of 10 for employee satisfaction in our QUEST results** • **Opening of the Severn Trent Academy and syllabus launch** • **Developed a specific diversity and inclusion focus in our 2021 QUEST survey** • **Achieved a 20% reduction in Lost Time Incidents ('LTI') compared to 2019/20, our best ever LTI rate** • **Launched our 2021 employee electric vehicle benefit** • **Continued to narrow our gender pay gap**

Supporting the elephants at West Midlands Safari Park

Our Network Response Team provided some much needed help and support to West Midlands Safari Park in April 2021. Normally they're busy injecting water into our water mains and reservoirs but this time it was helping to fill a drinking water pond for the Safari Park's elephants and putting our newest tanker to the test.

STAKEHOLDER	HOW WE ENGAGE AT BOARD LEVEL	HOW WE ENGAGE ACROSS THE COMPANY
Our 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.**	• Employees who live and work in our communities 'meet' the Board at the Employee Forum, AGM, and site visits. • Employees who live and work in our communities could also engage with the Board through the employee engagement virtual event, 'Ask Our Board', held in May 2021. • Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings. • Environmental matters are regularly considered by the Board.	• Our employability scheme inspires our people and makes a real difference to people's lives. • Regular engagement with Government officials and elected representatives on water and environment-related issues. • Our people volunteer, when safe to do so, through our Community Champions programme, working to improve our communities and environment. • Our Education Team launched free live online lessons for kids, four times a day, five days a week. • Launched our Great Big Nature Boost campaign.
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.**	• The Board approves the full and half-year results and Annual Report and attends results presentations. • The Chair, SID, Chief Executive, CFO and Non-Executive Directors attend investor meetings and feedback is reported to the Board • The Head of Investor Relations gives an update to the Board on a regular basis and the Investor Relations Strategy is discussed by the Board • The Chair attends the Capital Markets Day. • The Board announced its non-binding advisory Shareholder vote at the 2021 AGM on the Group's approach to climate change.	• When safe to do so, investor site visits take place so that shareholders can experience our operations and culture first-hand. • Regular dialogue with shareholders to support them in their investments.
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.**	• Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers • 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.	• Regular meetings with our suppliers, including training on Modern Slavery, and our Code of Conduct, Doing the Right Thing. • Presented at a Morgan Stanley Sustainability conference about the importance of the 'S' in ESG. • Engaged with over 50 suppliers at our Supplier Summit to outline our sustainability ambitions, helping inspire and bring them along with us on our sustainability journey.
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 with the 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.**	• To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year • Regulatory matters are regularly considered by the Board, including Price Review Plans, Water Resources Management Plan and Scheme of Wholesale Charges. • Regulatory stakeholders attend Board meetings, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA'), the Consumer Council for Water ('CCW') and Defra. • Regulatory consultation updates are considered by the Board	• Regular virtual meetings with our regulators at management level including the EA, Natural Resources Wales, Natural England, Ofwat, the DWI and Defra. • Regular engagement with Government officials and elected representatives on water and environment-related issues.

WHAT MATTERS TO THEM	HOW WE DELIVERED ON FEEDBACK THIS YEAR
• Operational impact and disruption • Local employment • Economic contribution • Protection of the environment	• **Created our £1 million COVID-19 Emergency Fund** • **Financial support was given to care leavers through our Big Difference Scheme** • **Donated almost an additional £1 million to charity following our customer water saving challenge** • **Donated c.£7 million to charitable organisations this year** • **Welcomed the first of our first 500 'Kickstarters' as part of our Kickstart Programme** • **Welcomed 69 new apprentices and graduates**
• Strategy and business model • Financial performance and returns • Reputation • ESG performance • Financial risk management • Strong leadership	• **AMP7 dividend policy with a growth rate of at least CPIH** • **Capital investment exceeding £590 million including accelerated activity on strategic renewable projects** • **All resolutions received over 92% of votes at our 2020 AGM**
• Fair engagement and payment terms • Collaboration • Responsible supply chain	• **Accelerated payments to our supply chain as a result of COVID-19** • **Registered by the Chartered Institute of Procurement and Supply ('CIPS') with the Ethics Mark**
• Outcomes for customers, the environment and long-term resilience • Performance against regulatory targets • Trust and transparency • Governance and compliance • Environmental impact	• **Fast-track status secured for our AMP7 business plan for Severn Trent Water Limited** • **Ambitious Green Recovery package of investments proposed – read more on page 13** • **Maintained top-ranking position in the Tortoise Responsibility100 index – ranking 6th effective April 2021**

Improving the health and wellbeing of children with disabilities in the West Midlands

The KIDS Orchard Centre in Dudley provides a safe, fun and educational environment for disabled young people across Dudley and the Black Country. It offers a range of services, including short breaks, after school clubs and young carers' groups. With a grant of £10,000 from the Severn Trent Community Fund, it has been able to transform an uninspiring outdoor space into an inclusive environment which includes a growing and planting area, a herb garden to encourage the children to care for the plants, and bug hotels and bird boxes to encourage insects and wildlife.

Our Ecology Team get its teeth into another rescue mission

First it was badgers. Then it was newts. Now it's lampreys. Our Ecology Team has been helping these fascinating fish to thrive in the River Noe in Derbyshire. Lampreys are incredibly important to maintaining healthy rivers and that's why we went all out to protect them when we were working in the area recently.

We were working on a project to remove silt along a stretch of river, to stop it building up and spilling over a dam that's protecting an aquifer downstream when we found out our silt is what lampreys call home.

We found a way to use floating diggers in short, sharp bursts, to remove enough silt without polluting the river and bulldozing their homes at the same time. Over 3,000 lampreys were safely caught and relocated to new, safe homes in the silt.

Our **People**

Our people are fundamental to taking care 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.

Top 5%

Our employee engagement survey once again ranked *us in the top 5% of utility* companies globally.

20% reduction

in Lost Time Incidents *compared with 2019/20.* Our best ever LTI rate.

8.3

Achieved 8.3 out of 10 employee satisfaction score in our QUEST results.

74%

of our employees participate in our Sharesave scheme.

Our Values:

"I was more attracted to the role because of the business' huge commitment to building a sustainable future. What makes me tick is to have the satisfied feeling that I'm making a difference!"

Sadik
New Talent Programme –
Severn Trent Graduate, Technical Leadership Programme (Engineering)

"Learning from 12 other lawyers is such an *invaluable experience* and it's wonderful everyone is so supportive and friendly; it truly makes a difference."

Teagan
Legal Apprentice, General Counsel

"I am really enjoying my placement. I can access training to develop my skills that help in the workplace, everyday life *and boost my career after* the Kickstart Scheme."

Anneka
Kickstart Service Delivery
Assistant at Leicester Water Centre

"My journey at Severn Trent so far as a HR Learning and Development apprentice has been a pleasure. It has made *me excited for my future and* the difference I can make at Severn Trent."

Katy
New Talent Programme Apprentice Programme – Learning and
Development Consultant, HR

Keeping our people safe and well
We believe passionately that no one should be hurt or made unwell by what we do, and our people have done a great job of keeping themselves and those around them safe with a year-to-date total of 21 Lost Time Incidents ('LTIs'), our best ever performance, which equates to 20% fewer LTIs than last year. This is a testament to all the focus and attention we have given this critical area. Our Severn Trent colleagues have been remarkable throughout the pandemic and we have continued to support them through a comprehensive approach to health, safety, mental wellbeing and financial security.

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.

Following the success of our Wellbeing Campaign, 'Caring for our Colleagues', in February 2021 we launched our eight week 'Share a Smile' initiative, providing four virtual events for everyone in the Company, as well as their families, to help keep spirits high throughout the third lockdown. Read more on page 17.

COVID-19 data

328

Reported positive cases of COVID-19 within the workforce, since we began tracking in October 2020. There were no reported instances of COVID-19 being transmitted within the workplace.

0 fatalities

There were no fatalities of direct employees in active service as a direct result of COVID-19.

422

Reports of contacts to our employees via Test & Trace (the COVID-19 app) requiring the individual to self-isolate.

Supporting the NO MORE campaign

The safety and wellbeing of our colleagues is of the upmost importance to us and we're on hand to support our colleagues regardless of whether their need for support stems from personal or working lives. We understand that 75% of women who experience abuse are targeted at work and no matter how small the likelihood of this happening within our business is, we know it's important we're aware and able to spot the signs. The NO MORE campaign began in March 2021 to help create a culture of safety, equality and respect in our communities and provide practical advice as to how our colleagues can support each other, friends and families.

Impact of COVID-19 on our employees
Our priority remains the safety and wellbeing of our people and customers and we ensured that all our key worker employees had access to the correct personal protective equipment ('PPE') and that our IT infrastructure enabled our non-key worker employees to work safely from home. This approach was supported by robust health and safety protocols, that operated effectively throughout the COVID-19 pandemic. We have worked with the Health and Safety Executive, sharing data to compare positive cases, and as a result of our robust protocols, we have not had any instances of COVID-19 being transmitted within the workplace.

Providing a diverse and inclusive place to work
Our ambition is to have a workforce that reflects the communities we serve, and build an inclusive organisation where everyone feels able to bring their whole self to work, fulfil their potential and perform at their best. An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. We also know that diverse teams make better decisions and help us to better deliver for our customers and communities.

Recognising that leadership is fundamental to creating an inclusive workplace, this year we focused on maintaining our diverse and inclusive culture and improving how we embed this into our policies and procedures. All of our senior management participated in a diversity and inclusion training session with personal insight from employees in ethnic minority and LGBTQ+ groups. We have also introduced our 'Include me in Inclusion', a campaign to educate our colleagues, re-affirm our zero-tolerance stance on discrimination, and outline our new diversity and inclusion ambition.

This year we were pleased to launch our new diversity and inclusion programme via our Severn Trent Academy with a range of content including specific modules for leadership and sessions where our colleagues are able to share their own diversity and inclusion stories.

We now have well-established working groups that are helping to guide our work, and our QUEST diversity and inclusion results remain well above benchmark. We're pleased to have been recognised externally in several indices for the progress that we've made. Changing the diversity of our organisation will take time, but our recruitment teams are working hard to attract and recruit employees from all backgrounds. As at 31 March 2021, 9% of our employees identified as belonging to a minority ethnic group.

Achievements in 2020/21

Top 10	**The Social Mobility Index –** maintained a Top 10 position for the second year running
Top 200	**The Stonewall Index which measures LGBTQ+ inclusion** (414th in 2019/20 – 175th in 2020/21)
2nd	**The Hampton-Alexander Review** where we moved up to second place for Women on Boards
4th	**The Tortoise Responsibility100 Index which ranks us fourth in the FTSE100 on Equality**

Inspiring the next generation of employees is equally as important, and our school and university outreach programmes are now targeting communities where we are under-represented, which will seek to improve female and ethnic representation across our Graduate and Apprentice programmes. For more experienced hires, we're ensuring that we provide hiring managers with diverse candidate shortlists at every opportunity and we'll start measuring the impact of this next year.

The Government Kickstart programme will also be a great opportunity to demonstrate some of these new interventions, and we are committing to take on 100 black interns in the summer of 2022 as part of the '#10000BlackInterns' initiative. Read more on our Kickstart programme on page 22.

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 second for women's representation on Boards and Leadership – one of the first two FTSE100 companies in history to have a majority of women on their Board. Female representation in our senior leadership population is 42.3% and female representation on our Board is now five, representing 56% of Directors. Page 104 sets out a gender breakdown of Directors, senior managers (as defined in the 2018 Code and Companies Act 2006) and employees of the Company.

Fairly rewarding our people
At the start of the COVID-19 pandemic, we committed to no furloughing, no redundancies, honouring our all-employee bonus and agreeing a 2.3% annual pay increase for three years for our front-line teams, with 2021 being the second year of the three-year pay deal.

We understand that financial wellbeing is as important as mental and physical wellbeing for many of our colleagues, and as part our benefits offering, in 2021 we launched our financial workshop tool, Money Hub, offering each of our colleagues the opportunity to learn more about managing their finances. Within our LearnAnytime area of the Severn Trent Academy, colleagues are also able to access specific financial and wellbeing resources at a time to suit them. In February we also made it easier for our people to access their pension information with the Aegon Pension mobile app.

All of our employees have the opportunity to become part-owners of the Company through our popular Sharesave scheme and an amazing 74% participate, with 26% of participants saving the maximum of £500 per month. We are especially delighted that so many employees decide to retain their shares – and 77% of our employees are also shareholders in the Company.

In November 2020, we published our Gender Pay Gap Report highlighting a continued reduction in the median gender pay gap between women and men for the fourth consecutive year. The Report shows a median pay gap of 9.3%, down from 9.8% in 2019, as it continues to be positively impacted by a high proportion of women within our management and senior management roles.

The Company's mean pay gap has also improved, now at 2.3%, compared to 3.6% in the previous year – a reflection of a greater weighting towards higher-earning women and a shift in our overall quartile distribution. The report also revealed there is no median gender bonus gap between male and female employees.

Women make up 28.6% of our entire workforce, but the report shows they remain underrepresented in operational roles. We've been working hard to create a consistent framework which includes transparent pay ranges to support us in measuring our fair pay processes. We've focused on raising awareness for diversity and inclusion and we've celebrated our success in attracting women to senior roles, with a female Chief Executive and a female Chair. The full Gender Pay Gap Report can be found on the Severn Trent Plc website.

Electric vehicles

In January 2021, we announced our new and exciting employee benefit, our electric vehicle ('EV') salary sacrifice scheme giving our people the chance to drive a brand-new electric car as part of a monthly 'all inclusive' cost to suit their budget.

This is a key contributor towards our Triple Carbon Pledge, where we've committed to switching all of our fleet vehicles to electric by 2030, where available. We're confident that by 2026 we will be operating an all-electric fleet, availability permitting.

For our colleagues who cycle, we also increased our Cycle 2 Work scheme, where all employees can make savings on purchasing a bike up to £1,500.

Electric cars: what are the benefits?

Environmental benefits
- No tailpipe means no exhaust gases = reduction in local air pollution
- Reduce your carbon footprint

Discounts on congestion charges
- Exempt from Clean Air Zone charges, designed to discourage polluting vehicles entering certain areas

Government funding towards a charge point
- Currently, drivers of an EV can benefit from a Government grant towards the cost of installing a charge point at home

Improved driving experience
- Experience responsive acceleration
- Benefit from regenerative braking, feeding energy back into the battery
- Feel at ease with automatic driving

Financial savings
- Make National Insurance and tax savings (of over 30% based on current HMRC rules)
- Find cheaper maintenance and insurance costs

Lower running costs
- When compared to petrol or diesel, EVs are extremely cheap to run! On average, an electric car costs about £2 to drive 100 miles compared to the average cost of petrol at £15.80

Convenient charging
- EVs can be charged wherever there's an appropriate electrical socket or plug
- Charging points are available across multiple sites

Reduce noise pollution
- EVs are quieter than petrol and diesel vehicles, so noise pollution can be reduced

Developing our people
In February 2021 we were delighted to celebrate the official opening of the Severn Trent Academy (the 'Academy') at Hawksley Park, part of a wider £10 million investment in our learning and development offering. Opening the Academy supports our ambition to be a socially purposeful company in all that we do, giving back to the communities we live and work in, and providing opportunities for people to learn, retrain and develop with us in our industry.

The Academy is a thriving hub offering a range of physical and experimental learning opportunities, as well as more traditional classroom training in a collaborative environment (from technical rigs through to virtual reality). When we're not using the facility for our core learning offer, we'll be welcoming local schools and trade bodies to give them the opportunity to learn about our industry, as well as giving the local community the chance to take advantage of our learning offer.

"It is such an exciting moment to be opening the Academy at Hawksley Park after years of planning and true collaboration across the business to make this happen. This is a fantastic investment into learning for all of us. We want everyone visiting to be immersed in an environment that makes learning enjoyable, encourages collaboration and the sharing of knowledge. We also have a vision that this is a facility which will help to support our local community and bring benefits to the environment too. Hawksley Park will set the benchmark for a new way of learning."

Sarah Harris,
Head of the Academy

Through our QUEST and Academy learner surveys, our people have told us they want more support on mentoring, and so this year we re-designed our mentoring programme, to ensure our people can grow and develop whilst with us. Our mentoring opportunities are split into two categories – how we're supporting our colleagues and how we're supporting our communities, through our new talent and community offering, including our Kickstart programme, schools careers guidance and employability schemes. We've created a selection of workshops for mentees and mentors to help them get the most from mentoring as well as dedicated networking sessions offering a chance for our mentors and mentees to meet up, up-skill and learn from each other.

Listening to our people
Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture and the Board's selected workforce engagement mechanism, our Company Forum, was facilitated via a virtual platform for most of the year. The Company Forum provides an opportunity for employee and Trade Union representatives to meet with Board and Executive Committee members on a regular basis. It ensures that views from a diverse cross-section of the workforce – in terms of seniority, gender, ethnicity, tenure of employment and job types – are considered in Board discussion and decision making, and each meeting generates wide-ranging exchanges of opinion and insights. Topics for discussion this year have included Outcome Delivery Incentive ('ODI') performance, financial updates, the impact of the hot weather and high-demand incident response in May, and Executive remuneration.

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

We are always looking for new and different ways for the Board to engage with employees from across the business and are currently reviewing a number of digital solutions for a wider population of our workforce to ask questions and interact with our Non-Executive Directors.

Our annual employee engagement survey, QUEST, helps us to understand what's going well and where we can improve across the Group. QUEST is conducted by an independent research company to ensure the results are anonymous and the results are reported to the Board.

We were delighted that our employee engagement score improved again this year to an average score of 8.3 and were thrilled to receive a score of 8.5 when colleagues were asked if they would recommend Severn Trent to a friend.

Remuneration: Find out more
The Company Remuneration section, in the Directors' Remuneration Report, sets out the steps we take to make sure that our pay and reward framework, below Executives and senior management, is transparent in a way that is meaningful and useful.

Further information can be found in our Directors' Remuneration Report on pages 132 to 141.

Section 172 Statement

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, carefully consider *all the relevant factors and select the course of action that best leads to the high standards of business conduct and long-term success of Severn Trent. The principles underpinning s.172 are not something that is only* considered at Board level, they are part of our culture and are 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. All of the Board's significant decisions are subject to a s.172 evaluation to identify the likely consequences of any decision in the long term and the impact of the decision on our stakeholders.

In performing their duties during 2020/21, the Directors have had regard to the matters set out in Section 172(1) of the Companies Act 2006. You can read more on how the Board had regard to each matter during the year as follows:

S.172 FACTOR	RELEVANT DISCLOSURES
The likely consequences of any decision in the long term	**Company Purpose** p2 **Business Model** p6-7 **Performance Review** p20-30 **Dividend Policy** p155
The interests of the Company's employees	**Performance Review** p20-30 **People** p72-75 **Diversity and Inclusion** p73 **Employee Engagement** p72-75
The need to foster business relationships with suppliers, customers and others	**Responsible Payment Practices** p157 **Anti-bribery and Corruption** p119 **Performance Review** p20-30 **Modern Slavery** p119 **Sustainability** p50 **Business Model** p6-7
The impact of the Company's operations on the community and the environment	**COVID-19** p15-17 **Our Purpose and Vision** p2 **Sustainability** p50 **TCFD** p54-67
The desirability of the Company maintaining a reputation for high standards of business conduct	**Our Purpose and Vision** p2 **Whistleblowing** p111 **Internal Controls** p111 **Modern Slavery** p119
The need to act fairly as between members of the Company	**Stakeholder Engagement** p68-71 **Annual General Meeting** p157

Principal decisions in 2020/21

The principal decisions taken by the Board in the year are detailed on pages 92 to 94 of the Governance Report.

Our approach below sets out how the Board is supported in carefully considering all the relevant factors that lead to its selection of the best course of action to ensure the long-term success of the Company:

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

Stakeholder engagement activities recorded, and detail included in Board papers where applicable

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

The Group's culture ensures that there is proper consideration of the potential impacts of decisions

BOARD STRATEGIC DISCUSSION

The 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

Engagement and dialogue with stakeholders

Follow up actions with Board oversight

www.severntrent.com
s.172 reflected in our governance documentation:

- Matters Reserved to the Board
- Committee Terms of Reference
- Code of Conduct
- Charter of Expectations

Key stakeholder groups considered

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

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 are set out below:

GREEN RECOVERY SUBMISSION AND FINANCING

Context

In July 2020, the Government, the EA, the DWI, Ofwat and CCW invited the water sector to submit proposals to support the Government's Green Recovery Initiative with the ambition of 'building back greener' from the COVID-19 pandemic, whilst also delivering real and lasting improvements to the environment for current and future generations. The Board considered the Company's proposals aimed at delivering long-term sustainable benefits for current and future generations in our region, improving the environment and creating jobs.

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

Customers: Ensuring customer bills are affordable is a key factor in all Board decisions. In assessing which proposals to take forward, the Board considered the impact on customer bills. The proposed investment will have an annual average household bill impact of £6 in the period until 2025. We engaged with customers on these impacts and they indicated they were supportive.

Investors: The proposals will deliver strong RCV growth for Severn Trent Water, with associated shareholder benefits. The Board also considered potential financing structures and conducted an assessment of the impact on credit metrics, investors and other stakeholders. On 17 May 2021, Ofwat proposed to award the Company £565 million (2017/18 prices) to invest in its ambitious Green Recovery programme. Read more about these projects on page 13.

Environment and the community: The Board was committed to proposing schemes that address long-term issues that are important to customers and deliver environmental benefits, such as developing net-zero carbon water resources, delivering a step-change improvement in river water quality, making towns more resilient to flooding and removing lead from customers' supply pipes. In addition to the long-term benefits for customers and the environment, the proposals will create much needed employment and training opportunities, utilising our new Academy facility.

Regulators: Regulators have been supportive of our Green Recovery proposals and the Board engaged with Defra, Ofwat, the EA, the DWI and CCW this year as part of its well-established regulatory engagement activity.

Outcomes and impact on the long-term sustainable success of the Company

The Board supports the Government's approach to investing in a Green Recovery and, as a responsible business in our region, proposed a package in excess of £700 million of investment.
The impact of the Company's operations in the community and the positive role it could play in delivering long-term, sustainable benefits for current and future generations in our region, improving the environment and creating jobs were pivotal to the Board's decisions.

NEW APPROACH TO CUSTOMER EXPERIENCE IN WASTE

Context

As part of the Board's AMP7 Waste Networks Strategy, a new Waste Infra Network Services contract was tendered in 2020 to shape the future operating model and support delivery of our AMP7 outcomes and customer performance commitments.

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

Customers: The Board recognises that obtaining best value contracted services supports our objective to keep customer bills low whilst also delivering improvements to customer service. The programme implemented a dedicated Waste Customer Management Centre in Derby, focused on complex activity that contributes to customer dissatisfaction.

Employees: The new contract will provide partnership working opportunities for employees. The additional resource and capabilities will also support delivery of our AMP7 outcomes and customer performance commitments.

Environment and the community: A key part of the tender selection process was to select suppliers that were aligned to the Group's sustainability and corporate social responsibility agenda. Additionally, the contract plays an integral role in reducing pollutions and protecting the environment.

Investors: The Board considered carefully the need to deliver value for customers and shareholders. The new contract will deliver savings and improve customer experience, supporting improvements in ODI and C-MeX performance.

Relationship with suppliers: A key part of the tender selection process was to ensure that Tier 2 suppliers had the opportunity to participate. The Board considered this approach to be in the best interests of both the Company and suppliers whilst also bolstering overall resilience.

Outcomes and impact on the long-term sustainable success of the Company

The new contract will deliver an improved customer experience and support improvements in ODI and C-MeX performance, with associated benefits for communities, colleagues, investors and our supply chain, whilst maximising efficiencies and supporting our Purpose – 'Taking care of one of life's essentials'.

PLANNING AND SCHEDULING TRANSFORMATION

Context
The Board considered the centralisation and transformation of the Group Planning and Scheduling function aimed at improving customer experience, enhancing the effectiveness of the respective teams and sustaining employee engagement throughout the transformation period.

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

Customers: *Delivering improvements to customer experience was a key factor in all Board discussions. The primary purpose of the transformation programme was to enhance customer experience through optimising the Planning and Scheduling function and better resource teams delivering for customers.*

Employees: *The Board considered the impact of the programme on employees and commissioned an extensive employee engagement programme to keep employees informed and understand any concerns regarding the transformation plans and changes to existing working arrangements. A dedicated Trade Union employee working group was constituted at the outset of the project to ensure that plans could be developed in line with employee feedback.*

Tailored support and training programmes were also developed and continually refined in line with employee feedback. Regular updates were provided also to the Board. As a result of the dedicated approach taken, employee feedback was positive – supported by employee engagement scores increasing compared to the prior year.

Investors: *The Board carefully considered the need to deliver value for customers and shareholders. The transformation project delivered cost savings and improved customer experience, supporting improvements in ODI and C-MeX performance.*

Outcomes and impact on the long-term sustainable success of the Company
The transformation programme will deliver an improved customer experience and support improvements in ODIs, *whilst reducing overall travel time and delivering carbon benefits, with associated benefits for communities, colleagues, investors and our supply chain partners, whilst maximising efficiencies.*

Other benefits include more efficient scheduling resulting in higher productivity, improved employee engagement and better customer engagement and experience.

ADAPTING OUR WORK FOR COVID-19

Context
As the COVID-19 pandemic unfolded, the Board increased its interactions to maintain continual dialogue on the potential impact on our customers, communities, colleagues and shareholders and ensure effective Board oversight of the Company's response to the pandemic. Read more about our COVID-19 response on pages 15 to 17.

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

Customers: The Board considered carefully the impact of the pandemic on customers and regularly reviewed additional measures put in place to support them, including the WaterSure and Big Difference schemes, and Back-on-Track. The Board was particularly focused on support for the Company's vulnerable customers – with targeted communications and support provided through the Priority Services Register. The Board acknowledged the importance of maintaining contact with all customers throughout the pandemic and oversaw enhancements to the Group's digital channel capability during the year.

Employees: *The Board oversaw the development of a comprehensive approach to health, safety, mental wellbeing and financial security – committing to no furloughing, no redundancies, honouring the all-employee bonus and agreeing a 2.3% annual pay increase for the next three years. The Company ensured that all key worker employees had access to the correct PPE and our IT infrastructure enabled our non-key worker employees to work safely from home so we could be there for our customers 24 hours a day, seven days a week.*

Environment and the community: *The wellbeing and safety of our visitors, communities and colleagues is of significant importance and, as such, the difficult decision to close all visitor sites was made early in the pandemic to limit the risk of the spread of COVID-19. The continuation of education programmes was recognised by the Board as key and a virtual education zone was established to help parents with home-schooling and to inspire the next generation of water users.*

Government: *The Government designated all Severn Trent employees as key workers. However, the Board felt it important to identify* which employees were absolutely essential to providing our services in order to keep as many people at home as possible in line with Government advice and to ensure we did not take up any more school spaces than were absolutely necessary. As such 50% of our employees were identified as key workers. Additionally, the Board did not take Government support in terms of the furlough scheme, a decision which was influential with the rest of the sector.

Trade Unions: The Board was kept updated on communications with Trade Unions, including the measures in place to ensure the health, safety and wellbeing of all colleagues.

Relationship with suppliers: The Board recognised the opportunity to help SME suppliers by moving to immediate processing of payments for three months, meaning that payment to the supply chain continued to flow into households. The scheme was originally targeted for three months; however, the decision was taken to extend the scheme through 2021 so that the Company could continue to provide this essential support.

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

Outcomes and impact on the long-term sustainable success of the Company
The Board's continued oversight of the Company's COVID-19 response is a key factor *in the high-quality management of potential impacts on our customers, communities, colleagues and shareholders.*

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 2006. 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 68-71 s.172 Statement, pages 76-78 Board Activities, pages 92-94
Environmental matters	• Group Environment policy	Sustainability Disclosure, pages 50-67 Corporate Sustainability Committee Report, pages 116-119 Sustainability Report, www.severntrent.com Stakeholder Engagement, pages 68-71
Employees	• Group Health, Safety and Wellbeing policy • Group Speak Up policy	Our People, pages 72-75 Gender Pay Gap, page 74 Governance Report, pages 80-153 Audit Committee Report, pages 107-113 Stakeholder Engagement, pages 68-71 Remuneration Report, pages 120-153
Respect for human rights	• Modern Slavery Statement • Diversity within our workforce	Modern Slavery Act 2015, page 119 Governance Report, pages 80-153 Corporate Sustainability Committee Report, pages 116-119
Anti-corruption and 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	Governance Report, pages 80-153 Audit Committee Report, pages 107-113
Social matters	• Doing The Right Thing • Group Environment policy • Customer policy	Sustainability Disclosure, pages 50-67 Corporate Sustainability Committee Report, pages 116-119 Directors' Report, pages 154-157 Sustainability Report, www.severntrent.com Stakeholder Engagement, pages 68-71
Description of Principal Risks and impact of business activity		Our Approach to Risk, pages 38-39 Principal Risks, pages 40-45 Emerging Risks, page 46 Business Model, pages 6-7
Description of the Business Model		Business Model, pages 6-7
Non-financial Key Performance Indicators		Strategic Report, pages 2-79 Key Performance Indicators, pages 18-19

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 Board determined that the policies remain appropriate, are consistent with the Company's Values and support its long-term sustainable success.

Approval
This Strategic Report was approved by the Board.

By order of the Board.

Bronagh Kennedy

Bronagh Kennedy
Group General Counsel and Company Secretary

18 May 2021

Chair's Introduction to Governance

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

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

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

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

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

Board focus areas in 2020/21

- Developed Board objectives to align with Purpose and Values
- Oversaw the Company's continued response to the COVID-19 pandemic
- Approved the Company's Green Recovery submission
- Agreed an AGM resolution on the Company's long-term approach to climate change
- Reviewed the Group's strategy, five-year plan and budget
- Satisfied itself that workforce policies and practices are consistent with the Company's Values and culture
- Ensured an effective induction for Sharmila Nebhrajani following her appointment as an Independent Non-Executive Director in May 2020

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

Documents available at
www.severntrent.com

Severn Trent Plc Articles of Association

Matters Reserved to the Board

Charter of Expectations

Non-Executive Director Letters of Appointment

Terms of Reference for Board Committees

Board Diversity Policy Statement

Modern Slavery Statement

Tax Strategy and Tax Report

Group Conflicts of Interest Policy

Non-Audit Services Policy

Doing the Right Thing

Corporate governance
The Group's long-term success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything outlined within this Annual Report. We do not see governance as something we do because we have to. We see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and, ultimately, how we build trust. This year, two themes in particular have been central to our governance approach – living our Purpose and culture and balancing the interests of our stakeholders. Further detail is provided below.

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

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

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

Balancing the interests of stakeholders
The Board is supportive of the 2018 UK Corporate Governance Code (the '2018 Code') and, in particular, its focus on boards demonstrating how the views of stakeholders are captured and taken into account when making decisions. This is an area where we have strong foundations on which to build, through listening to the views of our stakeholders – our customers, communities, shareholders, regulators, suppliers and, this year in particular, our employees. We continue to listen to these stakeholders and their insights help shape our strategy and the decisions we take as a Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on competing priorities. Our stakeholder engagement processes enable Board members to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the high standards of business conduct and success of Severn Trent in the long term. Our approach to s.172 is set out on pages 76 to 78 and provides examples of decisions taken by the Board and how stakeholder views and inputs as well as other s.172 considerations have been considered in its decision making.

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

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

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

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

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

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

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

Looking forward

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

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

Christine Hodgson
Chair

18 May 2021

Our Purpose and Values

Our Purpose

Taking care of one of **life's essentials**

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, reviewing the outcomes of employee surveys and engaging directly with individual employees throughout the Group. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity.

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

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

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

Enhancing workforce engagement in response to COVID-19

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

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

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

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

Our virtual 'Ask Our Board' employee engagement event

COVID-secure measures were put in place for Board meetings

Governance at a Glance

Highlights

101.58p

Dividend per share in 2021
increase of 1.5%

AGM

Resolution on Climate Change Action Plan

8.3

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

'Ask Our Board'

Virtual employee engagement event

11

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

1st

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

Major Board decisions

Dedicated Board and Audit Committee sessions in respect of enhancements made to the Group's Enterprise Risk Management processes and procedures.

Green Recovery submission.

Non-binding advisory AGM Resolution in relation to the Company's Climate Change Action Plan.

AMP7 and Green Recovery financing.

Dividend policy.

Read more: Key Activities of the Board p92-94

COVID-19 response

Oversight of the Group's response to the pandemic focused on ensuring the wellbeing of colleagues and ways the Group can continue to provide support to our workforce.

Maintained effective governance throughout the COVID-19 pandemic.

£1 million COVID-19 Emergency Fund to support local charities and non-profit organisations affected by the pandemic, taking our total donation to charitable organisations to c.£7 million.

Delivery of the Group's strategic priorities and development of Board objectives.

Read more: Our COVID-19 Response p15-17

Governance improvements

Review and approval of the Group's Risk Appetite Statement.

Dedicated session on the Group's AMP7 Assurance Map.

New 'Ask Our Board' virtual employee engagement event to facilitate direct interaction between the Board and the wider workforce throughout the COVID-19 pandemic.

s.172 Board processes reviewed and refreshed, to ensure a greater emphasis on sustainability and environmental impacts.

Updated and approved the Board Committee Terms of Reference.

Read more: Nominations Committee Report p101-106

Board changes

The Board spent a significant amount of time considering succession planning during the year.

Sharmila Nebhrajani joined the Board as an Independent Non-Executive Director on 1 May 2020.

Read more: Nominations Committee Report p102

Our Board

100%
Board independence
as at 31 March 2021

11%
Ethnic minority representation on our Board
as at 31 March 2021

56%
Female representation on our Board
as at 31 March 2021

100%
Board meeting attendance
for year ended 31 March 2021

Executive and Non-Executive Directors
as at 31 March 2021

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

What we bring to the Board

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

9
- Strategy
- Regulation
- Utility sector
- People management

8

7
- Commercial procurement
- Political affairs

6
- Accounting
- Corporate finance/Treasury
- Large capital programmes
- Technology/Innovation/Cyber
- Sustainability, including climate change

5
- Customer

4
- Brands
- Construction/Infrastructure delivery

2
- Science

1
- Engineering

Board of Directors

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

(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

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.

External appointments:

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

Olivia Garfield, CBE
BA (Hons)

Chief Executive

(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.

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

External appointments:

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

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

● D (E)

Appointed:

Chief Financial Officer on 1 April 2015.

Skills, competences and experience:

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

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

External appointments:

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

Kevin Beeston
FCMA

Senior Independent Non-Executive Director

(A) (N) (R) (T)

Appointed:

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

Skills, competences and experience:

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

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

External appointments:

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

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

1. Additional Remuneration Committee meetings were held during the year to discuss the framework for the Remuneration Policy review.
2. Angela Strank was unable to attend a Remuneration Committee meeting due to a long-standing commitment. Angela was provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

John Coghlan
BCom, ACA

Independent
Non-Executive Director

A T 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.

External appointments:

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

Sharmila Nebhrajani, OBE
MA (Hons), ACA

Independent
Non-Executive Director

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 Chairman of the National Institute of Health and Care Excellence ('NICE'), the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care.

Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chairman of the Human Tissue Authority, Deputy Chairman of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund.

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

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

External appointments:

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

Dominique Reiniche
ESSEC MBA

Independent
Non-Executive Director

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.

External appointments:

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

The Hon. Philip Remnant, CBE
FCA, MA

Independent
Non-Executive Director

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. Until 2020, Philip was Chairman of City of London Investment Trust Plc.

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

External appointments:

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

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

In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology, recognising pioneering UK women in business and industry. In 2017 she won the prestigious Energy Institute's Cadman Award for outstanding contribution to the oil and gas industry. Her track record and experience in strategy, operations, technology and transformational change are a complementary addition to the Board's skill set. In June 2017, Angela was recognised in the Queen's Birthday Honours List with the title Dame Commander of the Most Excellent Order of the British Empire ('DBE') for services to the Oil and Gas Industry and encouraging women into STEM careers. She is an honorary professor at the University of Manchester and she has been awarded honorary degrees from Bradford and Royal Holloway London universities.

External appointments:

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

Executive Committee

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

Documents available at: www.severntrent.com

- Severn Trent Executive Committee Biographies

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

Olivia Garfield, CBE
BA (Hons)

Chief Executive

(D) (E)

Please see full biography on page 86.

James Bowling
BA (Hons) Econ, ACA

Chief Financial Officer

● (D) (E)

Please see full biography on page 86.

Shane Anderson
BA (Hons) Econ

Director of Strategy and Regulation

(D) (E)

Appointed Director of Strategy and Regulation in 2020.

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

Managing Director of Customer Operations

(E)

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

Bronagh Kennedy
BA (Hons)

Group General Counsel and Company Secretary

(D) (E)

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

Helen Miles
CIMA

Capital and Commercial Services Director

(E)

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

Neil Morrison
BSc (Hons), FCIPD

Director of Human Resources

(E)

Joined Severn Trent in 2017 as Director of Human Resources.

Andy Smith
BTech (Hons)

Director of Customer, Retail and Technology

(E)

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

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

Chief Engineer

(E)

Appointed Chief Engineer in 2018.

Executives serving for part of the year

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

Special Advisor

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

Sarah Bentley
BSc (Hons)

Chief Customer Officer

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

Governance Framework

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

Documents available at: www.severntrent.com

- Articles of Association
- Matters Reserved to the Board
- Charter of Expectations
- Committee Terms of Reference

THE BOARD

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

Biographies p86-87
Board Activities p92-94
Roles and Responsibilities p95-96

Informing

Reporting

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

Audit Committee

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

Report p107-113

Corporate Sustainability Committee

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

Report p116-119

Nominations Committee

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

Report p101-106

Remuneration Committee

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

Report p120-153

Treasury Committee

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

Report p114-115

Informing

Reporting

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

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

Informing

Reporting

DISCLOSURE COMMITTEE

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

Corporate Governance Statement

Board Leadership and Company **Purpose**

An effective Board

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

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

The requirements of the Board are clearly documented in the Severn Trent Plc Articles of Association, Charter of Expectations and Schedule of Matters Reserved to the Board. The Board reviewed and approved the Schedule of Matters Reserved to the Board in March 2021. All of these documents are available on the Severn Trent Plc website.

As outlined on page 95, there is a clear division of responsibilities between the roles of Chair and CEO. To allow these responsibilities to be discharged effectively, the Chair and CEO maintain regular dialogue outside the Boardroom, to ensure an effective flow of information.

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

The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's externally facilitated process on page 98 to 99.

Strategy

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

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

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2021. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2021.

Stakeholder engagement

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

Investor meetings

Investor meetings are predominantly attended by our CEO, CFO and Head of Investor Relations, although other Executive Committee members also attend. During the financial year ended 31 March 2021, we held over 140 investor meetings and met with over 230 existing and potential investors. These meetings were attended by 56 shareholders, representing c.64% of our register.

The meetings focused on the Group's AMP7 strategy, our approach to net zero, climate change adaptation, COVID-19 impact response and long-term growth opportunities. The Chair and individual Directors regularly engage with major shareholders to understand their views on governance and performance against strategy. Committee Chairs also engage with shareholders on significant matters related to their area of responsibility.

Investor presentations and tours

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

Remuneration Policy consultation

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

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

This year's AGM is to be held on Thursday, 8 July 2021 at 11.00am. In light of the COVID-19 pandemic, the AGM will be conducted as a hybrid meeting, which means that shareholders will be able to follow the business of the meeting by virtual means as well as in person. Those joining virtually will be able to log into a live webcast and pose questions to the Board in real time in accordance with the 2018 Code and the Annual General Meeting Guidance published by the Financial Reporting Council in October 2020. Shareholders are also able to submit questions in writing through our website in advance of the AGM. The physical location of the AGM will be the Severn Trent Academy, Hawksley Park, St. Martins Road, Finham, Coventry, CV3 6PR.

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

Corporate website
We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders. The website has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section containing information which may be of interest to our shareholders.

Code compliance

During the year ended 31 March 2021, we have fully applied the principles of good governance and have been compliant with the provisions contained in the 2018 UK Corporate Governance Code (the '2018 Code').

The Board welcomed the move to simplify the Code, and the greater clarity it brings to how businesses should transparently report to their shareholders.

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

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

Principles of the 2018 Code			
Board Leadership and Company Purpose		**Composition, Succession and Evaluation**	
The Role of the Board	90	Board Biographies	86-87
Chair's Introduction to Governance	80-82	Board Composition and Tenure	85
Board Engagement with Stakeholders	68-71	Board Evaluation	98-99
Section 172 Statement	76-78	Board Succession Planning	102
Establish Purpose and Values	82	Nominations Committee Report	101-106
Oversight of Strategy	90		
Policies and Practices	79	**Audit, Risk and Internal Controls**	
Assessing Risks and Viability	38-49	Audit Committee Report	107-113
Measurement of Strategy (ODIs and KPIs)	18-19	Our Approach to Risk	38-39
		Principal Risks	40-45
Division of Responsibilities		Emerging Risks	46
Board Independence	96		
Board Committees	89	**Remuneration**	
Board Attendance	87	Directors' Remuneration Report	120-153

Key Activities of the Board in 2020/21

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

The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Group's Purpose. The Group's key stakeholders and their differing perspectives are taken into account as part of the Board's discussions. You can read more in our s.172 Statement on pages 76 to 78. Board meeting discussions are structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Company Secretary. Each meeting starts with a report, circulated in advance of the meeting, from the Chairs of our Board Committees on the proceedings of those meetings, including the key discussion points and particular matters to bring to the Board's attention. A typical Board meeting will comprise reports on operational and financial performance, legal and governance updates and one or two detailed deep dives into areas of strategic importance and areas of risk. Details of the Directors' attendance at the scheduled meetings that took place during the year can be found on page 87.

DEVELOPMENT OF BOARD OBJECTIVES

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

PERFORMANCE

CEO Overview	Operational Performance Reviews	Capital and Commercial Services Reports
The CEO led discussions focusing on general business performance, key strategic initiatives underway, environmental matters such as biodiversity, environmental leadership and climate change, health, safety and wellbeing and other employee-related matters.	Received reports detailing performance against key targets and ODIs, environmental matters and health and safety.	Reviewed performance of Business Services and progress on delivering against our ODI targets for major capital programmes and health and safety.

FINANCIAL

CFO Review	Group Budget	Green Financing
The CFO led discussions focusing on financial performance across the Group. Discussions included: • Group financing updates – including issuance under the Group's Sustainable Finance Framework, overseen by the Treasury Committee. • Tax updates – including the approval of the Group's Tax Strategy. Read more about our Fair Tax Mark on page 21.	Considered performance vs the 2020/21 Group Budget and agreed the 2021/22 Group Budget. The Group's financial response to the COVID-19 pandemic was also regularly reviewed, in order to minimise the impact of the pandemic on overall financial returns.	On the recommendation of the Treasury Committee, considered the funding strategy and financing structures to deliver the Group's Green Recovery schemes.
Results and Regulatory Reporting	**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 and Annual Performance Report.	Agreed the Viability Statement period to be reported in the Annual Report and Accounts. Read more on pages 47 to 49.	On the recommendation of the Treasury Committee, considered updates in relation to the Group's pension schemes.

RISK MANAGEMENT

Enterprise Risk Management ('ERM')	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. During the year, the Board also took the opportunity to appraise its approach to ERM, including development of a Risk Appetite Statement and refreshed approach to risk scoring. Read more on pages 38 to 39.	Reviewed the risk management and internal controls in place across the Group and determined their effectiveness. Read more on page 111. **Minworth and Curdworth site visit:** Members of the Board attended a site visit to Minworth and Curdworth lagoons to observe the Group's risk management processes and procedures first-hand.	**Cyber risk** – Assessed the progress made to maintain and improve cyber security systems. **Reservoir risk** – Scrutinised the processes, internal controls and resources in place to effectively manage reservoir risk, extend asset life and guarantee serviceability. **Supplier risk** – Considered the Group's approach to managing supply chain risk, including active management of suppliers through COVID-19 and transitionary periods to mitigate risk.

Key stakeholder groups considered

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

SUSTAINABILITY AND ENVIRONMENTAL

Flood Mitigation Opportunities	Green Gas Strategy	Green Recovery Proposals
Considered how a broader, multi-agency approach to flooding could facilitate significant improvements in reducing flood risk at both a local and national level. Shared learning, experiences and resources would present opportunities to reduce both pluvial and fluvial flooding.	Discussed the Group's green gas strategy for the non-regulated business, including biomethane and green hydrogen. Considered the contribution of the green gas strategy to the Group's 2030 net-zero carbon ambitions and broader environmental commitments.	Reviewed the business cases to be included in the Group's Green Recovery ahead of submission to the regulators, in consideration of stakeholder benefits. On 17 May 2021, Ofwat proposed to award the Company £565 million (2017/18 prices) across all of its Green Recovery project proposals. Read more on page 13.
Our Sustainability Agenda	**New Strategic Direction Statement**	
See Strategic Deep Dive section below.	See Strategic Deep Dive section below.	

STRATEGIC DEEP DIVES

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

Our Sustainability Agenda and Progressing Our Social Purpose	New Strategic Direction Statement	Customer Experience
Alongside the regular sustainability updates discussed at Board meetings, including progress made in delivering the Group's sustainability agenda, the Board also considered its Social Purpose during the year. The Board discussed Ofwat's Public Value consultation and the Financial Reporting Council's corporate reporting reforms.	Discussed and agreed the Group's long-term strategic priorities to ensure we meet the highest resilience and environmental standards, and at the same time plan investments more effectively in order to optimise value creation.	Received an update on the current approach and future plans to improve the customer experience, including enhancing digital channels available to customers.
Community Activity	**Addressing Water Poverty**	**Information Technology Strategy**
Received a detailed update on community activity undertaken, including charitable causes that had been supported through the Community Fund and the COVID-19 Emergency Fund, over the last 12 months.	Discussed the wide range of mechanisms in place to support customers in vulnerable circumstances in the long and short term, including the Severn Trent Trust Fund.	Received regular updates on progress made in implementing the Group's technology strategy and plans for further improvement throughout AMP7.
Value Creation Strategy	**Demand Management**	**COVID-19**
Considered how the Group can continue to create value in a regulatory context whilst maintaining a leading approach to ESG matters.	Received an update on the Company's comprehensive peak demand management programme, including trials undertaken during the year. Considered tools being used to reduce demand during peak periods. Further detail can be found on page 27.	Received regular updates on the Company's response to the global pandemic, including scenario planning, impact assessments and actions being taken across the Group. Further detail can be found on pages 15 to 17.

GOVERNANCE, LEGAL AND REGULATORY

Governance, Regulatory and Legal Updates	Board Succession Planning and Diversity	Board Effectiveness Evaluation
Monitored regulatory and legislative developments and considered any potential impact on the Group's operations. Regulatory stakeholders attended Board meetings virtually, including Ofwat, the DWI, the EA, CCW and Defra. Members of the Board also attended Ofwat NED events. Received regular litigation reports from the Group's legal team. Approved arrangements for delegated financial authority across the Group. On the recommendation of the Corporate Sustainability Committee, approved the Modern Slavery Statement.	On the recommendation of the Nominations Committee, considered the arrangements for Board Succession Planning and approved the appointment of Sharmila Nebhrajani as a Non-Executive Director. Read more on page 102.	Reviewed progress against the Action Plan for 2020/21 and set the Action Plan for 2021/22. Appointed Independent Board Evaluation to undertake the external 2020/21 evaluation, covering the Board's effectiveness, processes and ways of working. Read more on pages 98 to 99.

WORKFORCE, CULTURE AND VALUES

Our Culture

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

Employee Voice and Engagement	Review of Workforce Policies and Practices	Academy
Discussed the Company's approach to engaging our workforce, including feedback from the annual QUEST survey, and received an update on progress made on embedding our Purpose and Values.	Reviewed the assessment of the Group's workforce policies and practices, ensuring these are consistent with the Company's Values and are supportive of its long-term sustainable success.	Received regular updates on delivery of the Severn Trent Academy facility, including a COVID-secure site visit in April 2021 to observe the training and development facility first-hand.

SITE VISITS

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

Draycote Water and Carsington Reservoir	Operational Site Visits	Minworth and Curdworth Lagoons
Board members visited Draycote Water to see first-hand the processes and management in place at one of our largest reservoirs. Board members attended our COVID-secure Leadership events held at Carsington Reservoir. The half day sessions focused on the role that the Company could play in the UK's post-COVID recovery.	Operational sites visited by members of the Board this year include the following: • Trimpley Water Treatment Works • Finham Sewage Treatment Works and Sludge Treatment Facility • Offices at Raynesway, Longbridge and Shelton	Members of the Board visited Minworth and Curdworth lagoons to observe the Group's risk management processes and procedures first-hand.

CONTINUOUS PROFESSIONAL DEVELOPMENT AND TRAINING

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

Responding to Modern Slavery within Business	Board CPD Sessions – Climate Change, Cyber and Diversity	Group-Wide e-Learning
External facilitators provided an update on modern slavery developments, including lessons learned from recent modern slavery investigations in the UK.	Board members receive a suite of CPD materials via the Board's Resources Room to complement their attendance at a range of externally facilitated virtual events. This year, Board members attended sessions on the following topics: • Climate Change and Sustainability • Cyber • Diversity Read more on page 97.	The Board completed mandatory e-learning modules applicable to all employees during the year, demonstrating a strong 'tone from the top' in reinforcing the importance that training plays in mitigating risks faced by the Group. The e-learning programme included the following topics: • Doing the Right Thing • Market Abuse Regulation • Modern Slavery Awareness • Anti-Bribery and Corruption • Data Protection

Division of **Responsibilities**

As at the date of this report, our Board comprised the Chair, six Independent Non-Executive Directors and two Executive Directors. There is clear division between Executive and Non-Executive responsibilities which ensures accountability and oversight. The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet often outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce.

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

DIRECTOR	RESPONSIBILITY
Chair **Christine Hodgson**	• Leads our unified Board and is responsible for its effectiveness. • Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'. • Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Company Secretary. • Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process. • Facilitates contribution from all Directors and ensures that effective relationships exist between them. • Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making. • Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.
Senior Independent Non-Executive Director ('SID') **Kevin Beeston**	In addition to his responsibilities as a Non-Executive Director, the SID 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**	• Promote high standards of integrity and corporate governance, and uphold the cultural tone of the Company. • Constructively challenge and assist in the development of strategy. • Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board. • Satisfy themselves that internal controls are robust and that the External Audit is undertaken properly. • Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company. • Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID. • Serve on various Committees of the Board.
Chief Executive ('CEO') **Liv Garfield**	• Represents Severn Trent externally to all stakeholders, including our employees, the Government, regulators, customers, suppliers and the communities we serve. • Develops and implements the Group's strategy, as approved by the Board. • Sets the cultural tone of the organisation. • Facilitates a strong link between the business and the Board to support effective communication. • Responsible for overall delivery of commercial objectives of the Group. • Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our Strategic Framework and Values. The CEO's Review can be found on pages 10 to 13.
Chief Financial Officer ('CFO') **James Bowling**	• Manages the Group's financial affairs. The CFO's Review can be found on pages 31 to 37. • Supports the CEO in the implementation and achievement of the Group's strategic objectives. • Oversees Severn Trent's relationships with the investment community. • Represents Severn Trent externally to all stakeholders, including our employees, the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.
Company Secretary **Bronagh Kennedy**	• Ensures sound information flows to the Board in order for the Board to function effectively and efficiently. • Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments. • Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements. • Ensures compliance with Board procedures and provides support to the Chair. • Co-ordinates the effectiveness evaluation of the Board in conjunction with the Chair. • Provides advice and services to the Board.

Division of **Responsibilities** continued

Board independence

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

Conflicts of interest

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

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

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

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

Composition, Succession and **Evaluation**

Board composition

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

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following consideration of the annual Board Effectiveness evaluation outputs. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. Directors serving over six years on the Board are subject to a particularly rigorous review. The current Letters of Appointment are available on the Severn Trent Plc website. The composition and effectiveness of the Board is subject to regular review by the Nominations Committee which, in particular, considers the balance of skills, tenure, experience and independence of the Board, in accordance with the Board Diversity Policy, which is available on the Severn Trent Plc website. Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved for the Board).

The Board and the Nominations Committee have spent a significant amount of time considering Board succession during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity.

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

Board training and development

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment and environmental, technological and social considerations. Our Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters. The Board activities schedule on pages 92 to 94 sets out further detail on the topics covered during the year.

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

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

Board CPD sessions 2020/21

CLIMATE CHANGE AND SUSTAINABILITY

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

CYBER

Cyber Security – October 2020
Cyber Update – April 2021

DIVERSITY AND INCLUSION

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

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

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

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

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

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

The Board skills matrix below details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy. The Board skills matrix is reviewed at least annually.

Board Skills Matrix

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

Board evaluation

Our annual Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion and for each member to consider their own contribution and performance. In accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years, this year's review was facilitated by Ffion Hague of Independent Board Evaluation ('IBE'). The Board's five Committees were also observed as part of the review. Neither Ffion Hague nor IBE has any other connection with the Company or individual Directors.

October/November 2020

Appointment and briefing

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

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

January – March 2021

Board and Committee meeting observation

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

One-to-one interviews

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

March 2021

Evaluation and report

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

Discussion with the Board and Committee Chairs

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

Agreed action plans for 2021/22

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

Findings

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

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

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

BOARD COMPOSITION AND SUCCESSION PLANNING

Recommendation

The composition of the Board was considered to be effective. However, focus should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of NED tenure.

Progress

One of the key activities for the Board and Nominations Committee during the year was the Committee's plans for the evolution of the Board. An independent search firm has been appointed to help with this over the next two to three years.

Recommendation

Induction programmes were considered to be excellent and should continue to be tailored to individual Board members, with consideration given to establishing a Board 'buddy' scheme.

Progress

A Board 'buddy' scheme will be used for all future Board appointments to complement the Group's extensive induction approach.

BOARD AGENDA AND FOCUS

Recommendation

Consideration should be given to agreeing a set of Board objectives and actions for prioritisation each year to inform the Board agenda and create time for discussion of long-term issues and strategy.

Progress

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

Recommendation

Alongside the excellent written reports provided to the Board by each of its Committees, consideration should be given to tabling a report from the Company Forum, the Company's selected workforce engagement mechanism.

Progress

Reports from Company Forum meetings are now tabled at all subsequent Board meetings.

GOVERNANCE ENHANCEMENTS

Recommendation

Align membership of the Treasury Committee and Corporate Sustainability Committee to that of other Board Committees, comprising Non-Executive Directors only.

Progress

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

Recommendation

Notwithstanding the excellent informal interaction between the Board and its Committees throughout the COVID-19 pandemic, consider holding additional private sessions (without management present) for the Board and its Committees during the year.

Progress

Private sessions are now held at all Board and Committee meetings at the discretion of the relevant Chair.

Effectiveness of Board Committees

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

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

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

Chair's performance

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

External appointments

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. Directors' other appointments were reviewed, including the time commitment required for each. The Nominations Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc. Approvals were sought during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Plc before consent was granted. A robust assessment of the independence of the individual Directors was also conducted and all of our Non-Executive Directors are considered to be independent. Read more on page 103.

Induction

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

Sharmila Nebhrajani's induction

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

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

Sharmila Nebhrajani
Non-Executive Director

June 2020

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

June – July 2020

Deep dives into:

24 June

- Internal Audit and Risk Management processes

1 July

- Regulatory finance

3 July

- Social purpose

8 July

- Capital programmes

16 July

- Company background, strategy and regulation

17 July

- Bioresources

21 July

- Business Services

July – September 2020

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

28 July

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

8 September

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

11 September

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

Nominations Committee Report

Committee members

Christine Hodgson
Chair of the Nominations Committee

Kevin Beeston
Senior Independent Non-Executive Director

John Coghlan
Independent Non-Executive Director

Sharmila Nebhrajani
Independent Non-Executive Director

Dominique Reiniche
Independent Non-Executive Director

Philip Remnant
Independent Non-Executive Director

Dame Angela Strank
Independent Non-Executive Director

Quick facts

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

Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, the Chief Financial Officer, the Director of Human Resources, senior management and external advisers may be invited to attend meetings as and when appropriate.

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

Quick links

Terms of Reference
Board Diversity Policy
Charter of Expectations

Dear Shareholder

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

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

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

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

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

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

The Committee assists the Board in its consideration of conflicts of interest and independence issues. No conflicts of interest or independence issues were identified as a result of this activity.
The Board is mindful that the 2018 UK Corporate Governance Code (the '2018 Code') indicates that Non-Executive Directors should not serve for more than nine years and Non-Executive Directors that have served six years should be subjected to a particularly rigorous review.

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

Christine Hodgson
Chair of the Nominations Committee

18 May 2021

Focus areas in 2020/21

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

Key areas of discussion
Considered the composition of the Board and the succession of Non-Executive Directors and the skills, knowledge, experience, diversity and attributes required of future Non-Executive Directors. In considering Board succession, the Committee takes into account the length of tenure of the Non-Executive Directors and the importance of regularly refreshing Board membership.
Conducted a review of the search firm providers for the next stage of the Board's succession planning and engaged the executive search firm Hedley May[1] to review the market.
Oversaw the conduct of the Board Effectiveness evaluation, including the provider selection process, which resulted in Ffion Hague of Independent Board Evaluation ('IBE') being commissioned to facilitate the review.
Discussed the feedback, observations and recommendations from IBE's Effectiveness review of the Board and Committees, including the 2021 action plan for approval by the Board. Agreed that Committee composition would be considered on an annual basis.
Oversight of the Group Board Diversity Policy and initiatives and reviewed progress made against the agreed objectives set out in the Group Board Diversity Policy.
Discussed the role of the Group Board Diversity Policy in advancing the composition and effectiveness of the Board and Executive Committee.
Provided oversight of the detailed Executive Committee and senior leadership team succession plans, including diversity.
Approval of revised Terms of Reference, to be applied from 19 March 2021, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

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

Succession planning

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

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

Treasury Committee	Corporate Sustainability Committee
James Bowling (CFO) and Adam Stephens (Head of Treasury) stepped down as Committee members, with effect from 19 March 2021. As key contributors to the implementation of the Group's Treasury Strategy, the Committee recommended that James and Adam continue to attend all Treasury Committee meetings on an invitation basis.	Liv Garfield (CEO) stepped down as a Committee member, with effect from 19 March 2021. As a key contributor to the delivery of the Group's Sustainability Strategy, including the Group's 2030 net-zero carbon ambitions, the Committee recommended that Liv continues to attend all Corporate Sustainability Committee meetings on an invitation basis.
Kevin Beeston was appointed as a member of the Treasury Committee, with effect from 19 March 2021.	

Director conflicts and independence

In May 2021, the Committee conducted its annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. Additionally, the Board and its Committees consider conflicts of interest at the beginning of every meeting, and the Board reviews the authorisation of any potential conflicts of interest every six months.

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

The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence.

In accordance with the 2018 Code, all the Directors will retire at this year's AGM and, with the exception of Dominique Reiniche, submit themselves for re-appointment by shareholders. Each of the Non-Executive Directors seeking re-appointment are considered to be independent in judgment and character.

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

Board independence assessment in action

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

1

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

2

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

3

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

4

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

5

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

Talent development

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

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

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

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

Diversity

As highlighted earlier in the report, the Board and Committee continue to drive the agenda of diversity across the Group and are proud of the progress made. The 2021 Hampton-Alexander Review named Severn Trent as one of the country's top performers in this area, ranking second this year. We have a range of programmes in place to increase diversity in our talent pipelines and this year we launched a new inclusion programme to better enable careers and career progression for colleagues from ethnic minority, LGBTQ+ and disabled groups.

A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2021 is set out below, alongside details of the ethnic minority population of these same groups.

Employee Diversity as at 31 March 2021

Board Diversity as at 31 March 2021

Parker Review – ethnic diversity

The Board remains focused on promoting broader diversity and creating an inclusive culture in line with the recommendations of the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Committee is focused on ensuring that the diversity of our employee base reflects the diversity of our region – including the gender, social and ethnic background, skills and experience amongst our customers and the communities that we serve.

The Board Diversity Policy (the 'Policy') was reviewed by the Committee in May 2021, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background, and cognitive and personal strengths throughout the organisation, including on the Board itself. The objectives and targets of the Policy, and an update against each of them, are set out below. A copy of the Policy is available on the Severn Trent Plc website.

Board Diversity Policy – objectives and progress against targets

When recruiting for new Board members, the Committee ensures that the recruitment processes are in line with our Policy to include diverse candidates from a wide variety of backgrounds and those with non-listed company experience for the Committee to consider.

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition by the Nominations Committee with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considered the composition of the Board and the contribution, commitment and independence of individual Directors.	At its May 2021 meeting, the Committee formally reviewed the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the externally facilitated Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board and the balance of skills, experience and knowledge on the Board as a whole. The Committee met three times during the year to consider Board succession planning, and twice following year end. All Board succession discussions took place in consideration of the Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith reviews.
Ensure consideration is given to diverse candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience. Ensure Board appointment 'longlists' include candidates with a diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself. On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.	Board appointments were made during the year as follows: • 1 April 2020: Non-Executive Chair – Christine Hodgson; and • 1 May 2020: Non-Executive Director – Sharmila Nebhrajani. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, the 2018 Code and additional relevant guidance. The Committee ensured that Korn Ferry, the executive search firm engaged for these appointments, presented a diverse potential candidate list, including candidates with no listed company Board experience.
Ensure the Board and Nominations Committee only engage executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	The Company only engages with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.	We continue only to engage with executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms.
Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board and Nominations Committee consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Group's talent pipeline and on the Board itself.	At its April 2021 meeting, the Board considered diversity and inclusion within the Group. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from ethnic minority candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board and Executive Committee Succession Planning discussions that took place during the year. *The diversity of our Executive pipeline is disclosed on page 104.*

Policy targets 2020/21	Progress against targets
33% female share of Board Directors by 2020.	56% female representation on our Board as at 31 March 2021.
Minimum of one Board Director from an ethnic minority background by 2021.	In line with the principles of the Parker Review, the Board actively seeks diverse candidates. The calibre of the candidates identified during the most recent recruitment exercise was outstanding and it was after careful deliberation that the Committee recommended the appointment of Sharmila Nebhrajani to the Board from 1 May 2020.

Board Diveristy Policy targets – 2021/22 onwards

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

Policy targets 2021/22 onwards	Progress against targets
Maintain at least 40% female Directors on the Board over *the short to medium term.*	56% female representation on our Board as at 1 May 2021.
Maintain at least 10% Directors from an ethnic minority *background on the Board over the short to medium term.*	11% ethnic minority representation on our Board as at 1 May 2021.

Audit Committee Report

Committee members

John Coghlan
Chair of the Audit Committee

Kevin Beeston
Senior Independent Non-Executive Director

Sharmila Nebhrajani
Independent Non-Executive Director

Philip Remnant
Independent Non-Executive Director

Quick facts

All members of the Committee are qualified accountants and are considered by the Board to have recent and relevant financial experience and competence relevant to the sector.

Other regular attendees at meetings at the invitation of the Committee included the Chair of the Board, the CEO, the CFO, the Company Secretary, the Head of Internal Audit, the Group Financial Controller, other members of senior management, representatives from the External Auditor, Deloitte, and non-financial regulatory performance and data assurers, Jacobs. None of these attendees are members of the Committee.

The Committee regularly holds private discussions with the Head of Internal Audit and the External Auditor separately, without management present.

The Committee Chair regularly holds separate one-to-one meetings with the CFO, the Head of Internal Audit, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

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

Quick links

Terms of Reference

Non-Audit Services Policy

Anti-Bribery Policy

Charter of Expectations

Dear Shareholder

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

The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision-making processes. Additional information on how the Board, and Audit Committee, have considered stakeholders in their decision making can be found on pages 68 to 71.

One of our key roles is to advise the Board that we are satisfied that the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 159 to 165. We were pleased to advise the Board that the 2020/21 Annual Report and Accounts are fair, balanced and understandable and that the Directors have provided the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. Our review process is described in further detail on page 109.

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

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

You will see that this report contains an overview of the Company's whistleblowing arrangements (page 111). The Board carefully considered the 2018 Code and in 2018/19 implemented many of the new principles earlier than required, as disclosed in our 2018/19 Annual Report. As part of this process, the Board agreed that the responsibility for oversight of whistleblowing arrangements should continue to be delegated to the Audit Committee and Corporate Sustainability Committee and not as a matter reserved solely to the Board. However, the Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Audit Committee and Corporate Sustainability Committee continue to receive reports on investigations and all significant whistleblowing matters are reported directly to the

Board. The Board continues to receive regular updates from the Committees and completes an assessment of the effectiveness of the Group's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

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

The Group undertook an externally facilitated Board effectiveness evaluation this year, which assessed our performance as a Committee. I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range and depth of recent and relevant financial and commercial experience across various industries and all members have competence relevant to our sector. You can read more on pages 86 to 87.

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

John Coghlan
Chair of the Audit Committee

18 May 2021

Focus areas in 2020/21

The Committee has an extensive agenda focusing on the audit, risk and assurance processes within the business which it deals with in conjunction with management, the External Auditor, Internal Audit and the Finance and Regulatory Compliance and Assurance teams.

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

Key areas of discussion

Internal Audit

- Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions.
- Reviewed and approved the Internal Audit plan and approach for 2021/22.
- Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.

External Auditor

- Reviewed the proposed audit plan for the 2020/21 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2020/21 audit.
- Assessed the effectiveness of the External Auditor and made a recommendation to the Board on the reappointment of Deloitte as the External Auditor.
- Agreed the statutory audit fee for the year ended 31 March 2021.
- Reviewed and approved the non-audit services, and related fees, provided by the External Auditor for 2021/22.

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

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

Reviewed the 2020/21 Annual Report and Accounts and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy'.

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

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

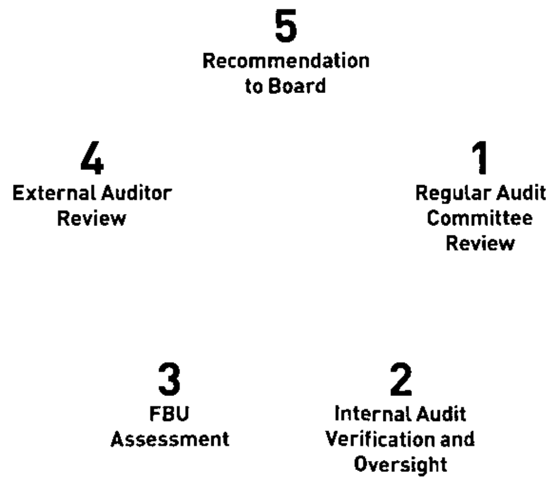
Oversight and monitoring of the Group's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).

Review and approval of the Committee's Terms of Reference, to be applied from 14 May 2021, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

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

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

1	The Committee reviewed the Annual Report at an early stage, and throughout the process, to enable sufficient time for comment and review and ensure overall balance and consistency.
2	Internal Audit reviewed the Annual Report and oversaw a verification process for all factual content and reported back to the Audit Committee on its assessment and findings.
3	The Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. *We were satisfied that all the key events and issues* reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Annual Report.
4	The External Auditor presented the results of its audit work. The significant issues we considered as a Committee were consistent with those identified by the External Auditor in its report (see pages 159 to 165 for more detail).
5	The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Directors' Responsibility Statement on page 158 of this report.



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

Following a formal tender process in 2015/16, Deloitte LLP was reappointed as External Auditor at the 2016 AGM. The senior Statutory Auditor, Kari Hale, oversaw the audit of the Severn Trent Group from 2015/16 until, under independence rules, Kari stepped down following completion of the 2019/20 statutory audit. Jacqueline Holden became the senior Statutory Auditor and oversaw the audit for 2020/21. The Committee anticipates that the next competitive tender will be conducted no later than 2025 in accordance with current regulation that requires a tender every 10 years. Deloitte will not be able to participate. The proposed tender date is in the best interests of members and the Company as Deloitte has a detailed knowledge of our business, an understanding of our industry and continues to demonstrate that it has the necessary expertise and capability to undertake the audit.

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

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

- Robustness of the External Audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of the Group's business.
- Expertise of the audit team conducting the audit.
- Degree of independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

Feedback was collated and presented to the Committee in March 2021, without Deloitte present. We discussed the conclusions and any opportunities for improvement, which were brought to the attention of the External Auditor. No significant issues were reported as part of this process, and we concluded that the External Audit process and services provided by Deloitte were satisfactory and effective.

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

External Auditor independence and non-audit services
To preserve objectivity and independence, the External Auditor is not asked to provide other services unless it is in the best interests of the Company that these are provided by Deloitte rather than another supplier, in accordance with our Non-Audit Services Policy (the 'Policy'). We reviewed and updated the Policy during 2019/20 to reflect the Financial Reporting Council's ('FRC') new Ethical Standard and the more restrictive list of services that are now permitted and the Policy was subject to a further review during the year. The Policy requires Committee approval for all such non-audit services. The Policy also prohibits aggregate fees for non-audit services in excess of 70% of the average audit fee for the previous three financial years. Non-audit services for which the External Auditor may be used include: audit-related services required by statute or regulation and other audit or assurance services as set out in the Ethical Standard.

During the year, Deloitte received £852,000 in fees for work relating to the audit services it provides to the Group. Non-audit related work undertaken by Deloitte amounted to fees of £239,000 this year, which amounts to 21.9% of the total audit fees paid to it (as shown in the chart below). The more significant non-audit services provided by Deloitte were the audits of the financial information contained within the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports and the independent review of the Company's half-yearly financial report. Audit and non-audit fees paid to Deloitte are set out in note 7 to the financial statements on page 186. In approving these non-audit fees, we considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services. Where Deloitte was chosen, this was as a result of its detailed knowledge of our business and understanding of our industry, as well as demonstrating that it had the necessary expertise and capability to undertake the work cost effectively.

Audit and Non-Audit Fees 2020/21

Total fees
£0.8m
2018/19

Total fees
£0.9m
2019/20

Total fees
£1.1m
2020/21

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

Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit-related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor.	75
Assurance of regulatory returns	Audit of sections 1 and 2 of the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	75
Subtotal		150
Other assurance services		
Reporting under Group financing documents	These documents require reports and it is normal practice for the External Auditor to provide these.	85
Other assurance		4
Subtotal		89
Total 2020/21 non-audit fees		239

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

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

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

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, we carried out a review of the effectiveness of the Internal Audit function in March 2021 in consideration of guidance outlined within the Chartered Institute of Internal Auditors ('CIIA') Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The review concluded that the Internal Audit function is operating efficiently and effectively, and in line with good practice. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years. The last independent external review was undertaken in February 2019 and concluded that the Internal Audit function was fit for purpose, and had a clear remit and a desire to support the business. We consider it prudent to carry out external effectiveness reviews every three years and as such the next independent review is planned for February 2022.

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

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

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

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

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

Significant issues considered and addressed in relation to the financial statements

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

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

Significant issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term Viability Statement.	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic Report on going concern and long-term viability. In particular, the Committee considered the scenarios modelled in relation to the impact of the COVID-19 outbreak on the Group's financial position and prospects, noting the stress tests performed by management and the potential mitigating actions identified. Our business model can be found on pages 6 to 7. Principal Risks and uncertainties can be found on pages 38 to 46. The Viability Statement can be found on page 47 to 49 and the Going Concern Statement on page 49.
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited. At 31 March 2021, the provision in the Group's financial statements was £137.1 million and the charge for the year was £40.0 million. Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid. This increases the risk of bad debts. In addition, it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis.	The Committee challenged management's assumptions regarding the impact of the COVID-19 outbreak on the expected credit losses for trade receivables existing at 31 March 2021, noting the independent forecasts of the likely economic impacts and the historical evidence of a link between macroeconomic conditions and the Group's bad debt experience. The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision. The Committee determined that no adjustment to the amounts recorded was required.
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited. Severn Trent Water Limited has a significant capital programme that includes projects made up of combinations of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.	The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year. The Committee enquired of management whether the policies had been applied consistently from year-to-year while noting the expected reduction in amounts capitalised in the first year of a new AMP. The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor. The Committee determined that no adjustment to the amounts recorded was required.
Determination of the amount of the Group's retirement benefit obligations. At 31 March 2021, net retirement benefit obligations amounting to £367.7 million were recognised. The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made for the expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management.	The Committee scrutinised the assumptions underlying the valuation of the obligations and obtained explanations for the significant increase in the deficit recorded. The Committee considered whether the assumptions, taken as a whole, were appropriate, taking into account the work of the External Auditor and the benchmark information provided. The Committee paid particular attention to the 'w2020 factor' applied to the mortality assumptions, which adjusts historical experience for the expected impact of COVID-19. The Committee also scrutinised the methodologies applied in assessing the fair values of the schemes' assets and considered the estimation techniques used for assets for which an up-to-date valuation was not available. The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements.

Significant issue	How the issue was addressed by the Committee
Consideration of whether the Group's loans to its joint venture, Water Plus, should be classified as long-term interests that in substance form part of the Group's net investment in the joint venture. At 31 March 2021 the Group had loans receivable from the joint venture amounting to £100.0 million comprising two revolving credit facilities of £100 million and £32.5 million, of which £67.5 million and £32.5 million respectively was drawn at year end. On 23 April 2021, the £32.5 million revolving credit facility was exchanged for equity shares in Water Plus. In the previous year, the Group's share of the joint venture's accumulated losses after tax exceeded the Group's long-term investment by £4.9 million and these losses had not been recognised by the Group. In the current year, the Group's share of the joint venture's loss after tax was £8.9 million. The Group has classified the £32.5 million revolving credit facility as part of its long-term investment in Water Plus at the balance sheet date and has accordingly recognised: the losses that were not recognised in the previous year; and its share of the joint venture's loss after tax in the current year against the carrying value of this investment. The Group has not classified the £100 million revolving credit facility as part of its long-term investment in the joint venture.	The Committee challenged management's dissimilar treatment of the two revolving credit facilities and considered management's explanation that: • The conversion of the £32.5 million revolving credit facility to a long-term investment had been approved by the Treasury Committee before the year end, subject only to determining the most appropriate form of investment. The actual conversion to equity confirmed management's intention at the balance sheet date that this facility should form part of its long-term investment in Water Plus. • The £100 million revolving credit facility had been renegotiated shortly before the year end. The terms for the renewed facility had been market tested against external benchmarks and management had taken advice from its debt advisers on the terms and pricing that would be expected for this instrument. The term of the facility is in line with the joint venture's external funding. The joint venture's business plan indicates substantial reductions on the amount drawn under this facility in the next two years. The Committee noted these explanations and considered that the dissimilar treatment of the revolving credit facilities was appropriate. The Committee further challenged management on whether the conversion of the £32.5 million revolving credit facility should be treated as an adjusting post balance sheet event with regard to the presentation of the asset on the Group's balance sheet at 31 March 2021. Management confirmed that, in its view, the conversion of the revolving credit facility to equity in April 2021 did not provide evidence of a condition that existed at 31 March 2021 with regard to the classification of the asset, particularly as approval for the form of the investment as equity was not confirmed by both joint venture partners until after the balance sheet date. Therefore the asset should be recorded as a loan receivable at 31 March 2021. The Committee considered this explanation and concurred with the conclusion.
Classification of the Group's share of Water Plus loss as an exceptional item. In the year ended 31 March 2021 the Group has not recorded its share of the current year loss from its joint venture, Water Plus, as an exceptional item. The loss recognised was £8.9 million. The Group has recorded the losses not recognised in the previous year, amounting to £4.9 million, as an exceptional item. The Group's accounting policy defining exceptional items is set out in note 2 to the financial statements. Further details of the components of this loss are set out in the CFO's Review on page 34.	The Committee noted the accounting policy and management's analysis of the Group's share of the loss incurred by Water Plus. The Committee noted that £4.9 million of the loss recorded in the year had been incurred by Water Plus in the previous year, when the Group's share of Water Plus's loss had been recorded as an exceptional item, but had not been recognised by the Group in that year because the joint venture's accumulated losses after tax exceeded the Group's long-term investment. The Committee noted management's explanation that the losses incurred in 2020 and in 2021 were separate transactions. The losses incurred by Water Plus in 2020 were considered to be exceptional for the reasons set out at the time. Since management was unable to specifically identify the impacts of COVID-19 on Water Plus in 2021, this loss was not classified as exceptional. Having considered the explanations provided by management, the accounting requirements of IAS 28 and the views of the External Auditor, the Committee concluded that presentation of the share of loss from its joint ventures was appropriate.
FRC thematic review of the application of IFRS 15. The Company was selected as part of the FRC's thematic review related to the application of IFRS 15 'Revenue from Contracts with Customers'. The FRC reviewed the financial statements for the year ended 31 March 2020; only the disclosures relating to revenue recognition were reviewed. As a result of its review, the FRC requested additional information about deferred income balances disclosed within the accounts, and for clarification as to whether they were considered to be contract liabilities under IFRS 15. The review conducted by the FRC was based solely on the Group's published Annual Report and Accounts and provides no assurance that the report and accounts are correct in all material respects. The review and the FRC role is not to verify the information provided but to consider compliance with reporting requirements. The FRC accepts no liability for any reliance on their review by the company or any third party, including but not limited to investors and shareholders.	The Committee considered the Company's response to the FRC's enquiries, which was as follows. The Company confirmed that the deferred income balances should be classified as contract liabilities under IFRS 15, as they represented consideration received in return for performance obligations that were yet to be satisfied. As they had not been accounted for as such, the Company agreed to amend its accounting policy. The Company explained that the change in policy will result in the liabilities being released to revenue, rather than operating costs, over the life of the associated assets. The change has been made prospectively given that, historically, the amounts involved have been immaterial. The Company also agreed to provide additional disclosures about contract liabilities going forward, and to disclose the recognition of amounts received as deferred income rather than as in-period revenue as a significant judgement under IAS 1 'Presentation of Financial Statements'. No changes were required to prior year financial statements. The FRC was satisfied with this response and closed its enquiries.

Treasury Committee Report

Committee members

John Coghlan
Chair of the Treasury Committee

Kevin Beeston
Senior Independent Non-Executive Director (appointed 19 March 2021)

Philip Remnant
Independent Non-Executive Director

Quick facts

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

Regular attendees at meetings at the invitation of the Committee include the Chair of the Board, the Chief Financial Officer, the Group Treasurer, the Group Financial Controller, and representatives from the Group's financial advisers, Rothschild & Co. None of these attendees are members of the Committee.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

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

Quick links

Terms of Reference

Sustainable Finance Framework

Charter of Expectations

Dear Shareholder

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

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

The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, as set out in s.172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision-making processes. The Committee's Terms of Reference, available on our website, reflect our continued commitment to this and you can read more about our approach to s.172 on pages 76 to 78.

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

Future funding is an important part of our normal business planning process and the Committee provides regular updates to the Board in respect of funding, solvency and liquidity matters so that the Group can respond quickly to any changes in our ability to secure financing.

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

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

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

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

The annual Board Effectiveness evaluation assessed our performance as a Committee and I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. In line with the recommendation from this year's externally facilitated review, the Chief Financial Officer and the Group Treasurer stood down from the Committee after the meeting in March 2021. You can read more on the Board Effectiveness evaluation on pages 98 to 99. The Board is satisfied that the Committee members bring a wide range of financial experience across various industries and all members have competence relevant to our sector with significant recent and relevant financial experience.

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

John Coghlan
Chair of the Treasury Committee

18 May 2021

Focus areas in 2020/21
The Committee provides Board oversight of the Group's key financing risks and opportunities. Some key areas of discussion for the Committee during 2020/21 included:

Key areas of discussion
Review of the Group's European Medium Term Note Programme and approval for bonds to be issued pursuant to that Programme during the year.
Consideration of the Group's AMP7 funding strategy, in relation to the Group's funding position and priorities for the new regulatory period, latest discussions with credit rating agencies and management of exposure to financial risks including COVID-19, energy prices and interest rate transition.
Consideration of the Group's interest rate strategy.
Deliberation of funding options for the Group's Green Recovery submission.
Review of the Group's debt investor relations strategy.
Discussion of interest rate hedging levels within the Severn Trent Pension Scheme.
Review and approval of the Committee's Terms of Reference, to be applied from 19 March 2021, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

Corporate Sustainability Committee Report

Committee members

Dame Angela Strank
Chair of the Corporate Sustainability Committee

Christine Hodgson
Chair, Severn Trent Plc

Sharmila Nebhrajani
Independent Non-Executive Director

Dominique Reiniche
Independent Non-Executive Director

Quick facts

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

Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Director of Human Resources, senior management and external advisers may be invited to attend meetings, as and when appropriate.

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

Quick links

Terms of Reference

Sustainability Report

Anti-Slavery and Human Trafficking Statement

Whistleblowing Policy

Charter of Expectations

Dear Shareholder

As Chair of the Corporate Sustainability Committee, I am pleased to introduce this report which details the work undertaken by the Committee during the year, as well as the role it plays in developing the Group's Social Purpose and Sustainability Framework (see page 50). The following pages describe the activities of the Committee and provide an overview of the topics discussed during the year.

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

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

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

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

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

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

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

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

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

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

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

Dame Angela Strank
Chair of the Corporate Sustainability Committee

18 May 2021

The Committee visited Newfield Farm in Long Itchington

Catchment management and biodiversity

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

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

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

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

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

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

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

Sustainability in our culture

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

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

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

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

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

Whistleblowing

Our employees and wider workforce know they can raise concerns and issues to their line manager or by contacting a member of the Executive, the HR, Legal and Internal Audit teams or through our independent whistleblowing helpline, 'Safecall'. Every single allegation is independently investigated and reported to the Corporate Sustainability Committee and the Audit Committee. In our most recent survey employees were asked if they felt confident that something would be done if they raised a concern. The Committee is pleased to report that our score on this question put us in the top 5% of utility companies worldwide.

Focus areas in 2020/21

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

Being socially purposeful: Our Sustainability Framework

Taking care of the **environment**	**Committee activities during 2020/21**	**Sustainability achievements during 2020/21**
Ensuring a sustainable water cycle Enhancing our natural environment Making the most of our resources Mitigating climate change	Review of progress against our Great Big Nature Boost – including a COVID-secure farm visit to see our catchment management and biodiversity commitments in action, highlighting how working with landowners can improve both biodiversity and water quality. Oversight of environmental leadership including mitigating climate change through our Triple Carbon Pledge, Green Fleet and Science Based Targets. Agreed the approach to the Group's Task Force on Climate-related Financial Disclosures ('TCFD') reporting.	Delivered over 2,600 hectares of biodiversity improvements Planted more than 290,000 trees Launched our employee electric vehicle scheme Partnership with the Birmingham 2022 Commonwealth Games as official Nature and Carbon Neutral Supporter Submitted our Scope 1, 2 and 3 Science Based Targets to the Science Based Targets initiative On track to deliver a 50% reduction in pollutions by 2025

Helping people to **thrive**	**Committee activities during 2020/21**	**Sustainability achievements during 2020/21**
Delivering an affordable service for everyone Providing a fair, inclusive and safe place to work Investing in skills and knowledge Making a positive difference in the community	Discussion of our diversity and inclusion ambition and priorities for the next part of our journey. Consideration of the Severn Trent Community Fund's progress since its launch in early 2020, including the charity initiatives put in place as a response to the COVID-19 pandemic. Input into Severn Trent's approach for supporting customers who were in need, both financially and non-financially.	Awarded £1.5 million to 93 projects through the Community Fund since March 2020 35% of our customers supported financially through our Help When You Need It schemes Best ever year-on-year health and safety performance – 20% improvement Opened our purpose-built Severn Trent Academy in February 2021 Launched our £1 million COVID-19 Emergency Fund and have donated to 339 local charities to help them deal with the effects of the pandemic You can read more about our response to COVID-19 and how we ensured the health and safety of our workforce on pages 15 to 17.

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

We will always treat people in our business and supply chain fairly and have a clear zero-tolerance approach to modern slavery. To date we have had no instances of or concerns raised about modern slavery, but we are not at all complacent and are fully committed to protect against modern slavery in our business and supply chain. We know modern slavery is a growing global issue and our customers and stakeholders share our concern. Our highest risk is through our supply chain. Therefore, we work with our suppliers to ensure they operate to the same standards we set ourselves, so we have been working closely with them to ensure the risks involved in their own supply chains are understood. All suppliers are required to sign up and operate in line with our Code of Conduct which clearly states zero tolerance, and this is built into our procurement tender process. This year we have focused on improving our approach to risk assessment in our supply chain and developing an in-depth assurance process.

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

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

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

Being a company you can **trust**

- Living our Values
- Balancing the interests of all our stakeholders
- Running our company for the long term
- Being open about what we do and sharing what we know

Committee activities during 2020/21

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

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

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

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

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

Reviewed the Anti-Slavery and Human Trafficking Statement.

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

Reviewed and approved the Committee's Terms of Reference, to be applied from 19 March 2021, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

Sustainability achievements during 2020/21

Improved our MSCI rating from BBB to A

98% of supplier payments paid within 60 days

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

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

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

Published our first standalone Sustainability Report

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

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

Directors' Remuneration Report

Dear Shareholder

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

Our approach to COVID-19

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

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

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

Other people initiatives

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

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

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

Committee members

Philip Remnant
Chairman of the Remuneration Committee

Kevin Beeston
Senior Independent Non-Executive Director

Christine Hodgson
Chair, Severn Trent Plc

Dame Angela Strank
Independent Non-Executive Director

Quick facts

The Committee's Terms of Reference were updated in March 2021 and are available on the Severn Trent website, alongside the current Remuneration Policy which was approved at the Annual General Meeting on 18 July 2018.

All Committee members are Independent Non-Executive Directors, as defined under the 2018 UK Corporate Governance Code, with the exception of the Company Chair who was independent on appointment. Full biographies of the Committee members can be found on pages 86 to 87.

The Committee members have no personal financial interest, other than as shareholders, in the matters considered by the Committee.

Committee attendance during the year can be seen on page 87.

Quick links

Our remuneration response during COVID-19 to support stakeholders

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

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

Our approach to remuneration in 2020/21

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

Remuneration for the year under review

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

The Committee believes that the outcomes of the annual bonus and Long Term Incentive Plan ('LTIP') accurately reflect the performance of the Company over this period. No discretion has been exercised by the Committee to override the formulaic outcomes of either the 2018 LTIP or the 2020/21 annual bonus.

Base salaries and fees

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

2020/21 bonus outcome

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

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

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

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

2018 LTIP vesting

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

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

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

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

2021 Remuneration Policy review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fleet	Delivering 58% of the total car fleet and 16% of the total light commercial fleet as electric vehicles by 31 March 2024
Self-generation	Achieving an outturn of 50 GWh additional generation from the 2019/20 baseline of 486 GWh, enabling a minimum total renewable generation of 536 GWh by 31 March 2024
Innovation trials	The delivery of innovation trials where the combined, verified, scaled opportunity is greater than 7.5 ktCO_2e Carbon, with a signed-off plan for delivery
Process emissions	To have established effective monitoring on operational waste treatment sites responsible for 40% of our total N_2O and CH_4 gas emissions

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

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

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

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

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

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

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

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

Remuneration for the year ahead

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

Element of remuneration	Committee decision	Rationale
2021/22 salary rises	To increase the level of base salaries for the Executive Directors in line with the average rise made to all employees. The salary increase will be 2.3%.	• The Company previously announced its commitment for all eligible employees to receive a salary increase in the 2021/22 financial year, as part of a three-year pay deal.
2021/22 bonus	The Committee has determined, in relation to the Group PBIT measure, that the maximum amount of bonus capable of being paid for this element will return to its normal level. Therefore, the maximum achievable bonus potential will be 120% of salary for the Executive Directors.	• The Company performance conditions continue to be the same for employees and Executive Directors.
2018 LTIP vesting	The Committee intends to allow the standard proportion of the 2018 LTIP award to vest without adjustment in July 2021. This is the first year where full vesting will be determined by UQ performance compared with a WaSC peer group. This will not be known, and therefore cannot be measured, until the end of July 2021. The UQ element will, therefore, be disclosed in the 2021/22 Directors' Remuneration Report.	• The 2018 LTIP measures performance over three years and one year out of the three has been impacted by COVID-19, but the impact has not been significant. • The value of the shares on vesting will reflect the share price experience of our shareholders.
2021 LTIP grant	The Committee has determined to make the grant on the normal timetable and to retain the performance conditions and targets agreed with shareholders, including the proposed introduction of a second sustainability-based performance measure. 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 performance conditions have been reviewed as part of the Policy review and, as set out above, are aligned with the Company's long-term strategy. • The Committee will assess the value of the 2021 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

Committee performance

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

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

Philip Remnant
Chairman of the Remuneration Committee

2020 AGM shareholder voting

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

2018 AGM shareholder voting

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

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

Key areas of Remuneration Committee focus in 2020/21
A summary of the matters considered at each meeting is set out below:

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

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

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent. Fees, on a time-spent basis, for the advice provided by PwC to the Committee during the year were £131,000 excluding VAT (2019/20: £98,643). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. There are no connections between PwC and individual Directors to be disclosed.

Remuneration at a Glance

The following section sets out our remuneration framework, a summary of how the Policy was applied in 2020/21 in the context of our business performance and, from page 129, details of how the Committee intends to implement the Policy in 2021/22. The full 2021 Remuneration Policy, which will be presented for shareholder approval at the 2021 AGM, can be found on page 145.

Strategic alignment of remuneration
The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The 2021 Policy review strengthens the alignment of Severn Trent's strategy to focus management on superior financial performance together with long-term sustainability and operating the business in an environmentally and socially conscious way.

2020/21 single figure outcomes £'000
The graphs show how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors. The full explanatory notes for each element of remuneration are detailed on page 142 in the Annual Report on Remuneration.

CEO (Liv Garfield)

CFO (James Bowling)

- Minimum pay is fixed pay only (i.e. salary + benefits + pension).
- On-target pay includes fixed pay, 50% of the maximum bonus (equal to 60% of salary for both the CEO and the CFO) and 50% vesting of the LTIP awards (with grant levels of 200% of salary for the CEO and 150% of salary for the CFO), and illustrating 25% increase in share price on LTIP shares over the vesting period.
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards, and illustrating 50% share price increase on LTIP shares over the vesting period.
- All amounts have been rounded to the nearest £1,000. Both Executive Directors asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the response to COVID-19. Salary levels (which are the base on which other elements of the package are calculated) are based on the salary earned during the financial year ended 31 March 2021 before the voluntary reduction.
- The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2021.
- The Executive Directors are also permitted to participate in the all-employee Sharesave scheme, on the same terms as other eligible employees, but they have been excluded from the above graph for simplicity.

Annual bonus 2020/21 outturn

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

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

(i) The Group PBIT element of the 2020/21 annual bonus was capped at target level.
(ii) Our ODIs are grouped into categories as detailed on page 130. This outturn represents significant outperformance in two categories and above target performance in the third category.
(iii) Measured as number of Lost Time Incidents divided by number of hours worked multiplied by 100,000.
(iv) Measured as ranking in C-MeX, the industry-wide performance measure

Bonus opportunity and outcome

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

(i) Bonus calculated using salary at 31 March 2021.
(ii) Group PBIT was capped at target level meaning the maximum achievable bonus potential for 2020/21 was 91% of salary
(iii) Includes operational/administrative/advisory roles

2018 LTIP

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

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

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

	LTIP award vesting for performance levels (as a % of salary)		
	Threshold FD	1.39x FD	UQ RoRE performance relative to WaSCs
CEO	37.5%	150.0%	200.0%
CFO	25.0%	100.0%	150.0%

		Standard proportion of award (up to 1.39x FD)				
	Total number of shares granted	Standard proportion of award vesting (% max)	Face value of shares vesting (£'000)[i]	Value attributable to share price movement (£'000)	Value of dividend equivalents due (£'000)[ii]	Value of resultant award (£'000)
CEO	72,880	72.1%	1,206.1	210.0	125.8	1,331.9
CFO	32,941	64.1%	484.8	84.4	50.6	535.4

(i) Based on three month average share price as at 31 March 2021 of £22.95.
(ii) Based on dividends paid in the period since date of grant to 31 March 2021.

Executive Director shareholdings

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

Shareholding requirement

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

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

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

Further detail regarding the Executive Directors' outstanding share awards can be found on page 144. Shares counting towards the achievement of the guideline include beneficially owned shares (including shares held by connected persons) and the net of tax value of deferred shares under the annual bonus since they are not subject to performance conditions. The Executive Directors are expected to retain all shares received through the vesting of any incentive schemes (after the settlement of any tax liability) until the shareholding requirements are met.

Executive Director shareholdings % of base salary

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

(ii) Represents 2018 LTIP shares which are subject to an ongoing vesting period and a two-year holding period post vesting, plus shares held as part of the Sharesave scheme.

(iii) Represents the 2019 and 2020 LTIP awards which are subject to ongoing performance.

Overall link to remuneration and equity of the Executive Directors

As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Company. This is why, when we look at the remuneration paid in the year, we also look at the total equity they hold and its value based on the performance of the Company.

The table sets out the number of shares beneficially owned by the Executive Directors at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year.

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

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

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

Summary of Remuneration Policy and Implementation

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

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

Total pay over five years	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary				
Fixed pay	Benefits, pension				
Annual bonus (Malus and clawback provisions apply)	50% in cash	50% in shares Three-year deferral period No further performance conditions			
LTIP (Malus and clawback provisions apply)	Up to 200% of salary Three-year performance period			Two-year holding period No further performance conditions	
Shareholding requirement (Not a monetary value)	Executive Directors' minimum shareholding requirement				

Base salary

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay **Salary** Y1 Y2 Y3 Y4 Y5	Salaries for individual Executive Directors are reviewed annually by the Committee and increases normally take effect from 1 July. To the extent that increases are proposed, these will not be higher than the average increase for employees.	No change.	A salary increase of 2.3% will be applied at the salary review date. From 1 July 2021, Executive Director salaries will be: • CEO – £758,800 • CFO – £457,300 These rises are in line with the general employee salary increase.

Benefits

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay **Benefits** Y1 Y2 Y3 Y4 Y5	The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.	Replacement of a car allowance with a green travel allowance to recognise the use of public transport and introduction of our electric vehicle car scheme.	Normal company benefit provision.

Pension

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Fixed pay **Pension** Y1 Y2 Y3 Y4 Y5	A defined contribution scheme and/or cash supplement in lieu of pension.	No change for new appointments. Current Executive Director pensions will be reduced in stages from 25% of salary in 2019 to 15% of salary by April 2022. This change aligns pension contribution quantum for the Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).	Executive Director pension arrangements for 2021/22 are as follows: • CEO – 18.3% of salary • CFO – 18.3% of salary

Annual bonus

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
Annual bonus **50% in cash** Y1 Y2 Y3 Y4 Y5 **50% in shares** Y1 Y2 Y3 Y4 Y5	Maximum award of 120% of salary. There will be no payment made for threshold performance. 50% of total bonus deferred into shares for three years (with the value of any dividends to be rolled up and paid on vesting). 50% of maximum will be paid for target performance and 100% of maximum will be paid for stretch performance. Malus and clawback provisions apply.	No change.	The following maximum opportunities will apply in 2021/22: • CEO – 120% of salary • CFO – 120% of salary Performance measures (as a % of maximum): Group PBIT – 49% Customer and 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 and Safety – 8% The Committee considers the forward-looking targets to be commercially sensitive but full disclosure of the targets and performance outcome will be set out in the year's Remuneration Report setting out the bonus outcome.

LTIP

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

Element and link to strategy	Key features of *the current Policy*	*Policy change*	How we plan to implement the Policy *in* 2021/22
LTIP **Up to 200% of salary** % Y1 Y2 Y3 Y4 Y5 **Two-year holding period** Y1 Y2 Y3 Y4 Y5	Maximum award of 200% of salary. Up to 25% of an award may vest for threshold performance. Awards are granted annually and are subject to a three-year performance period. RoRE remains the primary performance condition, with a stretch target based on UQ performance. Awards made to Executive Directors are subject to a two-year holding period post-vesting which continues to operate post-cessation of employment. Malus and clawback provisions apply.	Introduction of a second performance measure alongside RoRE. A portion of awards, as determined annually by the Committee, *will be based on a sustainability* measure, equivalent to 20% of the maximum award opportunity.	The maximum LTIP Award will be based on: • 80% RoRE • 20% sustainability measure See pages 123 and 131 for details on LTIP awards to be granted.

Shareholding requirement

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

Element and link to strategy	Key features of the current Policy	Policy change	How we plan to implement the Policy in 2021/22
***Executive Directors'* share ownership** Y1 Y2 Y3 Y4 Y5	*The CEO is expected to build and* maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirement *has been met.*	*Introduction of a post-employment* shareholding requirement to encourage strong alignment between Executive Directors and the long-term interests of shareholders, as well as alignment with the 2018 UK Corporate Governance Code.	*The post-employment* shareholding requirement will apply to all awards made post the approval of the 2021 Policy.

LTIP awards to be granted in 2021

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

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

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

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

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

Chair and Non-Executive Directors' fees (audited)

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

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

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

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

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

Operation	Fees 2020/21
Chair's fee	£300,000
Fee paid to all Non-Executive Directors	£57,750
Supplementary fees:	
• Senior Independent Director	£10,000
• Audit Committee Chair	£15,000
• Remuneration Committee Chairman	£15,000
• Corporate Sustainability Committee Chair	£13,000
• Treasury Committee Chair	£15,000

Company Remuneration at Severn Trent

This section of the report covers

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

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

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

Eligibility	*Number of employees covered*	*Remuneration element*	*Details*
All employees	7,087 (as at 31 March 2021)	**Salary**	Salaries are set to reflect the market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary Living Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.
		Benefits	All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and which is designed to support a positive work-life balance. 42% of our employees choose to tailor their benefits via our flexible benefits scheme. They have also saved over £109,000 through our employee discount partnerships since the scheme was launched.
		Pension	We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary). When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. *We are proud that 99% of our employees are members of the pension scheme and 62% pay contributions above the minimum of 3%.*
		Annual bonus	All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. For this year the bonus paid out £1,029 to our front-line employees in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig. New starters, post 4 January 2021, were not eligible to receive a bonus.
		Sharesave	Offering the opportunity to participate in our Sharesave scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also aligning participants with shareholder interests. *Our Sharesave scheme gives employees an opportunity to save up to £500 per month over three to five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.*
Management and senior management	356	**LTIP** A proportion of this population participate in the LTIP by annual invitation	The LTIP reinforces delivery of long-term creation of value and sector outperformance and progress towards our net-zero ambitions. The retention of shares by Executive Directors for the longer-term also supports a shared ownership culture in the Group.
Executive Committee and Executive Directors	9	Shareholding requirement as a % of salary CEO – 300% CFO – 200% Exec Co – 100%	Supports alignment of Executives' interests with shareholders.
Our supply chain			All colleagues across Severn Trent are paid in line with the real Living Wage, for which we hold accreditation. We expect this of all new contracts within our supply chain and detail this within our Sustainable Supply Chain Charter.

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

Pay and alignment across the business

Alongside our thriving culture and inclusive working environment, our reward framework is designed to attract, motivate and retain people who are inspired by Severn Trent's Purpose, and live our Values every day.

Our reward package recognises the great performance of our employees, as we deliver our essential service to customers across the region, and is designed to reward all colleagues fairly throughout the organisation. The terms and conditions from which our employees benefit evolve in line with external practice and new initiatives from within Severn Trent. We pride ourselves on keeping pace with the focus on the future of work, talent management and acquisition, to motivate, develop and retain a positive working environment and culture.

Committee focus areas	Implementation at Severn Trent
• 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 2.3% across the workforce in 2020/21. • Annual pay reviews are effective in July for all employee groups. • The Company has real Living Wage employer accreditation and reviews salaries in this context. • Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
• Types of benefits; and • Eligibility across levels.	• A consistent approach is applied across the business for benefits.
• 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 process of aligning employer pension contributions for incumbent Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the workforce) will be achieved by April 2022.
• 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 page 137). • An individual performance multiplier is in place across management grades informed by our Inspiring Great Performance ('IGP') outcomes. • Our front-line colleagues and team managers benefit from an all-company fixed bonus payment • Bonus opportunities vary by grade • We also operate some sub-schemes in Business Services, to reflect specific business needs. • Malus and clawback provisions are in place.
• Take-up rates.	• All Severn Trent Plc employees can participate in the Save As You Earn scheme – Sharesave • There is a significant take-up of this benefit with 74% of employees actively participating.
• 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 performance period is three years. The Executive Directors are subject to an additional two-year post-vesting holding period for awards granted from 2018 onwards. • LTIP opportunities vary by role from 200% of salary to 25% of salary. • Executive Directors have a UQ stretch performance target. • A second sustainability performance measure is being introduced and will operate alongside RoRE under the 2021 Remuneration Policy • Malus and clawback provisions are in place.
• Eligibility; and • Requirements versus actual shareholdings.	• Shareholding requirements are in place for the Executive Directors and Executive Committee. • A post-employment shareholding requirement is being introduced for Executive Directors as part of the 2021 Remuneration Policy.

Remuneration principles

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

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

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

Support our Purpose, Values and our wider business goals

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

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

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

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

HOW DOES THE COMMITTEE ADDRESS THE REQUIREMENTS UNDER PROVISION 40?

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

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

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

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

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

Alignment of the Policy to the Provisions of the 2018 Code

Clarity	The Company's performance remuneration is based on supporting the implementation of the Company's strategy measured through KPIs which are used for the annual bonus and LTIP. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy, including its Sustainability Framework, and the remuneration paid.
Simplicity	The Policy includes the following: • Setting defined limits on the maximum awards which can be earned; • Requiring the deferral of a substantial proportion of the incentives in shares for a material period of time, helping to ensure that the performance earning the award was sustainable, and thereby discouraging short-term behaviours; • Aligning the performance conditions with the agreed strategy of the Company as well as our sustainability and net-zero carbon ambitions; • Ensuring a focus on long-term sustainable performance through the LTIP; and • Ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes, especially if it appears that the behaviours giving rise to the awards are inappropriate or that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability	Shareholders are given full information on the potential values which can be earned under the annual bonus and LTIP plans on their approval. In addition, all the checks and balances set out above under 'Risk' are disclosed at the time of shareholder approval.
Proportionality	The Company's incentive plans clearly reward the successful implementation of the strategy and our environmental ambitions, and through deferral and measurement of performance over a number of years ensure that the Executives have a strong drive to ensure that the performance is sustainable over the long term. Poor performance cannot be rewarded due to the Committee's overriding discretion to depart from the formulaic outcomes under the incentive plans if they do not reflect underlying business performance.
Alignment to culture	A key principle of the Company's culture is a focus on customers and their experience; this is reflected directly in the type of performance conditions used for the bonus. The focus on ownership and long-term sustainable performance is also a key part of the Company's culture. In addition, the measures used for the incentive plans are measures used to determine the success of the implementation of the strategy.

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

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

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

The Committee's process

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

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

Activity	Focus areas	Implementation at Severn Trent
Severn Trent response to COVID-19	Ensuring that the impact of COVID-19 is considered across all remuneration related decisions made by the Committee	• All eligible employees will receive their 2020/21 annual bonus. • The Committee decided it was appropriate to cap the PBIT element of the bonus at target level for the 2020/21 financial year. In practice, this means the maximum achievable bonus potential for Executive Directors was 91%, rather than 120%, of salary. We applied this principle for all levels below the Executive Directors. • The Committee will assess the value of the 2020 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains.
Purpose and Values	*Reflection on wider* workforce policies and practices	• *The launch of the Company's new Values in 2019/20 was received with overwhelmingly positive feedback.* • New joiners into the business are assessed against a suite of interview questions encompassing our new Purpose and Values. • The recognition platform has been refreshed to give recognition for colleagues against the new Values. • The new Values were embedded into the 2020 Awesome Award categories and shortlisting process. • Our induction materials ensure employees are familiar with the Company's Purpose and Values from the outset of their careers.
Engagement	Sharing our guiding remuneration principles with the Company Forum	• In September 2020, Angela Strank attended the Company Forum where a summary of the Directors' Remuneration Report was positively received by an employee representative group. The content and discussion also demonstrated how the actions taken align with requirements of the 2018 Code. • Attendees were signposted to the availability of further information within the 2020 Annual Report and Accounts, which reinforced the Company's commitments to its employees. • This is an annual standing item on the Company Forum's September agenda, and a Board member continues to attend each meeting. • In March 2021, I attended the Company Forum and provided an overview of topics discussed by the Board and Remuneration Committee during this year, providing some insight to the proposed Remuneration Policy and the discussion held on pay frameworks and total reward for the entire workforce.
Alignment of pension contributions	Response to the 2018 Code requirement	• In the 2019/20 Remuneration cycle, the Committee approved the principle that employer pension contributions for both Executive Directors and members of the Severn Trent Executive Committee would be aligned with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce) by 1 April 2022. • The second reduction for the Executive Directors, from 21.6% to 18.3% of salary, was implemented on 1 April 2021. • The alignment of pension contributions for members of the Severn Trent Executive Committee was completed during the year.
Focus on ESG measures	Bringing to life how sustainability is embedded in our remuneration framework	• The Committee considered the importance of aligning the Company's strategy with its Corporate Sustainability Framework, to bring to life where there is already a clear link between our environmental, social and governance ambitions and reward. • The schematic on page 122 showcases all the areas where we have already embedded links to sustainability e.g. the Annual Bonus Scheme, and identified areas where we have the opportunity to integrate sustainability and reward in the future e.g. in terms of the LTIP from 2021 onwards. • For the second year we have been accredited by the real Living Wage Foundation and continue to work with our supply chain to sponsor this in all our new and renewed contracts.
2021 Policy review	Review of the current Policy and ensuring compliance with the 2018 Code	• The Committee considered four key objectives ahead of the 2021 Policy review: continue our focus on managing strong and long-term sustainable financial and operational performance; recognise and embed our commitments and ambitions around sustainability within both our short and long-term reward framework; ensure that the remuneration framework for the Executive Directors aligns fully with the 2018 Code, and maintain high levels of stakeholder engagement and support.

Case study

Developing our pay framework

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

Whilst equal pay legislation has been in place in the UK for 50 years, the last five years have seen a broader focus on 'fairness' in pay and progression frameworks. Over the past four years we have developed our pay framework to create a better understanding of our total reward and to deliver more meaningful pay transparency with this broader focus. The objective was to have a clearer position on the 'fairness' agenda as informed by our business drivers and the added lenses of equality and inclusivity. Our position in terms of our real Living Wage accreditation, Gender pay gaps and CEO employee equity has been published, and the development of our pay frameworks and processes have evolved to reinforce equal and inclusive reviews and practices. On testing the outcomes we are confident that our pay policies and frameworks are largely working fairly and effectively, giving us confidence our transparent approach continues to impact our 'fairness' agenda.

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

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

Stages of change in our pay framework over recent years

Phase 1 Delivered 2017 to 2020 →				**Phase 2** Focus areas 2021 to 2022
Publish bonus/ budgets	**Establish reward principles**	**Pay bands by level**	**Pay bands by job**	**A trusted pay framework**

Pay Framework Architecture stages

1 Job Evaluation
2 Pay Ranges
3 Transparency on pay positions
4 Additional pay/ benefit options
5 Equal and inclusive review
6 "Fairness" is BAU

Pay initiative examples

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

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

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

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

IMPLEMENTATION OF THE 2021 POLICY

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

OUR SUSTAINABILITY JOURNEY

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

EMBEDDING OUR PURPOSE AND VALUES

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

Pay comparisons

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

We operate a consistent core bonus design across the organisation

Employee group	Bonus elements
Executive Directors	**PBIT (49%)**
Executive Committee	**Customer and Environment ODIs (35%)**
Strategic Leader	**Customer Experience (8%)**
Business Leader	**Health and Safety (8%)**
Team Manager/Technical Expert	
Front-line – operational/administrative/advisory	

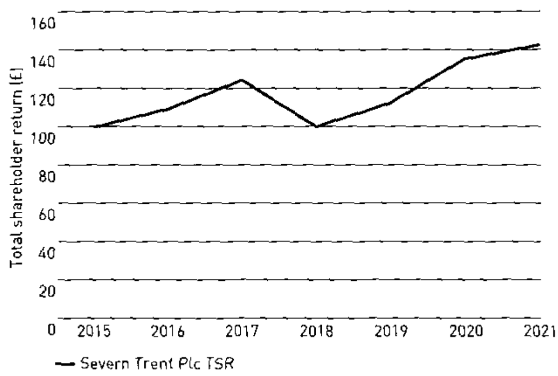
Our policy quantum compared with peers

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

Relative position of target total compensation

Total shareholder return

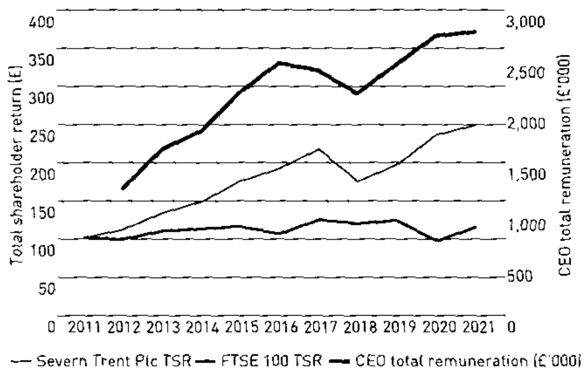
The chart below shows the value at 31 March 2021 of £100 invested in Severn Trent Plc in the beginning of AMP6.



CEO remuneration vs returns to shareholders

The graph on the right shows the value at 31 March 2021 of £100 invested in Severn Trent Plc on 1 April 2011 compared with the value of £100 invested in the FTSE100. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value of the intervening financial year ends.

Total shareholder return and total remuneration



Remuneration of the CEO

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

Year ended 31 March	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO	**Tony Wray**	**Tony Wray**	**Tony Wray**	**Liv Garfield**	**Liv Garfield**	**Liv Garfield**	**Liv Garfield**	**Liv Garfield**	**Liv Garfield**	**Liv Garfield**
Total remuneration (£'000)[i]	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,478.8	2,733.4	**2,807.8**
Annual bonus (% of maximum)	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	74.0%	**63.8%**
LTIP vesting (% of maximum)[ii]	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**72.1%**
SMP vesting (% of maximum)	N/A	78.0%	64.3%	N/A	N/A	N/A	N/A	N/A	N/A	**N/A**

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

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

The relationship between the remuneration of the CEO and all employees

The Company's approach to remuneration is consistent for all employees, as outlined on page 132 and in our Remuneration Policy which can be found on the Severn Trent Plc website.

This is our second year of disclosing CEO pay ratios; however, we have chosen to publish three years' worth of information covering 2018/19, 2019/20 and 2020/21. The table below shows how the CEO's single total figure of remuneration compares with the equivalent figures for UK employees occupying the 25th percentile, median and 75th percentile quartiles.

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

Total pay and benefits for all have been calculated as at financial year-end in accordance with the single figure methodology and are based on full-time equivalent pay and benefits. We have not omitted any pay elements from the calculation.

CEO pay ratio

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

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

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

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

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

The CEO pay ratio remains broadly unchanged year-on-year.

The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies. Over the long term, it is reasonable to expect there to be a degree of volatility in the CEO pay ratio and this could be caused by the following:

- Our CEO's single figure is made up of a higher proportion of incentive-based pay than that of our employees, in line with the expectations of our shareholders and the Company's remuneration approach. This introduces a higher degree of variability each year which affects the ratio. It should be noted that all employees in the Company who meet the service requirement are eligible to receive a bonus based on the same broad Company performance conditions. This ensures all employees share in the success of the Company.
- From 2021/22 onwards, the value of long-term incentives will reflect the UQ element (if any) for the LTIP vesting in the previous financial year, plus the standard proportion of the total potential LTIP vesting for the award in the then current year e.g. the LTIP value in the 2021/22 single figure table will comprise the UQ element of the 2018 LTIP award plus the standard proportion of the 2019 LTIP award.
- Long-term incentives are provided in shares, and therefore any increase in share price over the three years, as has been observed when previous LTIP awards have vested, can magnify the impact of a long-term incentive award vesting in a year.
- None of the lower quartile, median or upper quartile employees identified this year are participants in the LTIP. If the value of the LTIP is excluded from the CEO total remuneration pay ratio calculation, the ratios would be as follows:
  - To employee at the 25th percentile: 44.4
  - To employee at the 50th percentile: 34.6
  - To employee at the 75th percentile: 28.6

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

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

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

The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group, and monitors year-on-year changes between the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee. As required under the EU Shareholder Rights Directive II, last year we early adopted the requirement to expand this disclosure to cover all Directors in addition to the CEO. Over time this information will build to display a five-year history.

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

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

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

(i) The salary figures shown are based on full-time equivalent comparisons.
(ii) The benefits figures include green travel allowance and family level private medical insurance for senior and middle managers.
(iii) The figures shown are reflective of any bonus earned during the respective financial year. Bonuses are paid in the following June.
(iv) Non-Executive Directors receive fees only and do not receive any additional benefits or bonus payments.
(v) Reflects a change in role from Non-Executive Director to Chair of the Board on 1 April 2020.
(vi) Inclusive of an additional fee of £10,000 in relation to his Hafren Dyfrdwy Chairman responsibilities in 2020/21 and 2019/20.
(vii) Appointed to the Board on 1 May 2020.
(viii) Resigned from the Board effective 8 July 2021.
(ix) *The average pay increase for the wider workforce during the year was 2.3%.*

Gender pay gap reporting

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. As Severn Trent continuously evolves, so does our approach to celebrating and embracing diversity in all its forms, of which gender is one. Our goal is to recruit and employ the best people possible, regardless of their backgrounds.

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

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

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

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

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

Male and female pay quartile distribution

71.7%	Top quartile	28.3%
80.4%	Upper middle quartile	19.6%
78.7%	Lower middle quartile	21.3%
55.4%	Lower quartile	44.6%

Difference in hourly pay between men and women

1 2 3 4 5

9.3%

2.3%

Mean

Difference in annual bonus pay between men and women

1 2 3 4 5

0.0%

-57.1%

Mean

Annual Report on Remuneration

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 8 July 2021. The information on pages 142 to 144 is audited.

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

Total single figure of remuneration (audited)

The tables below and on the next page set out the total single figure of remuneration received by the Executive Directors for 2020/21 (or for performance periods ending in 2020/21 in respect of long-term incentives) and 2019/20 for comparison, and total fees received by Non-Executive Directors for 2020/21 and 2019/20.

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

Executive Directors	Financial year ended 31 March	Salary (£'000)[i]	Benefits (£'000)[ii]	Pension (£'000)[iii]	Other (£'000)[iv]	Fixed pay and benefits sub-total (£'000)	Annual bonus (£'000)[v]	LTIP (£'000)[vi]	Variable remuneration sub-total (£'000) Total	Total remuneration (£'000)
Liv Garfield	**2020/21**	737.5	17.0	149.5	4.5	908.5	567.4	1,331.9	1,899.3	2,807.8
	2019/20	720.8	17.2	180.2	0.0	918.2	643.5	1,203.4	1,846.9	2,765.1
James Bowling	**2020/21**	444.5	16.5	90.1	0.0	551.1	342.0	535.4	877.4	1,428.5
	2019/20	434.3	16.5	108.6	0.0	559.4	387.8	483.4	871.2	1,430.6

(i) Both Executive Directors asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The salaries shown are based on salary earned during the financial year before the 25% reduction. Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions.

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

(iii) The Executive Directors' pension provision was equal to 21.6% of salary in 2020/21; details of the future phased reduction to 15% by 1 April 2022 are set out earlier in the report. *Neither Executive Director accrued benefits under any defined contribution pension plans during the year or has participated in a defined benefits scheme while an Executive Director.*

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

(v) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to continued employment for three years but with no further performance conditions attached. See page 127 for further details of the annual bonus outturn for 2020/21

(vi) The value of the 2018 LTIP award for 2020/21 is based on the Remuneration Committee's assessment of the standard proportion of the total potential LTIP vesting. Further explanation is set out on pages 127 and 143. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares.

Total Non-Executive Directors' fees (audited)

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

(i) The Chair asked the Company to reduce her fees by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The fees shown are based on fees earned during the financial year before the 25% reduction

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

(iii) *Appointed to the Board on 1 May 2020.*

(iv) Resigned from the Board effective 8 July 2021

Relative importance of spend on pay

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

Relative importance of the spend on pay	2021 £m	2020 £m	% change
Staff costs	350.7	343.9	2.0%
Dividends	240.2	228.4	5.2%

Annual bonus outturn for 2020/21 (audited)

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

The performance outcomes in respect of financial performance conditions, and the overall bonus awarded to each Executive Director and our front-line employees, is set out in the At a Glance section on page 127.

Benefits for 2020/21 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically. In line with the Policy outlined on page 129, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2020/21 (audited)	Typical annual value 2020/21	Typical annual value 2019/20	Percentage increase/(decrease)
Travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,412	£1,447	(2.4%)
Life assurance	Up to 6x salary	Up to 6x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide policy	0%
Biennial health screening	£610 per health screen	£581 per health screen	5.0%
Incapacity benefits	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

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

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

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

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

				Standard proportion of award (up to 1.39x FD)						
Executive	Number of shares granted	Value of award at grant (£'000)	End of performance period	Standard proportion of award vesting (% max)	Numbers of share vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting[i] (£'000)	Value of dividend equivalents due[ii] (£'000)	Value of standard proportion of LTIP (single figure) ('£000)
CEO	72,880	1,381.2	31/03/2021	72.1%	52,559	24/07/2021	210.0	1,206.1	125.8	1,331.9
CFO	32,941	624.3	31/03/2021	64.1%	21,127	24/07/2021	84.4	484.8	50.6	535.4

(i) Based on the average share price over the final three months of the performance period of £22.95 as the awards will not be released until after the end of the closed period.
(ii) Based on dividends paid in the period since the date of grant to 31 March 2021.

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

- Maximum number of shares that could vest under UQ element:
  CEO: 20,321 shares **CFO:** 11,814 shares
- Value of UQ element at grant (£'000):
  CEO: 385.1 **CFO:** 223.9
- Value of UQ element attributable to share price movement (£'000):
  CEO: 81.2 **CFO:** 47.2
- Value of UQ element based on average share price of £22.95 (£'000):
  CEO: 514.9 **CFO:** 299.4

2020 LTIP award (awards granted during the year)

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

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

Award	Relating to FY	Grant date	3 day average share price used for grant calculations
2020 annual bonus scheme	2019/20	18/06/20	£23.98

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

Page 128 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements. The shareholding requirements for the CEO and CFO remained unchanged in 2020/21.

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

There has been no change in the Directors' interests in the Ordinary Share capital of the Company between those set out below and 18 May 2021.

Interests in shares as at 31 March 2021

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

(i) LTIP awards are conditional share awards subject to ongoing performance conditions.
(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 £23.06 (as at 31 March 2021). The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).
(v) Appointed to the Board on 1 May 2020.
(vi) Resigned from the Board effective 8 July 2021.

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2021, she was paid fees of £12,000 which she retained.

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

Service contracts for Executive Directors

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

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

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

Philip Remnant
Chairman of the Remuneration Committee

18 May 2021

Remuneration Policy

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

Contents

Development of Policy report

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

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

Linkage to all-employee pay

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

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

Shareholder views

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

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

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

2021 Directors' Remuneration Policy table

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

Salary

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from 1 July. • Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size), Company performance, affordability, the wider economic environment and internal relativities. • In addition, when the Committee determines a benchmarking exercise is appropriate it will also consider salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking. • The Committee intends to review the comparators periodically and may add or remove companies from the Group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year.	• Details of the current salary levels for the Executive Directors are set out in the Annual Report on Remuneration on page 142. • Any increase to Executive Directors' salaries will generally be no higher than the average increase for the UK workforce. However, a higher increase may be proposed in the event of a role change or promotion, or in other exceptional circumstances. • The Company, where appropriate, may set salary levels below the market reference salary at the time of appointment, with the intention of bringing the salary levels in line with the market as the individual gains the relevant experience. In such cases, subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	No changes.

Benefits

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• A green travel allowance (formerly car allowance, changed to recognise the use of public transport and introduction of our electric vehicle car scheme), family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses. • The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Therefore, additional benefits such as relocation, disturbance and expatriate allowances and tax equalisation may be paid as appropriate. • Directors will be reimbursed for any reasonable business expenses incurred in the course of their duties, including the tax payable thereon.	• The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.	No changes.

Pension

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• The Company maintains 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 appointment, the contribution will be up to a maximum of 15% of salary.	• No change for new appointments. • Current Executive Director pensions will be reduced in stages from 25% of salary in 2019 to 15% of salary by April 2022. • This change aligns pension contribution quantum for all Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the wider workforce).

Annual bonus

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• Bonuses are based on financial, operational, customer and personal performance over a performance period of one financial year. • 50% of the bonus is paid in cash and 50% in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting). There are no further performance targets on the deferred amount. • The performance measures and targets for the annual bonus are selected annually to align with the business strategy and the key drivers of performance set under the regulatory framework. The annual weighting of the bonus between the various metrics and personal contribution may vary depending on the key priorities of the business for the year ahead. However, no more than 20% of the bonus will relate to personal contribution (where applicable) for any Executive Director. Robust and demanding targets are set taking into account the operating environment and priorities, market expectations and the business plan for the year ahead. • The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the bonus, disclosing precise targets for the Plan in advance would not be in shareholder interests. Therefore, performance targets and performance achieved will be published at the end of the performance period so shareholders can fully assess the basis for any pay outs under the Plan. • Malus and clawback mechanisms also apply to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, errors in calculation, misconduct, reputational damage, regulatory censure or corporate failure of the Company. • Any exercise of discretion by the Committee will be communicated to shareholders in full in the following year's Directors' Remuneration Report. • Cessation of employment and change of control provisions apply as set out in the notes to the Policy table.	• The maximum annual bonus payment will equal 120% of salary for maximum performance. For threshold performance, 0% of maximum opportunity will be paid. For target performance 50% of maximum opportunity will be paid. • The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein. The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy. • In exceptional circumstances the Committee retains the discretion to: a) Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and b) Make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance.	No changes other than the enhancement of malus and clawback provisions.

LTIP

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale

• Awards are granted annually and will be subject to one or more performance conditions which will be assessed over three years.
• A two-year holding period will apply following the three-year vesting period for LTIP Awards granted to the Executive Directors.
• For the first LTIP Awards under this Policy, the following will apply:
  • 80% of the maximum LTIP Award will be based on RoRE and will require the Company's RoRE to outperform the target set out in Ofwat's Final Determination and, for full vesting, to deliver upper quartile relative performance compared with other water companies. This reflects the greater focus of Ofwat on the relative performance of water companies and the tougher regulatory context during AMP7.
  • 20% of the maximum LTIP award will be based on a sustainability measure. The measure will be based on the Company's Sustainability Framework.
• Using RoRE to assess long-term performance reflects the focus of Ofwat in AMP7 and is consistent with our aim to deliver efficient returns to shareholders. RoRE measures the returns (after tax and interest) that companies have earned by reference to the notional regulated equity, where regulated equity is calculated from the RCV and notional net debt. The Committee believes that the use of RoRE provides a strong alignment between the long-term financial and operational performance of the Group and the reward delivered to management.
• The Committee believes that including sustainability within the long-term incentive framework is important given the Company's ambitious long-term sustainability commitments.
• The structure of the sustainability measure and targets will vary based on the nature of the target set (e.g. for milestone targets it may not always be practicable to set such targets using a graduated scale and so vesting may take place in full for strategic targets if the criteria are met in full). Full disclosure of targets and the verification process for measures will be disclosed in the Directors' Remuneration Report.
• Different performance measures, targets and/or weightings may be set for future LTIP Awards to reflect the business strategy and regulatory framework operating at that time.
• No material change will be made to the type of performance measure without prior shareholder consultation.
• Dividend enhancement may be applied to vesting awards and dividend equivalent shares transferred based on the dividends that could have been acquired on the vested shares during the vesting period. Awards may also be settled in cash in certain circumstances.
	• Maximum limit is 200% of salary. Up to 25% of an award may vest for threshold performance, as applicable.
	• The Committee will review the measures, weightings and targets before each grant to ensure they remain appropriate. The Committee may change the weighting of the measure, or use different measures for subsequent awards, as appropriate.
	• The Committee will operate all incentive plans according to the rules of each respective plan and the discretions contained therein.
	• The discretions cover aspects such as the timing of grant and vesting of awards, determining the size of the award (subject to the policy limits), the treatment of leavers, retrospective adjustment of awards (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets for an incentive award if events happen which cause the Committee to determine that it would be appropriate to do so. In exercising such discretions, the Committee will take into account generally accepted market practice, best practice guidelines, the provisions of the Listing Rules and the Company's approved Remuneration Policy.
	• In exceptional circumstances the Committee retains the discretion to:
	a) Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and
	b) Make downward or upward adjustments to the amount earned resulting from the application of the performance measures, if the Committee believes that the LTIP outcomes are not a fair and accurate reflection of business performance.
	• In addition, for any awards to vest, the Committee must be satisfied that there has been no compromise to the commercial practices or operational standards of the Group. If the Committee is not so satisfied, then the vesting percentage may be scaled back as appropriate (including to 0%).
		• Enhancement of malus and clawback provisions.
		• Introduction of second performance measure alongside RoRE. A portion of awards, as determined annually by the Committee, will be based on a sustainability measure.
		• The Committee's rationale for introducing an additional sustainability measure is as follows:
		  • It aligns with Severn Trent's strategy to focus management on superior financial performance together with a focus on long-term sustainability and operating the business in an environmentally and socially conscious way.
		  • It will provide a clear link between remuneration and the Company's social purpose and Sustainability Framework including its commitments on matters such as climate change, specifically, reducing the Company's carbon footprint as evidenced through the Company's Triple Carbon Pledge commitment.
		  • It is consistent with the concept of 'responsible investing', whereby shareholders are increasingly seeking investments that reflect their core values and the Company is mindful of the increasing importance of this for other stakeholders too.

(continued on next page)

LTIP continued

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

All-employee share plans

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• The Executive Directors are able to participate in HMRC tax advantaged all-employee share plans on the same terms as other eligible employees.	• The maximum limits under the plans are as set by HMRC.	No changes.

Shareholding requirements

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2018 AGM and rationale
• The Company operates shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company. • The CEO is expected to build and maintain a holding of shares to the value of 300% of salary, and other Executive Directors 200% of salary. • Executive Directors are expected to retain all of the net of tax number of shares they receive through the LTIP and deferred share bonus until the shareholding requirements have been met. • The Committee retains the discretion to increase the shareholding requirements as appropriate. • In addition, a post-employment shareholding requirement will apply to Executive Directors who leave the Company. Leavers will have a requirement to maintain their in-employment shareholding requirement (or actual shareholding, if lower) for two years following cessation of employment. This requirement will apply to shares acquired under share plan awards granted following approval of this Policy. • The enforcement mechanism for the post-employment shareholding requirement will be facilitated through the Employee Benefit Trust ('EBT'). On LTIP vesting, shares will be transferred to the EBT (net of tax and national insurance liabilities) to be held on behalf of the Executive Directors for two years following cessation of employment. Shares purchased by Executive Directors utilising their own funds will not be included in the post-employment shareholding requirement.	N/A	• Introduction of a post-employment shareholding requirement. • A post-employment shareholding requirement will support alignment between Executive Directors and the long-term interests of shareholders. • This will also align the Company with the latest provisions of the 2018 UK Corporate Governance Code.

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

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

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

Item	Policy
Salary, benefits and pension	• These will be set in line with the Policy for existing Executive Directors.
Annual bonus	• Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 120% of salary.
LTIP	• Maximum annual participation will be set in line with the Company's Policy for existing Executive Directors and will not exceed 200% of salary.
Maximum variable remuneration	• The maximum variable remuneration which may be granted is 320% of salary (excluding any buy outs).
'Buyout' of incentives forfeited on cessation of employment	• Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: the proportion of the performance period completed on the date of the Executive Director's cessation of employment; the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and any other terms and condition having a material effect on their value ('lapsed value'). • The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.
Relocation policies	• In instances where the new Executive Director is required to relocate or spend significant time away from his/her normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/ housing allowance, disturbance allowances and schooling.
Internal promotions	• In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to the terms on which it was originally granted. These would be disclosed to shareholders in the Remuneration Report for the relevant financial year. Otherwise their remuneration would be set applying the principles set out above.

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

Service contracts and Letters of Appointment for Executives

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

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

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

Element	Treatment on cessation of employment	
General	The Committee will honour Executive Directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.	
Salary, benefits and pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.	
Annual bonus cash awards	**Good leaver reason[(i)]**	**Other reason**
	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated for the period worked during the financial year.	No bonus will be payable for year of cessation.
	Discretion	
	The Committee has the following elements of discretion: • To determine that an Executive Director should be treated as a good leaver and receive a bonus for the year of cessation; it is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders. • To determine whether to pro-rate the bonus for time; the Remuneration Committee's normal policy is to pro-rate for time. It is the Committee's intention only to use discretion not to pro-rate in circumstances where there is an appropriate business case, based on the circumstances of the Executive Director's departure. Use of discretion will be explained in full to shareholders. • The bonus would be paid at the same time as for the other Executive Directors and, if the Executive has left employment by that date, it may be paid solely in cash.	
Annual bonus deferred share awards	**Good leaver reason[(i)]**	**Other reason**
	All subsisting deferred share awards will vest on cessation.	All subsisting deferred share awards will vest on cessation with the exception of summary dismissal of the participant, when any deferred share award held by the individual shall lapse immediately on such termination.
	Discretion	
	The Committee has the following elements of discretion: • To determine whether deferred shares should vest at the end of the original deferral period or at the date of cessation; the Committee will make this determination depending on the reason for cessation. • To determine whether to pro-rate the maximum number of shares for time from the date of grant to the date of cessation; the Committee's normal policy is not to pro-rate awards for time. The Committee will determine whether to pro-rate based on the reason for cessation.	

(continued on next page)

Policy on Payments for Loss of Office continued

Element	Treatment on cessation of employment	
LTIP	**Good leaver reason**[i]	**Other reason**
	Subsisting awards continue to be capable of vesting on a pro-rated time and performance basis.	All subsisting awards will lapse on cessation.
	Discretion	
	The Committee has the following elements of discretion: • To determine that the Executive Director should be treated as a good leaver such that LTIP awards continue to be capable of vesting; it is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders. • To allow awards to vest, and to measure, at the date of cessation. The Committee will make this determination depending on the reason for cessation. • To determine whether to pro-rate for time; the Committee's normal policy is to pro-rate awards based on the proportion of the performance period which has elapsed to the date of cessation. In circumstances where there is an appropriate business case based on the circumstances of the Executive Director's departure, the Committee may use discretion and not pro-rate. Use of discretion will be explained in full to shareholders.	
Holding periods	Where cessation of employment occurs during any holding period the LTIP award will continue as normal. However, the Committee retains discretion to allow the award to vest when cessation of employment occurs in certain circumstances, such as: • Where the reason for departure is death, disability or ill-health; • Where there are extenuating factors which impact at the time of departure (such as unforeseen changes to personal circumstances); or • Any other reason, permitted by the Committee in its absolute discretion in any particular case, except where termination is for dishonesty, fraud, misconduct or other circumstances justifying summary dismissal (in which cases it is very likely any outstanding LTIP awards would lapse on cessation regardless).	
Other	The Company is adopting replacement share plans (the annual bonus scheme and Long Term Incentive Plan, which is subject to approval from shareholders at the AGM) in 2021. As described above, the Company retains the ability to satisfy outstanding and unvested incentive awards under the legacy incentive plans as described in the previous Remuneration Policy.	

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

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

Policy on change of control

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

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

Chair and Non-Executive Directors

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

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

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

Application of the Remuneration Policy

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

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

Remuneration scenarios

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

Philip Remnant
Chairman of the
Remuneration Committee

18 May 2021

Directors' Report

The Directors' Report for the year ended 31 March 2021 comprises pages 154 to 157 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 80 to 153 is incorporated by reference into this report and, accordingly, should be read as part of this report. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 2 to 79, as the Board considers them to be of strategic importance.

Specifically, these are:

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

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

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

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

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

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 144. The interests of the Directors in the shares of the Company are also shown on page 144 of that report. The Board has a documented process in place in respect of conflicts.

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

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

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

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	Page 187
(4)	Details of long-term incentive schemes	Page 130
(2), (5), (6), (7), (8)-(14)	Not applicable	Not applicable

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R. Information relating to financial instruments can be found on pages 210 to 214 and is incorporated by reference. For information on our approach to social, environmental and ethical matters, please refer to Our TCFD Disclosures on pages 54 to 67 and our separately published Sustainability Report, available at severntrent.co.uk.

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

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

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

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, ethnicity, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well. We also provide expert counselling support across a wide range of issues through our employee assistance programme.

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

Employee engagement
Due to our commitment to transparent and best practice reporting, we have included the section on Our People on page 72 of the Strategic Report as the Board considers these disclosures to be of strategic importance and they are therefore incorporated into the Directors' Report by cross-reference. Pages 68 to 71 demonstrate how the Directors have engaged with employees and how they have had regard to employee interests and the effect of that regard including the principal decisions by the Company during the financial year.

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

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

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

Business relationships
Pages 68 and 71 demonstrate how the Directors have had regard to key stakeholders and how the effect of that regard had influenced the principal decisions taken by the Company during the financial year. The Board considers its Section 172 Statement to be of strategic importance and is therefore incorporated into the Directors' Report by cross-reference.

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

Expenditure on research and development for the year totalled £3.3 million.

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

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

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

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

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

The Dividend Policy reflects our strong operational delivery and financial performance, the Final Determination and our robust balance sheet and financial resilience. When determining the Policy, the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment-grade credit rating.

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

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

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

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the 2018 UK Corporate Governance Code (the '2018 Code'), the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document and the Articles, both of which can be found on our website.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2020 AGM.

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

Authority to purchase shares
The Company was given authority at its AGM in 2020 to make market purchases of Ordinary Shares up to a maximum number of 23,834,985 Ordinary Shares. During the year, no Ordinary Shares have been repurchased.

Authority will again be sought from shareholders at this year's AGM to purchase up to a maximum of 23,937,475 Ordinary Shares.

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

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £6,916,014 (2020: £3,518,470). Donations are principally given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries. You can read more about the work of our Community Fund on page 22.

Substantial shareholdings
As at 31 March 2021, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of Holder	Number of Ordinary Shares	Voting rights held (%)
BlackRock	20,929,807	8.76
Lazard Asset Management	18,227,029	7.63
Qatar Investment Authority	11,599,565	4.86
Vanguard Group	10,037,336	4.20
Legal & General Investment Management	9,229,390	3.86
Aviva Investors	8,062,013	3.37
SSGA	7,518,099	3.15

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

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

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

Supplier payment policy
Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC') and, as such, prompt payment policies are reviewed on a regular basis.

The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

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

For the payment practices reporting period ended 31 March 2021, the average time to pay for Severn Trent Water Limited was 26 days.

Relevant audit information
The Directors confirm that:

- So far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- Each of them has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

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

External Auditor
Having carried out a review of its effectiveness during the year, details of which can be found in the Audit Committee Report on page 109, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the 2021 AGM. Deloitte LLP indicated its willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Carbon footprint
We play a leading role in reducing our greenhouse gas emissions.

We have committed to achieving net-zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available.

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

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

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

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

By order of the Board

Bronagh Kennedy

Bronagh Kennedy
Group General Counsel and
Company Secretary

18 May 2021

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ('IFRSs') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 Reduced Disclosure Framework.

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

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

This responsibility statement was approved by the Board of Directors on 18 May 2021 and is signed on its behalf by:

By order of the Board

Olivia Garfield
Chief Executive

18 May 2021

James Bowling
Chief Financial Officer

18 May 2021

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 44 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. 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

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 accrued income for measured customers in Severn Trent Water Limited; and • classification of capital programme expenditure in Severn Trent Water Limited. 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 £13.5 million which was determined on the basis of profit before tax adjusted for gains/losses on financial instruments and exceptional items.
Scoping	Our scoping has resulted in over 95% of the group's net operating assets and 97% of profit before tax adjusted for gains/losses on financial instruments and exceptional items being subject to audit testing.

Significant changes in our approach	COVID-19 has significantly impacted the water consumption by customers. The increased consumption by households and lower consumption by non-household customers has increased the level of unpredictability of water consumption. This unpredictability of water consumption has increased the potential level of volatility for accrued income for measured customers in Severn Trent Water Limited, which has been identified as a new key audit matter for the year ended 31 March 2021. As at 31 March 2020, the investment balance in the group's joint venture, Water Plus was reduced to nil, following the group's recognition of £46.8 million for its share of losses from the joint venture. Due to the reduction in the value of the group's investment in the joint venture, the risk of a material misstatement has reduced, and therefore *Accounting for the joint venture investment* is no longer a key audit matter. As at 31 March 2020 we identified a key audit matter that was focused on the valuations of pension assets with an increased risk of estimation uncertainty, specifically property funds where the investment managers reported a 'material valuation uncertainty' in their valuation reports. As no property fund valuations have been issued with a material valuation uncertainty at 31 March 2021, and the range of estimation uncertainty has reduced, this has been removed as a key audit matter. For the year ended 31 March 2020 we also identified a key audit matter that was focused on the valuations of the liabilities of the retirement benefit obligations due to the volatility of certain assumptions at the start of the COVID-19 pandemic. As the volatility has reduced, so has the associated audit effort, and therefore this has been removed as a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the group's borrowing arrangements, in particular the £1.0 billion revolving credit facility, including the sufficiency of headroom available in the forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for AMP7 and performing sensitivity analysis relating to these assumptions;
- *assessing the impact of risks and uncertainties on the business model and medium-term risks including where relevant the impact of COVID-19; and*
- reviewing the appropriateness of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the *financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.*

Our responsibilities and the responsibilities of the directors with *respect to going concern are described in the relevant sections of this report.*

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, one additional key audit matter was 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 as at 31 March 2021 was £130.8 million (31 March 2020: £134.3 million), which incorporates management's estimate of the future 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. An overlay adjustment has been recorded to reflect anticipated changes to cash collection as a result of COVID-19. The adjustment is based on the historical correlation between unemployment and cash collection and is impacted by the level of decline and length of the impact on the UK economy. 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 lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the COVID-19 adjustment are appropriate. The Audit Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 112. The bad debt provision is discussed in note 2p) and note 22 to the financial statements. 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: • understanding and testing the relevant controls over the base bad debt and COVID-19 overlay models, including for the supporting data and assumptions; • testing the completeness and accuracy of the data included within the base bad debt and COVID-19 overlay models; • testing the allocation of cash received in the current year to debt aged between seven and nine years; • reconciling the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; • challenging management's assumptions applied to the COVID-19 overlay, including the estimated correlation between the unemployment rate and cash collection trends; our procedures included evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing sensitivity analysis; and • evaluating management's assumptions applied to the bad debt provision and challenging whether this represents lifetime expected credit loss, including review of cash collection data and historical trends.
Key observations	We are satisfied that the assumptions applied in assessing the impairment of trade receivables, including the impact of COVID-19, are reasonable and that Severn Trent Water Limited's bad debt provision has been properly calculated using appropriate relevant data and in accordance with IFRS 9.

5.2. Valuation of accrued income for measured customers in Severn Trent Water Limited

Key audit matter description	For customers with water meters, the revenue recognised depends on the volume of water consumed between the date of the last meter reading and the year end (accrued income). The accrued income for measured household customers was £140.1 million (2020: £127.3 million) and non-household customers was £19.9 million (2020: £50.2 million). The method of estimating accrued income requires assumptions for both estimated water consumption and the related value. The estimated water consumption for measured customers is based on historical consumption data. The impact of COVID-19 and related lockdown restrictions has introduced a level of volatility into consumption trends for household and non-household customers compared to historical periods, which has increased the level of judgement required to estimate consumption between a customer's last meter read and the year-end. Incorrect estimates of water consumption could lead to a misstatement of revenue recognised for the year. The key audit matter, which is also a potential fraud risk, has been focussed on the judgments made by management in estimating actual consumption when compared to historical consumption patterns, and the resulting manual adjustments applied to the accrued income estimate. The Audit Committee also considered this as discussed in the Audit Committee Report on page 112. Accrued income is referred to in note 2p) 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, and testing, relevant controls within the household and non-household revenue processes, including review controls addressing the valuation of accrued income; • for household customers, performing a retrospective review of bills raised during 2020/21 related to the 2019/20 accrued income balance to assess management's forecast accuracy; • performing a recalculation of the household accrued income by using data analytics; • challenging management's assumptions applied for non-household and household consumption by comparing to available market data; • challenging management's assumptions regarding the impact of COVID-19 to accrued income by considering contradictory evidence including operational data regarding water production, household consumption, and the operational status of business premises; and • testing the accuracy of the data utilised by management in assessing the valuation adjustments to accrued income.
Key observations	We are satisfied that management's estimates in relation to the recognition of Severn Trent Water Limited's accrued income for measured household and non-household customers is appropriate.

5.3. Classification of capital programme expenditure in Severn Trent Water Limited

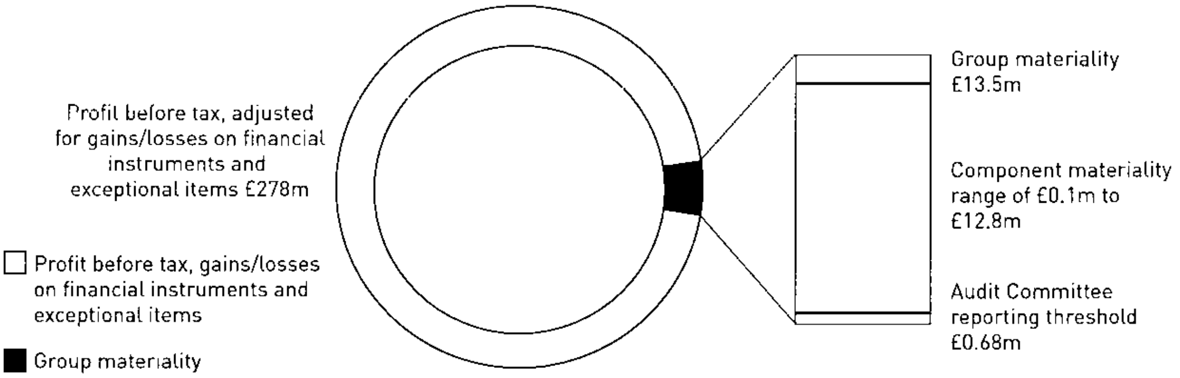
Key audit matter description	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. During the year, Severn Trent Water Limited has invested £540.7 million (2020: £830.0 million) in capital expenditure projects out of the total group additions of £659.4 million (2020: £956.0 million) disclosed in Note 18. Severn Trent Water Limited spent a further £147.3 million (2020: £144.5 million) on Infrastructure maintenance expenditure (total group £151.0 million (2020: £149.6 million) as disclosed in Note 7). As the determination of whether expenditure is capitalised or expensed in the period directly affects the group's reported financial performance, we identified a key audit matter relating to the 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 112. 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	Our procedures included the following: • 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; and • for a sample of capital projects, assessing the application of the capitalisation policy to the costs incurred by evaluating the business cases and invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior year. We are satisfied that management has appropriately applied their capitalisation policy and implementation guidance in determining the expenditures capitalised.

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	£13.5 million (2020: £16.4 million)	£12.8 million (2020: £15.1 million)
Basis for determining materiality	Approximately 5% of profit before tax, gains/losses on derivative financial instruments and exceptional items.	3.0% of net assets (2020: 3.0%) capped at 95% of group materiality.

Rationale for the benchmark applied	Profit before tax, gains/losses on financial instruments and exceptional items has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting. This is consistent with the benchmark for the year ended 31 March 2019. For the year ended 31 March 2020, the benchmark included exceptional items which reflected the increased level of risk and volatility arising from the COVID-19 pandemic and the significance of the exceptional items on the overall result. The exceptional items for the current year are much less significant to the overall result and have been excluded from the benchmark.	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 financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	Group performance materiality was set at 70% of group materiality for the 2021 audit (2020: 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 £675,000 (2020: £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.

The Regulated Water and Waste Water segment is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £12.5 million, (2020: £14.3 million). We have audited a further seven components using statutory materiality which range from £0.1 million to £12.8 million (2020: seven components using statutory materiality which range from £0.5 million to £15.1 million). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represents over 95% of the group's net operating assets (2020: over 95%) and over 97% of profit before tax adjusted for gains/losses on financial instruments and exceptional items (2020: over 95%).

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 the eight components where we have performed a full scope audit.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the group's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We also relied on the relevant controls in respect of household and non-household revenue, classification of capital programme expenditure and operating expenditure business processes, which are supported by the group's financial accounting software platform. We tested the operating effectiveness on a sample basis by either observing or performing each step of the control and obtaining the relevant evidence to support that it operated as designed.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

We have nothing to report in this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 with management, internal audit and the Audit Committee, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, IT, and industry 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:

- valuation of the provision for trade receivables in Severn Trent Water Limited;
- classification of capital programme expenditure in Severn Trent Water Limited; and
- valuation of accrued income for household and non-household measured customers in Severn Trent Water Limited.

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 obtained an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

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 Limited, the classification of capital programme expenditure as property, plant and equipment in Severn Trent Water Limited, and the valuation of accrued income for measured customers in Severn Trent Water Limited 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, the Audit Committee, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other 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. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 49;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 47 to 49;
- the directors' statement on fair, balanced and understandable set out on page 158;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 40 to 46;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 92; and
- the section describing the work of the audit committee set out on pages 107 to 113.

14. Matters on which we are required to report by exception

14.1. 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.

14.2. 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.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Company's members 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 16 years, covering the years ended 31 March 2006 to 31 March 2021.

15.2. 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).

16. 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.

Jacqueline Holden FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

18 May 2021

Consolidated Income Statement
For the year ended 31 March 2021

		2021			2020		
	Note	Adjusted £m	Adjusting items £m	Total £m	Adjusted £m	Adjusting items £m	Total £m
Turnover	5,6	**1,827.2**	**–**	**1,827.2**	1,843.5	–	1,843.5
Other income		**–**	**–**	**–**	6.9	–	6.9
Operating costs before charge for bad and doubtful debts		**(1,314.4)**	**(2.1)**	**(1,316.5)**	(1,237.2)	(2.1)	(1,239.3)
Charge for bad and doubtful debts	7	**(40.0)**	**–**	**(40.0)**	(42.9)	–	(42.9)
Total operating costs	7	**(1,354.4)**	**(2.1)**	**(1,356.5)**	(1,280.1)	(2.1)	(1,282.2)
Profit before interest and tax		**472.8**	**(2.1)**	**470.7**	570.3	(2.1)	568.2
Finance income	10	**59.8**	**–**	**59.8**	59.9	–	59.9
Finance costs	11	**(246.9)**	**–**	**(246.9)**	(248.3)	–	(248.3)
Net finance costs		**(187.1)**	**–**	**(187.1)**	(188.4)	–	(188.4)
Gain/(loss) on impairment of loans receivable		**3.6**	**–**	**3.6**	–	(4.9)	(4.9)
Net losses on financial instruments	12	**(6.2)**	**–**	**(6.2)**	(17.4)	–	(17.4)
Share of net loss of joint venture accounted for using the equity method	20	**(8.9)**	**(4.9)**	**(13.8)**	–	(46.8)	(46.8)
Profit on ordinary activities before taxation		**274.2**	**(7.0)**	**267.2**	364.5	(53.8)	310.7
Current tax	13	**(26.8)**	**–**	**(26.8)**	(30.1)	(0.9)	(31.0)
Deferred tax	13	**(28.2)**	**–**	**(28.2)**	(29.1)	(91.8)	(120.9)
Taxation on profit on ordinary activities	13	**(55.0)**	**–**	**(55.0)**	(59.2)	(92.7)	(151.9)
Profit for the year		**219.2**	**(7.0)**	**212.2**	305.3	(146.5)	158.8

Earnings per share (pence)

	Note	2021	2020
Basic	15	**89.1**	66.7
Diluted	15	**88.6**	66.3

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the year		**212.2**	158.8
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	28	**(162.0)**	187.4
Deferred tax on net actuarial losses/gains	13	**30.8**	(32.9)
Current tax on pension contributions in prior periods	13	**-**	9.5
Deferred tax on pension contributions in prior periods	13	**-**	(9.5)
Deferred tax arising on rate change	13	**-**	2.7
		(131.2)	157.2
Items that may be reclassified to the income statement:			
Gains/(losses) on cash flow hedges		**33.5**	(38.9)
Deferred tax on gains/losses on cash flow hedges	13	**(6.3)**	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)
		33.8	(24.9)
Other comprehensive (loss)/income for the year		**(97.4)**	132.3
Total comprehensive income for the year		**114.8**	291.1

Consolidated Statement of Changes in Equity
For the year ended 31 March 2021

		Equity attributable to owners of the Company				
	Note	*Share capital* £m	*Share premium* £m	*Other reserves* £m	*Retained earnings* £m	*Total* £m
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
Deferred tax on net actuarial gains	13	–	–	–	(32.9)	(32.9)
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 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)
At 31 March 2020		236.5	137.0	67.9	802.3	1,243.7
Profit for the year			–	–	212.2	212.2
Gains on cash flow hedges		–	–	33.5	–	33.5
Deferred tax on gains on cash flow hedges	13	–	–	(6.3)	–	(6.3)
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 losses	28	–	–	–	(162.0)	(162.0)
Deferred tax on net actuarial losses	13	–	–	–	30.8	30.8
Total comprehensive income for the year		–	–	33.8	81.0	114.8
Share options and LTIPs						
– proceeds from shares issued	30,31	0.7	11.1	–	–	11.8
– value of employees' services	37	–	–	–	7.8	7.8
Current tax on share based payments	13	–	–	–	0.4	0.4
Deferred tax on share based payments	13	–	–	–	0.4	0.4
Dividends paid	14	–	–	–	(240.2)	(240.2)
At 31 March 2021		**237.2**	**148.1**	**101.7**	**651.7**	**1,138.7**

Consolidated Balance Sheet
As at 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill	16	**91.4**	91.4
Other intangible assets	17	**164.0**	153.8
Property, plant and equipment	18	**9,875.2**	9,580.8
Right-of-use assets	19	**130.8**	128.8
Derivative financial instruments	21	**37.1**	65.5
Trade and other receivables	22	**101.5**	117.8
Retirement benefit surplus	28	**17.1**	21.3
		10,417.1	10,159.4
Current assets			
Inventory		**30.8**	29.2
Trade and other receivables	22	**515.2**	561.4
Current tax receivable		**–**	3.1
Derivative financial instruments	21	**3.8**	–
Cash and cash equivalents	23	**56.2**	48.6
		606.0	642.3
Current liabilities			
Borrowings	24	**(503.1)**	(475.4)
Derivative financial instruments	25	**–**	(4.4)
Trade and other payables	26	**(557.1)**	(573.6)
Current tax payable		**(0.2)**	–
Provisions for liabilities	29	**(18.0)**	(18.9)
		(1,078.4)	(1,072.3)
Net-current liabilities		**(472.4)**	(430.0)
Non-current liabilities			
Borrowings	24	**(6,112.8)**	(5,957.7)
Derivative financial instruments	25	**(126.9)**	(159.2)
Trade and other payables	26	**(1,250.3)**	(1,187.3)
Deferred tax	27	**(906.0)**	(901.1)
Retirement benefit obligations	28	**(384.8)**	(255.3)
Provisions for liabilities	29	**(25.2)**	(25.1)
		(8,806.0)	(8,485.7)
Net assets		**1,138.7**	1,243.7
Equity			
Called up share capital	30	**237.2**	236.5
Share premium account	31	**148.1**	137.0
Other reserves	32	**101.7**	67.9
Retained earnings		**651.7**	802.3
Total equity		**1,138.7**	1,243.7

Signed on behalf of the Board who approved the accounts on 18 May 2021.

Christine Hodgson
Chair
Company Number 02366619

James Bowling
Chief Financial Officer

Consolidated Cash Flow Statement
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Cash generated from operations	39	**901.7**	928.1
Tax received	39	**–**	0.4
Tax paid	39	**(23.2)**	(34.3)
Net cash generated from operating activities		**878.5**	894.2
Cash flows from investing activities			
Purchases of property, plant and equipment		**(613.7)**	(777.2)
Purchases of intangible assets		**(22.2)**	(74.8)
Payments to acquire right-of-use assets		**(0.7)**	–
Proceeds on disposal of property, plant and equipment		**2.0**	12.9
Proceeds on disposal of subsidiary net of cash disposed		**0.7**	–
Net loans (advanced to)/repaid by joint venture		**(1.0)**	35.6
Interest received		**3.7**	2.0
Net cash outflow from investing activities		**(631.2)**	(801.5)
Cash flow from financing activities			
Interest paid		**(185.6)**	(181.9)
Interest element of lease payments		**(4.3)**	(4.3)
Dividends paid to shareholders of the parent		**(240.2)**	(228.4)
Repayments of borrowings		**(242.9)**	(3.0)
Principal elements of lease payments		**(5.6)**	(5.5)
New loans raised		**415.1**	330.1
Issues of shares		**11.8**	9.6
Payments for swap terminations		**(1.1)**	(16.8)
Proceeds from swap terminations		**0.9**	16.5
Net cash flow from financing activities		**(251.9)**	(83.7)
Net movement in cash and cash equivalents		**(4.6)**	9.0
Net cash and cash equivalents at the beginning of the year		**48.6**	39.6
Net cash and cash equivalents at end of year		**44.0**	48.6
Cash at bank and in hand		**56.2**	37.3
Short term deposits		**–**	11.3
Overdraft		**(12.2)**	–
		44.0	48.6

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 49 which sets out the Group's considerations relating to viability and going concern) under the historical cost convention, except for the revaluation of financial instruments including derivatives (refer to accounting policy notes (t) and (u)), and accounting for the transfer of assets from customers (refer to accounting policy note (i)).

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

(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 International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to statement of cash flows, share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account or cash flow statement is presented for the parent company. The profit for the year is disclosed in the statement of comprehensive income, the statement of changes in equity and the balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership (the 'partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

(iii) Changes in accounting presentation

Contract asset ageing

A prior period adjustment has been made to reflect a change in presentation for the ageing of contract assets. The new presentation allocates future cash receipts to contract assets on a first-in-first-out basis. When assessing whether contract assets were current or non-current assets, cash receipts were previously allocated first to performance obligations satisfied in the year and then to performance obligations satisfied in previous years. As there is no contractual basis for the allocation of cash receipts to performance obligations, the directors believe it is more appropriate to allocate cash to performance obligations on a first-in-first-out basis, i.e. matching the first cash receipts to the first performance obligations satisfied.

The table below shows the effect of the change in accounting policy for the balance sheet position at 31 March 2020:

Balance sheet extract

	As previously reported 2020 £m	Restatement 2020 £m	Restated 2020 £m
Current trade and other receivables	525.5	35.9	561.4
Non-current trade and other receivables	153.7	(35.9)	117.8

A third balance sheet has not been presented as the reclassification does not have a material effect on the information in the balance sheet at the beginning of the preceding period.

Segmental presentation

A change in segmental presentation is set out in note 5. This has resulted in a change to the analysis of revenue by segment, which is shown in note 6.

Deferred income and income from diversions

Previously deferred income released to the income statement, and income from diversions, were credited to operating costs. Under the new presentation, the deferred income and income from diversions are recognised as turnover. In the year ended 31 March 2021 the release of deferred income amounted to £15.5 million (2020: £14.5 million) and income from diversions amounted to £17.5 million (2020: £6.8 million). This presentational change has been applied beginning in the year; however, as the impact in the prior year is not considered material to the amounts recorded in turnover or operating costs, prior years have not been restated. This reclassification has no impact on profits or cash flows recorded in the year or prior years.

(iv) Change in accounting estimate

In the current financial year the Group has applied a change in the estimate of useful lives applicable to certain mechanical and engineering assets, included within the fixed plant and equipment asset category. The average estimated useful lives across £825.0 million net book value of assets at 31 March 2021 has been increased from 20 years to 22 years. The average estimated remaining useful lives across these assets has been increased from 14 years to 16 years. The change is required following updated engineering data, and has resulted in a £9.8 million decrease in the depreciation expense in the current year. The impact over the next four years is expected to be a £7.8 million decrease in depreciation expense per year.

2 Accounting policies (continued)

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries and joint venture. 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.

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 stand alone 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.

2 Accounting policies (continued)

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 turnover 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.

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 is within the control of the Group.

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.

2 Accounting policies (continued)

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to turnover 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 turnover in the period that they become receivable.

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital adjusting for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusting 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.

Impairment losses are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost. Impairment losses are recognised in line with policy set out in 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 loan receivables 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 receivable from joint venture. 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.

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.

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.

2 Accounting policies (continued)

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.

2 Accounting policies (continued)

u) Derivative financial instruments (continued)

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.

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. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £151.0 million (2020: £149.6 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £681.6 million (2020: £1,018.5 million).

(ii) Income from connections to the water and waste water networks

The Group receives income from developers and domestic customers for new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Group infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Group adopts assets in this manner.
- When new properties are connected to the network, the Group is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as Infrastructure charges and the charges are a standard amount per property and are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Group's network, the Group installs a meter and connection to each property but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Group's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Group and the customer. During the period the Group received infrastructure assets with a fair value of £44.9 million (2020: £71.1 million), infrastructure charges amounting to £20.0 million (2020: £30.0 million) and other charges relating to the provision of infrastructure amounting to £22.0 million (2020: £9.6 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

(iii) Classification of loans to Water Plus for the purpose of determining the share of joint venture losses to be recognised

At 1 April 2020 the Group's equity investment in Water Plus was nil, having been written down in full during the year ending 31 March 2020 by the losses in the year. Unrecognised losses at 1 April 2020 were £4.9 million. The Group has 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 has made available two revolving credit facilities ('RCFs') from Severn Trent Plc in the sums of £32.5 million and £100.0 million respectively. The RCFs bear interest at LIBOR plus 2.1% and 3.25%, and, at the balance sheet date, were repayable in September 2021 and December 2023 respectively.

The amounts drawn down under both facilities fluctuate with Water Plus's working capital requirements. The Group considers that the £100.0 million facility has been advanced on arm's length commercial terms and that it does 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 £100.0 million RCF.

The Group's intention at 31 March 2021 was to extinguish the £32.5 million facility and replace with a long-term capital investment, either in the form of an equity investment or new zero-coupon shareholder loan notes. Following the year end the Board approved the injection of a £32.5 million equity investment and this has been implemented. The approval during the post balance sheet event period acts as confirmation of the Group's documented intention at 31 March 2021, and therefore as evidence supporting the existence of these conditions at the reporting date. As such the full balance drawn at 31 March 2021 on the £32.5 million facility is presented within non-current loans receivable, and forms part of the Group's net investment in Water Plus. A total of £13.8 million has been written off against the carrying value of the non-current loan receivable, consisting of £4.9 million unrecognised exceptional losses from the prior period, and the Group's share of Water Plus's losses after tax for the year ended 31 March 2021 of £8.9 million.

(iv) Classification of share of joint venture losses as exceptional

The Group's accounting policy defining exceptional items is set out in note 2 above.

In the previous year the Group recognised £46.8 million of Water Plus's losses after tax as an exceptional item, reducing the carrying value of the Group's investment in Water Plus to nil. This left £4.9 million of exceptional losses unrecognised. These losses have been recognised in the current year as an exceptional item in line with the treatment adopted in the previous year.

In the current year Water Plus has been significantly affected by the economic impacts of the lockdowns imposed as a result of the COVID-19 pandemic. However, it is not possible accurately to determine how much of Water Plus's loss in the current year is attributable to the impacts of COVID-19 and how much is due to normal trading factors. Therefore the Group's share of Water Plus's losses in the current year has not been classified as an exceptional item.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

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 43 years. A five year change in the average useful lives would result in a £36 million change in the depreciation charge.

The climate change scenarios that we have modelled have not indicated a requirement to amend the estimated useful life of our assets. During the year the Group has reassessed the useful economic lives of its mechanical and engineering assets. The average estimated useful lives across £825.0 million net book value of assets at 31 March 2021 has been increased from 20 years to 22 years. The change is required following identification of updated engineering data, and has resulted in a £9.8 million decrease in the depreciation expense in the current year. The impact over the next four years is expected to be a £7.8 million decrease in depreciation expense per year.

ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 28 to the financial statements.

iii) Expected credit losses on trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of the COVID-19 pandemic on unemployment levels and hence on the Group's collection of trade receivables. In the current period, the forecast peak level of unemployment has increased and the period to return to current levels has lengthened in consensus economic forecasts.

We based our assessment of future unemployment trends on the Bank of England's most recent Monetary Policy Report at the balance sheet date, for February 2021, which forecasted a peak rate of unemployment for the UK of 7.8% in the third quarter of calendar year 2021 with a return to the pre-COVID level of unemployment 4% in 2024.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	2021 £m	2020 £m
Gross carrying amount	**563.9**	603.6
Provision for bad and doubtful debts	**(137.1)**	(141.7)
Net carrying amount	**426.8**	461.9

Movements in the expected credit loss allowance are as follows:

	2021 £m	2020 £m
At 1 April	**141.7**	120.2
Charge for bad and doubtful debts	**40.0**	42.9
Amounts written off during the period	**(44.6)**	(21.4)
At 31 March	**137.1**	141.7

On 6 May, the Bank of England published its latest Monetary Policy Report. This revised the forecast for unemployment to show a peak level of 5.4% in the third quarter of calendar year 2021 and an earlier recovery to the pre-COVID level in the first quarter of calendar year 2023.

If our assessment of future unemployment trends had been based on this forecast, the expected credit loss in the period would have been £7.7 million lower.

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, its retail services to domestic customers, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses, the Green Power business, the Property Development business and our other non-regulated businesses including affinity products and searches.

In 2019/20 the Bioresources and Developer Services businesses were managed by, and included in, Business Services. These activities are now managed by Regulated Water and Waste Water and we have amended our segmental presentation to reflect the new structure. We have provided a reconciliation of the prior year segmental information from the old basis to the new basis below.

The tables below show the changes from the old to the new segmentation for turnover and PBIT for the year ended 31 March 2020:

	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Developer Services £m	Regulated Water and Waste Water (new basis) £m
Turnover	1,620.7	87.3	0.1	1,708.1
Profit before interest and tax	511.5	29.3	(0.4)	540.4

	Business Services (old basis) £m	Bioresources £m	Developer Services £m	Business Services (new basis) £m
External turnover	222.8	(87.3)	(0.1)	135.4
Inter-segment turnover	17.6	(15.1)	–	2.5
Total turnover	240.4	(102.4)	(0.1)	137.9
Adjusted PBIT	64.9	(29.3)	0.4	36.0
Amortisation of acquired intangible assets	(2.1)	–	–	(2.1)
Profit before interest and tax	62.8	(29.3)	0.4	33.9

The tables below show the changes from the old to the new segmentation for capital employed at 31 March 2020:

	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Developer Services £m	Consolidation adjustments £m	Regulated Water and Waste Water (new basis) £m
Operating assets	9,883.0	293.6	12.7	(12.1)	10,177.2
Goodwill	63.5	–	–	–	63.5
Segment assets	9,946.5	293.6	12.7	(12.1)	10,240.7
Segment operating liabilities	(1,991.8)	(12.5)	(4.0)	17.6	(1,990.7)
Capital employed	7,954.7	281.1	8.7	5.5	8,250.0

	Business services (old basis) £m	Bioresources £m	Developer Services £m	Consolidation adjustments £m	Business Services (new basis) £m
Operating assets	626.3	(293.6)	(12.7)	12.1	332.1
Goodwill	29.2	–	–	–	29.2
Segment assets	655.5	(293.6)	(12.7)	12.1	361.3
Segment operating liabilities	(42.4)	12.5	4.0	(17.6)	(43.5)
Capital employed	613.1	(281.1)	(8.7)	(5.5)	317.8

5 Segmental analysis (continued)

b) *Segmental results*

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.

Results from interests in our joint venture are not included in the segmental reports reviewed by STEC.

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.

The measure of profit or loss that is reported to STEC for the segments is adjusted PBIT. A segmental analysis of turnover and adjusted PBIT is presented below.

The following table shows the segmental turnover and PBIT:

	2021		2020 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,693.9**	**132.9**	1,708.1	135.4
Inter-segment turnover	**–**	**1.8**	–	2.5
Total turnover	**1,693.9**	**134.7**	1,708.1	137.9
Adjusted PBIT	**452.1**	**25.8**	539.6	36.0
Amortisation of acquired intangible assets	**–**	**(2.1)**	–	(2.1)
Profit before interest and tax	**452.1**	**23.7**	539.6	33.9

Profit before interest, tax and exceptional items is stated after:

	2021		2020	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Depreciation of property, plant and equipment	**331.3**	**10.7**	317.1	10.2
Depreciation of right-of-use assets	**1.4**	**2.0**	5.4	1.5
Amortisation of intangible assets	**31.3**	**0.8**	30.3	0.5
Profit/(loss) on disposal of fixed assets	**0.1**	**(2.3)**	1.3	(7.0)

The reportable segments' turnover is reconciled to Group turnover as follows:

	2021 £m	2020 (restated) £m
Regulated Water and Waste Water	**1,693.9**	1,708.1
Business Services	**134.7**	137.9
Corporate and other	**0.9**	0.7
Consolidation adjustments	**(2.3)**	(2.0)
	1,827.2	1,843.5

Included in the revenues of Regulated Water and Waste Water of £1,693.9 million (2020: £1,708.1 million) is £216.1 million (2020: £306.6 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 2021 or 2020.

5 Segmental analysis (continued)

b) Segmental results (continued)

Segmental adjusted PBIT is reconciled to the Group's profit before tax as follows:

	2021 £m	2020 (restated) £m
Regulated Water and Waste Water	**452.1**	540.4
Business Services	**25.8**	36.0
Corporate and other	**(5.1)**	(5.6)
Consolidation adjustments	**–**	(0.5)
Adjusted PBIT	**472.8**	570.3
Amortisation of acquired intangible assets (in Business Services)	**(2.1)**	(2.1)
Net finance costs	**(187.1)**	(188.4)
Gain/(loss) on impairment of loans receivable	**3.6**	(4.9)
Net losses on financial instruments	**(6.2)**	(17.4)
Share of net loss of joint venture accounted for using the equity method	**(13.8)**	(46.8)
Profit on ordinary activities before taxation	**267.2**	310.7

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.

	2021		2020 (restated)	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**10,433.4**	**331.0**	10,177.2	332.1
Goodwill	**63.5**	**29.2**	–	–
Segment assets	**10,496.9**	**360.2**	10,240.7	361.3
Segment operating liabilities	**(2,174.4)**	**(40.0)**	(1,990.7)	(43.5)
Capital employed	**8,322.5**	**320.2**	8,250.0	317.8

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.

5 Segmental analysis (continued)

c) Capital employed (continued)

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2021 £m	2020 (restated) £m
Segment assets		
Regulated Water and Waste Water	**10,496.9**	10,240.7
Business Services	**360.2**	361.3
Corporate and other	**3.5**	3.7
Other financial assets	**97.1**	114.1
Loan receivable from joint venture	**84.0**	92.6
Current tax receivable	**-**	3.1
Consolidation adjustments	**(18.6)**	(13.8)
Total assets	**11,023.1**	10,801.7

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:

	2021 £m	2020 (restated) £m
Segment liabilities		
Regulated Water and Waste Water	**(2,174.4)**	(1,990.7)
Business Services	**(40.0)**	(43.5)
Corporate and other	**(46.0)**	(42.5)
Other financial liabilities	**(6,742.8)**	(6,596.8)
Current tax	**(0.2)**	–
Deferred tax	**(906.0)**	(901.1)
Consolidation adjustments	**25.0**	14.8
Total liabilities	**(9,884.4)**	(9,558.0)

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:

	2021		2020	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**21.7**	**0.5**	60.7	1.8
Property, plant and equipment	**652.1**	**8.3**	946.8	9.4
Right-of-use assets	**0.5**	**5.1**	–	0.3

d) Geographical areas

The Group's sales were derived from the following countries:

	2021 £m	2020 £m
UK	**1,825.4**	1,838.9
Other	**0.3**	4.6
	1,825.7	1,843.5

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2021 and 2020.

6 Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by type of revenue and by business segment below:

2021	**Regulated Water and Waste Water £m**	**Business Services £m**	**Corporate and other £m**	**Consolidation adjustments £m**	**Group £m**
Water and waste water services	**1,664.8**	**–**	**–**	**–**	**1,664.8**
Operating services	**–**	**70.3**	**–**	**–**	**70.3**
Renewable energy	**27.4**	**51.9**	**–**	**(1.8)**	**77.5**
Other sales	**1.7**	**12.5**	**0.9**	**(0.5)**	**14.6**
	1,693.9	**134.7**	**0.9**	**(2.3)**	**1,827.2**

2020 (restated)	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,673.5	–	–	–	1,673.5
Operating services	–	70.7	–	–	70.7
Renewable energy	30.2	53.5	–	(2.5)	81.2
Other sales	4.4	13.7	0.7	(0.7)	18.1
	1,708.1	137.9	0.7	(3.2)	1,843.5

Following the changes in the segmental presentation described in note 5, the Bioresources and Developer Services businesses previously included in Business Services and are now included within Regulated Water and Waste Water.

Revenue classification by business segment for the year ended 31 March 2020 has been restated in line with the change in the basis of segmentation as shown below:

	Regulated Water and Waste Water (old basis) £m	Bioresources £m	Developer Services £m	Consolidation adjustments £m	Regulated Water and Waste Water (new basis) £m
Water and waste water services	1,616.4	57.1	–	–	1,673.5
Renewable energy	–	45.3	–	(15.1)	30.2
Other sales	4.3	–	0.1	–	4.4
	1,620.7	102.4	0.1	(15.1)	1,708.1

	Business Services (old basis) £m	Bioresources £m	Developer Services £m	Business Services (new basis) £m
Water and waste water services	57.1	(57.1)	–	–
Operating services	70.7	–	–	70.7
Renewable energy	98.8	(45.3)	–	53.5
Other sales	13.8	–	(0.1)	13.7
	240.4	(102.4)	(0.1)	137.9

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.

6 Revenue from contracts with customers (continued)

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract with the Ministry of Defence ('MOD'), 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; and 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 2021 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £416.1 million (2020: £459.3 million). This amount is expected to be recognised as revenue as follows:

	2021 £m	2020 £m
In the next year	**46.2**	43.6
Between one and five years	**184.4**	177.6
After more than five years	**185.5**	238.1
	416.1	459.3

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:

	2021 £m	2020 £m
Contract asset at 1 April	**36.6**	35.1
Amounts billed	**(49.0)**	(47.6)
Revenue recognised	**50.6**	49.1
Contract asset at 31 March	**38.2**	36.6

No contract liabilities arose from the Group's Operating Services contract with the MOD.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income were as follows:

	2021 £m	2020 £m
At 1 April	**1,188.3**	1093.0
Contributions and grants received	**41.4**	39.6
Assets transferred at no cost	**44.9**	71.1
Amounts released to income statement	**(15.5)**	(15.4)
At 31 March	**1,259.1**	1,188.3

Revenue amounting to £15.5 million (2020: £15.4 million) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2020: nil).

Payments for infrastructure charges and other charges relating to connection to the networks occur when the connections are made. The performance obligations, including provision of an ongoing water and waste water service, are provided over the life of the relevant property.

6 Revenue from contracts with customers (continued)

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2021 £m	2020 £m
In the next year	**15.1**	16.3
Between one and five years	**60.4**	65.2
After more than five years	**1,183.6**	1,106.8
	1,259.1	1,188.3

7 Net operating costs

	2021			2020		
	Before adjusting and exceptional costs £m	**Adjusting and exceptional costs £m**	**Total £m**	Before adjusting and exceptional costs £m	Adjusting and exceptional costs £m	Total £m
Wages and salaries	**287.8**	**-**	**287.8**	281.1	-	281.1
Social security costs	**28.0**	**-**	**28.0**	28.9	-	28.9
Pension costs	**27.1**	**-**	**27.1**	25.8	-	25.8
Share based payments	**7.8**	**-**	**7.8**	8.1	-	8.1
Total employee costs	**350.7**	**-**	**350.7**	343.9	-	343.9
Power	**99.3**	**-**	**99.3**	94.5	-	94.5
Raw materials and consumables	**75.6**	**-**	**75.6**	68.4	-	68.4
Rates	**83.6**	**-**	**83.6**	81.6	-	81.6
Charge for bad and doubtful debts	**40.0**	**-**	**40.0**	42.9	-	42.9
Services charges	**38.6**	**-**	**38.6**	39.4	-	39.4
Depreciation of tangible fixed assets	**342.0**	**-**	**342.0**	327.4	-	327.4
Depreciation of right-of-use assets	**3.6**	**-**	**3.6**	6.6	-	6.6
Amortisation of intangible fixed assets	**32.1**	**2.1**	**34.2**	30.8	2.1	32.9
Hired and contracted services	**246.7**	**-**	**246.7**	237.8	-	237.8
Rental charges						
- land and buildings	**0.4**	**-**	**0.4**	0.6	-	0.6
- other	**1.0**	**-**	**1.0**	1.3	-	1.3
Hire of plant and machinery	**7.7**	**-**	**7.7**	7.4	-	7.4
(Profit)/loss on disposal of tangible fixed assets	**(2.2)**	**-**	**(2.2)**	1.2	-	1.2
Exchange losses/(gains)	**0.2**	**-**	**0.2**	(0.6)	-	(0.6)
Infrastructure maintenance expenditure[1]	**151.0**	**-**	**151.0**	149.6	-	149.6
Ofwat licence fees	**4.5**	**-**	**4.5**	5.1	-	5.1
Other operating costs	**60.9**	**-**	**60.9**	42.1	-	42.1
Other operating income	**(2.3)**	**-**	**(2.3)**	(3.0)	-	(3.0)
	1,533.4	**2.1**	**1,535.5**	1,477.0	2.1	1,479.1
Release from deferred credits[1]	**-**	**-**	**-**	(15.4)	-	(15.4)
Own work capitalised	**(179.0)**	**-**	**(179.0)**	(181.5)	-	(181.5)
	1,354.4	**2.1**	**1,356.5**	1,280.1	2.1	1,282.2

1. Refer to note 2a (iii) Changes in accounting presentation for details of the change in presentation for release from deferred credits and income from diversions.

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 auditor:

	2021 £m	2020 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	**0.3**	0.2
– the audit of the Company's subsidiary accounts	**0.6**	0.5
Total audit fees	***0.9***	0.7
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 107 and 113. No services were provided pursuant to contingent fee arrangements.

Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 142 to 144.

8 Exceptional items before tax

	2021 £m	2020 £m
Loss on impairment of loans due from joint venture (see note 20)	**–**	(4.9)
Share of net losses of joint venture (see note 20)	**(4.9)**	(46.8)
	(4.9)	(51.7)

9 Employee numbers

Average number of employees (including Executive Directors) during the year:

	2021	2020 (restated)
By business segment		
Regulated Water and Waste Water	**6,536**	6,345
Business Services	**486**	441
Corporate and other	**11**	10
	7,033	6,796

The prior year has been restated to reflect the changes in the segmental presentation as described in note 5.

10 Finance income

	2021 £m	2020 £m
Interest income earned on bank deposits	**0.1**	0.4
Other financial income	**2.4**	1.3
Total interest receivable	**2.5**	1.7
Interest income on defined benefit scheme assets	**57.3**	58.2
	59.8	59.9

11 Finance costs

	2021 £m	2020 £m
Interest expense charged on:		
Bank loans and overdrafts	**11.4**	21.6
Other loans	**166.1**	150.5
Lease liabilities	**4.3**	4.3
Total borrowing costs	**181.8**	176.4
Other financial expenses	**2.4**	2.6
Interest cost on defined benefit scheme liabilities	**62.7**	69.3
	246.9	248.3

Borrowing costs of £30.4 million (2020: £44.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 2.44% (2020: 2.68%). Tax relief of £5.8 million (2020: £8.4 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £5.8 million (2020: £8.4 million).

12 Net (losses)/gains on financial instruments

	2021 £m	2020 £m
(Loss)/gain on swaps used as hedging instruments in fair value hedges	**(8.1)**	5.1
Gain/(loss) arising on debt in fair value hedges	**4.2**	(1.6)
Exchange gain/(loss) on other loans	**14.8**	(6.7)
Loss on cash flow hedges transferred from equity	**(8.2)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**(2.0)**	2.7
Loss arising on swaps where hedge accounting is not applied	**(8.2)**	(9.8)
Amortisation of fair value adjustment on debt	**1.2**	1.1
Gain on swap termination	**0.1**	–
	(6.2)	(17.4)

The loss from financial assets and liabilities mandatorily measured at fair value through profit or loss was £16.3 million (2020: loss of £4.7 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2020: nil).

The Group's hedge accounting arrangements are described in note 36.

13 Taxation

a) Analysis of tax charge in the year

	2021 £m	2020 £m
Current tax		
Current year at 19% (2020: 19%)	**30.4**	36.2
Prior years	**(3.6)**	(5.2)
Total current tax	**26.8**	31.0
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**23.7**	29.8
Prior years	**4.5**	(0.7)
Exceptional charge on rate change	**-**	91.8
Total deferred tax	**28.2**	120.9
	55.0	151.9

13 Taxation (continued)

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit before taxation	**267.2**	310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	**50.8**	59.0
Tax effect of depreciation on non-qualifying assets	**4.0**	1.3
Other permanent differences	**(0.7)**	5.7
Adjustments in respect of prior years	**0.9**	(5.9)
Exceptional deferred tax arising from rate change	**–**	91.8
Total tax charge	**55.0**	151.9

	2021 £m	2020 £m
Profit before taxation	**267.2**	310.7
Tax at standard rate of corporation tax in the UK 19% (2020: 19%)	**50.8**	59.0
Tax effect of depreciation on non-qualifying assets	**4.0**	1.3
Other permanent differences	**(0.7)**	5.7
Tax effect of accelerated capital allowances	**(21.1)**	(26.2)
Other timing differences	**(2.6)**	(3.6)
Adjustments in respect of prior years	**(3.6)**	(5.2)
Total current tax charge	**26.8**	31.0

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 19%, being the corporation tax rate applicable at the balance sheet date. The impact of the UK Government's announcement of its intention to increase the rate of corporate tax to 25% with effect from 1 April 2023 is set out in note 27.

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.

13 Taxation (continued)

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:

	2021 £m	2020 £m
Current tax on:		
Pension contributions in prior periods	-	(9.5)
Share based payments	(0.4)	-
Total current tax credited to other comprehensive income or equity	(0.4)	(9.5)
Deferred tax on:		
Actuarial gains	(30.8)	32.9
Cash flow hedges	6.3	(7.4)
Share based payments	(0.4)	(0.8)
Transfers to the income statement	1.6	1.6
Pension contributions in prior periods	-	9.5
Effect of change in tax rate	-	(2.7)
Total deferred tax (credited)/charged to other comprehensive income or equity	(23.7)	33.1

14 Dividends

Amounts recognised as distributions to owners of the Company in the year:

	2021		2020	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2020 (2019)	60.05	143.1	56.02	133.1
Interim dividend for the year ended 31 March 2021 (2020)	40.63	97.1	40.03	95.3
Total dividends paid	100.68	240.2	96.05	228.4
Proposed final dividend for the year ended 31 March 2021	60.95	147.6		

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

	2021 £m	2020 £m
Profit for the year	**212.2**	158.8

ii) Number of shares

	2021 m	2020 m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**238.1**	238.0
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**1.3**	1.4
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**239.4**	239.4

b) Adjusted earnings per share

	2021 pence	2020 pence
Adjusted basic earnings per share	**105.4**	146.0
Adjusted diluted earnings per share	**104.8**	145.1

Adjusted 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 adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above.

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2021 £m	2020 £m
Earnings for the purpose of basic and diluted earnings per share	**212.2**	158.8
Adjustments for:		
– exceptional items before tax	**4.9**	51.7
– current tax on exceptional items	**–**	(0.9)
– amortisation of acquired intangible assets	**2.1**	2.1
– net losses on financial instruments	**6.2**	17.4
– current tax on net losses/gains on financial instruments	**(2.6)**	(2.6)
– deferred tax	**28.2**	120.9
Earnings for the purpose of adjusted basic and diluted earnings per share	**251.0**	347.4

16 Goodwill

	2021 £m	2020 £m
Cost		
At 1 April	**91.4**	90.9
Adjustment to provisional fair values on acquisition	**–**	0.5
At 31 March	**91.4**	91.4

Goodwill relates to specific cash-generating units ('CGUs') hence no allocation of goodwill is required. A summary of the carrying amount of goodwill by CGU is presented below.

	2021 £m	2020 £m
Regulated Water and Waste Water	**62.2**	62.2
Green Power South (formerly Agrivert)	**29.2**	29.2
	91.4	91.4

a) Regulated Water and Waste Water

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2020: £4.3 million).

On 1 July 2018 Instruments of appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is allocated to the Regulated Water and Waste Water cash-generating unit.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a Level 3 valuation, 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 four year period to 31 March 2025.

The key assumptions underlying these projections are the cash flows in the projections and the following:

Key assumption	**%**
Discount rate	5.9
RPI inflation	2.7
CPI inflation	2.0
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 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 2.7% and 2.0% 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, based on past experience.

The fair value less costs to sell for the CGU exceeded its carrying value by £3,725 million. An increase in the discount rate to 6.8% or a reduction in the growth rate in the period beyond the detailed projections to 1.0% would reduce the recoverable amount to the carrying amount of the CGU.

16 Goodwill (continued)

b) Green Power South (formerly 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 in the prior year increased the goodwill to £29.2 million. 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 2026.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	6.0
Growth rate in the period beyond the detailed projections	2.0

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 2.0% in the Group's free cash flows, informed through external market trends.

The value in use for the CGU exceeded its carrying value by £59 million. An increase in the discount rate to 7.8% or reduction in the growth rate in the period beyond the detailed projections to negative 0.2% 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 2019	235.2	135.0	12.8	35.8	418.8
Additions	44.6	17.9	–	–	62.5
At 1 April 2020	279.8	152.9	12.8	35.8	481.3
Additions	10.8	11.4	–	–	22.2
Disposals	(8.9)	(1.8)	–	–	(10.7)
Transfers from property, plant and equipment	22.2	–	–	–	22.2
At 31 March 2021	**303.9**	**162.5**	**12.8**	**35.8**	**515.0**
Amortisation					
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 1 April 2020	(205.3)	(106.6)	(12.8)	(2.8)	(327.5)
Amortisation for the year	(20.0)	(12.1)	–	(2.1)	(34.2)
Disposals	8.9	1.8	–	–	10.7
At 31 March 2021	**(216.4)**	**(116.9)**	**(12.8)**	**(4.9)**	**(351.0)**
Net book value					
At 31 March 2021	**87.5**	**45.6**	**–**	**30.9**	**164.0**
At 31 March 2020	74.5	46.3	–	33.0	153.8

Other intangible assets include the instrument of appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert. The instrument of appointment has an indefinite useful life and as such the carrying value has been included in the impairment assessment performed for the Regulated Water and Waste Water CGU described in note 16. As at 31 March 2021 no impairment was recorded (2020: nil).

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 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 1 April 2020	3,754.1	5,497.7	4,340.7	67.2	1,492.8	15,152.5
Additions	121.6	108.9	226.0	6.4	196.5	659.4
Transfers on commissioning	144.4	166.6	258.1	2.5	(571.6)	-
Transfers to intangible assets	-	-	-	-	(22.2)	(22.2)
Disposals	(5.1)	-	(32.0)	(3.8)	(0.2)	(41.1)
At 31 March 2021	**4,015.0**	**5,773.2**	**4,792.8**	**72.3**	**1,095.3**	**15,748.6**
Depreciation						
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 1 April 2020	(1,451.5)	(1,393.6)	(2,690.6)	(36.0)	-	(5,571.7)
Charge for the year	(95.7)	(41.1)	(199.5)	(5.7)	-	(342.0)
Disposals	5.0	-	32.0	3.3	-	40.3
At 31 March 2021	**(1,542.2)**	**(1,434.7)**	**(2,858.1)**	**(38.4)**	**-**	**(5,873.4)**
Net book value						
At 31 March 2021	**2,472.8**	**4,338.5**	**1,934.7**	**33.9**	**1,095.3**	**9,875.2**
At 31 March 2020	2,302.6	4,104.1	1,650.1	31.2	1,492.8	9,580.8

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £44.9 million (2020: £71.1 million).

The net book value of land and buildings is analysed as follows:

	2021 £m	2020 £m
Freehold	**2,472.5**	2,302.3
Short leasehold	**0.3**	0.3
	2,472.8	2,302.6

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 j).

During the year the Group negotiated an option to extend the lease relating to its West London anaerobic digestion plant for a further 25 years from 2038. The Group assessed that it was reasonably certain that the option would be exercised and has adjusted the right-of-use asset and lease liability accordingly. The Group also reconsidered its assessment of its options to extend its leases relating to the Wallingford, Cassington and North London sites and determined that it was now reasonably certain that these options would be exercised. Accordingly the Group has also adjusted these right-of-use assets and lease liabilities to reflect the extension periods.

The inclusion of these extension periods in the lease terms increased the right-of-use assets by £1.6 million and the lease liabilities by £1.6 million. The impact on amounts charged to the income statement was not material.

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:

	2021 £m	2020 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**1.3**	1.4
Infrastructure assets	**1.2**	1.0
Fixed plant and equipment	**0.4**	3.6
Moveable plant	**0.7**	0.6
Total depreciation of right-of-use assets	**3.6**	6.6

Interest expense included in finance cost	**4.3**	4.3
Expense relating to short-term leases included in operating costs	**1.0**	1.1
Expense relating to leases of low value assets included in operating costs	**0.4**	0.1

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	2021 £m	2020 £m
Right-of-use assets:		
Land and buildings	**11.8**	10.4
Infrastructure assets	**112.6**	113.8
Fixed plant and equipment	**4.3**	4.2
Moveable plant	**2.1**	0.4
	130.8	128.8

Additions to right-of-use assets were £5.6 million.

	2021 £m	2020 £m
Lease liabilities:		
Current	**7.7**	5.8
Non-current	**113.6**	116.9
	121.3	122.7

19 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities were as follows:

	2021 £m	2020 £m
Within 1 year	**13.2**	10.1
1 – 2 years	**9.8**	10.0
2 – 5 years	**32.4**	31.2
After more than 5 years	**100.7**	112.7
Gross obligations under leases	**156.1**	164.0
Less future finance charges	**(34.8)**	(41.3)
Present value of lease obligations	**121.3**	122.7

Net obligations under leases were as follows:

	2021 £m	2020 £m
Within 1 year	**7.6**	5.8
1 – 2 years	**6.3**	5.7
2 – 5 years	**22.9**	20.9
After more than 5 years	**84.5**	90.3
Included in non-current liabilities	**113.7**	116.9
	121.3	122.7

d) Cash flow

The total cash outflow for leases in the year was £9.9 million (2020: £9.8 million) which consists of £4.3 million (2020: £4.3 million) payments of interest and £5.6 million (2020: £5.5 million) repayment of principal elements. This is included in financing cash flows.

20 Interests in joint venture

Particulars of the Group's principal joint venture undertaking at 31 March 2021 were:

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Group Limited	Joint venture	Great Britain	Ordinary B	50%

Water Plus is the largest business retailer in the non-household retail water market in England and Scotland 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 the investment were as follows:

	2021 £m	2020 £m
Carrying value of joint venture investment at 1 April	-	37.0
Zero coupon loan note classified as part of net investment	-	9.8
RCF reclassified as additional long-term investment	32.5	-
Group's unrecognised losses after tax from prior year	(4.9)	-
Group's share of loss after tax and comprehensive loss	(8.9)	(46.8)
As at 31 March	18.7	-
Amount included in long-term loans and receivables	(18.7)	-
Carrying value of joint venture investment at 31 March	-	-

In common with other non-household retailers, Water Plus has been significantly impacted by the COVID-19 pandemic. The resulting lockdown significantly reduced business customers' water consumption, and Water Plus's revenues and profits after tax. Water Plus also expects to see increases in business customer failures as a result of lower economic activity in the past year.

At the previous year end (31 March 2020) we wrote down our investment in Water Plus to nil. Given that the Group's intention at 31 March 2021 was to extinguish the existing £32.5 million Revolving Credit Facility ('RCF') extended to Water Plus and replace it with a long-term capital investment, this amount has been classified as part of the Group's net investment in Water Plus. Details are provided in note 4. A total loss of £13.8 million (2020: loss of £46.8 million) has been recorded in the current period in the income statement, consisting of £4.9 million unrecognised losses from the prior period recorded as an exceptional item, and the Group's share of Water Plus's losses after tax for the year ended 31 March 2021 of £8.9 million recorded in adjusted results.

The Group has no accumulated unrecognised losses in Water Plus at 31 March 2021 (2020: £4.9 million).

As at 31 March 2021 and 2020 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 2021 or 2020.

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. The guarantee is capped at £54.1 million (2020: £54.1 million).

The registered office of Water Plus Group Limited is Two Smithfield, Leonard Coates Way, Stoke-On-Trent ST1 4FD.

At 31 March 2021 Water Plus had current assets of £263.6 million, non-current assets of £27.6 million, current liabilities of £55.2 million and non-current liabilities of £284.4 million. Included in these amounts were cash of £20.3 million, current financial liabilities (excluding trade and other payables and provisions) of nil and non-current financial liabilities of £282.9 million.

Its revenue for the year then ended was £722.6 million and it recorded a loss for the year and total comprehensive loss of £17.7 million after depreciation and amortisation of £5.3 million, finance income of £3.2 million, finance costs of £8.5 million and a tax credit of £2.2 million.

21 Categories of financial assets

	Note	2021 £m	2020 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**16.0**	36.7
Interest rate swaps – not hedge accounted		**-**	4.9
		16.0	41.6
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**16.5**	23.7
Energy hedges – cash flow hedges		**8.4**	0.2
		24.9	23.9
Total derivative financial assets		**40.9**	65.5
Financial assets at amortised cost			
Trade receivables	22	**207.8**	220.1
Accrued income	22	**219.0**	241.8
Other amounts receivable	22	**45.9**	58.0
Loan receivable from joint venture	22	**84.0**	92.6
Short term deposits	23	**-**	11.3
Cash at bank and in hand	23	**56.2**	37.3
Total financial assets at amortised cost		**612.9**	661.1
Total financial assets		**653.8**	726.6
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**37.1**	65.5
Trade and other receivables		**94.6**	103.7
		131.7	169.2
Current assets			
Derivative financial assets		**3.8**	-
Trade and other receivables		**462.1**	508.8
Loan receivable from joint venture		**-**	-
Cash and cash equivalents		**56.2**	48.6
		522.1	557.4
		653.8	726.6

22 Trade and other assets

	2021 £m	2020 (restated) £m
Current assets		
Net trade receivables	**207.8**	220.1
Other amounts receivable	**35.3**	46.9
Contract assets	**38.2**	36.6
Prepayments	**14.9**	16.0
Net accrued income	**219.0**	241.8
	515.2	561.4
Non-current assets		
Other amounts receivable	**10.6**	11.1
Prepayments	**6.9**	14.1
Loan receivable from joint venture	**84.0**	92.6
	101.5	117.8
	616.7	679.2

A prior period adjustment has been made to reflect a change in presentation for the ageing of contract assets. See note 2 a (iii).

Prepayments includes unamortised success fees paid as a result of winning the MOD contract (see note 6) amounting to £5.3 million (2020: £5.9 million). The costs are being amortised on a straight line basis over the life of the contract.

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 92% of Group turnover and 93% 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 venture 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 (2020: 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 (2020: nil).

iii) Loan 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.

22 Trade and other receivables (continued)

b) Expected credit loss allowance

i) Trade receivables and accrued income

The expected credit loss at 31 March 2021 and 2020 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.

2021	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	**5**	**285.1**	**(14.4)**	**270.7**
Up to 1 year past due	**29**	**85.1**	**(24.6)**	**60.5**
1 – 2 years past due	**45**	**57.4**	**(25.7)**	**31.7**
2 – 3 years past due	**49**	**43.2**	**(21.2)**	**22.0**
3 – 4 years past due	**47**	**32.9**	**(15.4)**	**17.5**
4 – 5 years past due	**49**	**22.1**	**(10.8)**	**11.3**
5 – 6 years past due	**62**	**16.2**	**(10.0)**	**6.2**
6 – 7 years past due	**62**	**10.6**	**(6.6)**	**4.0**
7 – 8 years past due	**61**	**4.9**	**(3.0)**	**1.9**
8 – 9 years past due	**64**	**2.8**	**(1.8)**	**1.0**
More than 9 years past due	**100**	**3.6**	**(3.6)**	**–**
		563.9	**(137.1)**	**426.8**

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

Movements on the expected credit loss allowance were as follows:

	2021 £m	2020 £m
At 1 April	**141.7**	120.2
Charge for bad and doubtful debts	**40.0**	42.9
Amounts written off during the year	**(44.6)**	(21.4)
At 31 March	**137.1**	141.7

ii) Loan receivable from joint venture

In the previous year, the Group determined that there had been a significant increase in the credit risk since inception relating to its loans receivable of £85.3 million (2020: £97.5 million) from Water Plus, in the light of a significant increase in losses incurred by Water Plus. Following continued losses from Water Plus in the current year, the Group determines that there continues to be a significant increase in credit risk since inception on the loan receivable balance from Water Plus, albeit at a reduced level to the prior year. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2021 (2020: lifetime 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 reduced the expected credit loss provision to £1.3 million (2020: £4.9 million) resulting in a net loan receivable of £84.0 million (2020: £92.6 million).

23 Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**56.2**	37.3
Short term deposits	**–**	11.3
	56.2	48.6

Short term bank deposits are held as security deposits for insurance obligations, which are not available for use by the Group. In addition, £22.1 million (2020: £17.5 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

	2021 £m	2020 £m
Current liabilities		
Bank loans	**232.0**	469.5
Other loans	**251.2**	0.1
Lease liabilities	**7.7**	5.8
Overdraft	**12.2**	–
	503.1	475.4
Non-current liabilities		
Bank loans	**779.1**	782.4
Other loans	**5,220.1**	5,058.4
Lease liabilities	**113.6**	116.9
	6,112.8	5,957.7
	6,615.9	6,433.1

See note 35 for details of interest rates payable and maturity of borrowings.

25 Categories of financial liabilities

	Note	2021 £m	2020 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**64.0**	78.5
Inflation swaps – not hedge accounted		**32.1**	27.7
		96.1	106.2
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**0.6**	–
Interest rate swaps – cash flow hedges		**30.2**	50.2
Energy hedges – cash flow hedges		**–**	7.2
		30.8	57.4
Total derivative financial liabilities		**126.9**	163.6
Other financial liabilities			
Borrowings	24	**6,615.9**	6,433.1
Trade payables	26	**40.8**	45.4
Other payables	26	**8.7**	23.1
Total other financial liabilities		**6,665.4**	6,501.6
Total financial liabilities		**6,792.3**	6,665.2
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**126.9**	159.2
Borrowings		**6,112.8**	5,957.7
Other payables		**–**	6.5
		6,239.7	6,123.4
Current liabilities			
Derivative financial liabilities		**–**	4.4
Borrowings		**503.1**	475.4
Trade payables		**40.8**	45.4
Other payables		**8.7**	16.6
		552.6	541.8
		6,792.3	6,665.2

26 Trade and other payables

	2021 £m	2020 £m
Current liabilities		
Trade payables	**40.8**	45.4
Social security and other taxes	**7.6**	7.7
Other payables	**8.7**	16.6
Accruals	**484.9**	487.6
Deferred income	**15.1**	16.3
	557.1	573.6
Non-current liabilities		
Other payables	**-**	6.5
Accruals	**6.3**	8.8
Deferred income	**1,244.0**	1,172.0
	1,250.3	1,187.3
	1,807.4	1,760.9

Movements in the deferred income balance are set out in note 6 to the financial statements.

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 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
Charge/(credit) to equity arising from rate change	–	(2.3)	(0.4)	–	(2.7)
At 1 April 2020	950.3	(2.9)	(48.3)	2.0	901.1
Charge/(credit) to income	21.8	5.9	1.4	(0.9)	28.2
Charge/(credit) to equity	–	(30.8)	7.9	(0.4)	(23.3)
At 31 March 2021	**972.1**	**(27.8)**	**(39.0)**	**0.7**	**906.0**

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

	2021 £m	2020 £m
Deferred tax asset	**(66.8)**	(51.2)
Deferred tax liability	**972.8**	952.3
	906.0	901.1

In March 2021 the UK Government announced its intention to increase the rate of corporation tax to 25% with effect from 1 April 2023. If this rate had applied at the balance sheet date the deferred tax liability would have been £286 million higher.

28 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual. The defined benefit pension schemes cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by Trustees. The Trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the Trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applied 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 2020

* 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

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2021 £m	2020 £m
Fair value of assets	**2,600.4**	2,414.1
Present value of the defined benefit obligations	**(2,968.1)**	(2,648.1)
	(367.7)	(234.0)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**17.1**	21.3
Retirement benefit obligation – funded schemes in deficit	**(376.5)**	(247.4)
Retirement benefit obligation – unfunded schemes	**(8.3)**	(7.9)
Retirement benefit obligation – total	**(384.8)**	(255.3)
Net retirement benefit obligation	**(367.7)**	(234.0)

STPS, STMIPS, and DVWS	2021 £m	2020 £m
Fair value of scheme assets		
Equities	**493.3**	275.6
Corporate bonds	**1,047.5**	925.7
Liability-driven investment funds ('LDIs')	**629.9**	720.4
Property	**255.1**	261.9
High-yield bonds	**28.4**	28.2
Cash	**146.2**	202.3
	2,600.4	2,414.1

Most of the assets have quoted prices in active markets, but there are equities, corporate bonds and LDI investments which are unquoted amounting to £544.6 million.

28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes (continued)

Movements in the fair value of the scheme assets were as follows:

	2021 £m	2020 £m
Fair value at 1 April	**2,414.1**	2,418.9
Interest income on scheme assets	**57.3**	58.2
Contributions from the sponsoring companies	**38.1**	46.2
Contributions from scheme members	**–**	0.1
Return on plan assets (excluding amounts included in finance income)	**212.7**	(0.4)
Scheme administration costs	**(3.9)**	(3.4)
Benefits paid	**(117.9)**	(105.5)
Fair value at 31 March	**2,600.4**	2,414.1

Movements in the present value of the defined benefit obligations were as follows:

	2021 £m	2020 £m
Present value at 1 April	**(2,648.1)**	(2,871.8)
Service cost	**(0.2)**	(0.2)
Past service cost	**(0.3)**	–
Interest cost	**(62.7)**	(69.3)
Contributions from scheme members	**–**	(0.1)
Actuarial gains/(losses) arising from changes in demographic assumptions	**33.9**	(49.0)
Actuarial (losses)/gains arising from changes in financial assumptions	**(439.7)**	222.5
Actuarial gains arising from experience adjustments	**31.1**	14.3
Benefits paid	**117.9**	105.5
Present value at 31 March	**(2,968.1)**	(2,648.1)

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £8.3 million (2020: £7.9 million) is included as an unfunded scheme *within the retirement benefit obligation.*

The Group has assessed that is has an unconditional right to a refund of any surplus assets in each of the schemes following settlement of all obligations to scheme members and therefore the surplus in DVWS has been recognised in full.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2021 £m	2020 £m
Amounts charged to operating costs:		
Current service cost	**(0.2)**	(0.2)
Past service cost	**(0.3)**	–
Scheme administration costs	**(3.9)**	(3.4)
	(4.4)	(3.6)
Amounts charged to finance costs:		
Interest cost	**(62.7)**	(69.3)
Amounts credited to finance income:		
Interest income on scheme assets	**57.3**	58.2
Total amount charged to the income statement	**(9.8)**	(14.7)

28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes (continued)

The actual return on scheme assets was a gain of £270.0 million (2020: £57.8 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

On 20 November 2020 the High Court issued a judgment in relation to the application of gender equality in Guaranteed Minimum Pension rights as far as it relates to historical transfer values paid that may have an impact on the Group's defined benefit pension liabilities. The Group has estimated the cost of equalising these further benefits, and has allowed for this cost within the past service cost item over 2020/21 (£0.3 million).

(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.

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:

	2021 % pa	2020 % pa
Price inflation – RPI	**3.2**	2.5
Price inflation – CPI	**2.4**	1.7
Discount rate	**2.0**	2.4
Pension increases in payment	**3.2**	2.5
Pension increases in deferment	**3.2**	2.5

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.

28 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(v) Actuarial assumptions (continued)

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:

	2021		2020	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA_L**	**S3PFA_M**	S3PMA_L	S3PFA_M
Mortality table compared with standard table	**112%**	**95%**	112%	95%
Mortality projections	**CMI 2020**	**CMI 2020**	CMI 2019	CMI 2019
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Weighting factor given to data for 2020	**20%**	**20%**	n/a	n/a
Remaining life expectancy for members currently aged 65 (years)	**21.8**	**23.6**	22.2	23.9
Remaining life expectancy at age 65 for members currently aged 45 (years)	**22.7**	**24.8**	23.1	25.1

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to the discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate[1]	Increase/decrease by 0.1% pa	Decrease/increase by £48/£50 million
Price inflation[2]	Increase/decrease by 0.1% pa	Increase/decrease by £42/£41 million
Mortality[3]	Increase/decrease in life expectancy by 1 year	Increase/decrease by £125 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 adjusted 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 trustee for each scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 17 years for STPS and STMIPS (2020: 16 years) and 15 years for DVWS (2020: 14 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 2020 for DVWS. As a result of the STPS and STMIPS actuarial valuations, annual deficit reduction contributions of £32.4 million, increasing in line with CPI inflation until 31 March 2027, were agreed for the STPS. During the financial year ended 31 March 2021, £12.7 million of these payments were made. With the approval of the scheme Trustee, the remaining scheduled contributions in respect of the financial year ending 31 March 2021 have been paid in April 2021.

Payments of £8.2 million per annum through an asset backed funding arrangement will also continue to 31 March 2032 for the STPS. 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 the STPS show that these contributions are no longer needed.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £26.3 million (2020: £25.6 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2021, no contributions (2020: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

29 Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2020	21.5	22.5	44.0
Charged to income statement	4.3	0.6	4.9
Other net additions	–	6.3	6.3
Utilisation of provision	(6.9)	(5.3)	(12.2)
Unwinding of discount	–	0.2	0.2
At 31 March 2021	***18.9***	***24.3***	***43.2***

	2021 £m	2020 £m
Included in:		
Current liabilities	**18.0**	18.9
Non-current liabilities	**25.2**	25.1
	43.2	44.0

Other net additions to provisions comprise mainly provisions for capital works.

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 ten years from the balance sheet date.

30 Share capital

	2021 £m	2020 £m
Total issued and fully paid share capital		
242,259,862 ordinary shares of 97 17/19p (2020: 241,537,324)	**237.2**	236.5

At 31 March 2021, 3,376,054 treasury shares (2020: 3,581,338) were held at a nominal value of £3,304,979 (2020: £3,505,941).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of 97 17/19p		
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 1 April 2020	241,537,324	236.5
Shares issued under the Employee Sharesave Scheme	722,538	0.7
At 31 March 2021	242,259,862	237.2

31 Share premium

	2021 £m	2020 £m
At 1 April	**137.0**	128.0
Share premium arising on issue of shares for Employee Sharesave Scheme	**11.1**	9.0
At 31 March	**148.1**	137.0

32 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2019	157.1	(64.3)	92.8
Total comprehensive income for the year	–	(24.9)	(24.9)
At 1 April 2020	157.1	(89.2)	67.9
Total comprehensive income for the year	–	33.8	33.8
At 31 March 2021	**157.1**	**(55.4)**	**101.7**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps and energy 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 floating interest rates debt, which comprises 8% (2020: 12%) of our gross debt portfolio at the balance sheet date, with a further 25% (2020: 24%) of index linked debt and 67% (2020: 64%) 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 not 35 a) (ii).

At 31 March 2021 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 maintain its RCV gearing ratio close to the Ofwat assumption at the Price Review (60% for AMP7). At 31 March 2021 the Group's RCV gearing ratio was 67.5% (2020: 64.9%) and for Severn Trent Water Group it was 64.5% (2020: 64.4%).

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 2020/21 dividend at 101.58 pence, an increase of 1.5% compared to the total dividend for 2019/20 of 100.08 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

33 Capital management (continued)

The Group's capital at 31 March was:

	2021 £m	2020 £m
Net cash and cash equivalents	**44.0**	48.6
Bank loans	**(1,011.1)**	(1,251.9)
Other loans	**(5,471.3)**	(5,058.5)
Lease liabilities	**(121.3)**	(122.7)
Cross currency swaps	**31.9**	60.4
Loans receivable from joint venture	**84.0**	92.6
Net debt	**(6,443.8)**	(6,231.5)
Equity attributable to owners of the Company	**(1,138.7)**	(1,243.7)
Total capital	**(7,582.5)**	(7,475.2)

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:

	2021 £m	2020 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**32.5**	60.4	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.
Liabilities	**(0.6)**	–	
Interest rate swaps			Discounted cash flow
Assets	**–**	4.9	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	**(94.2)**	(128.7)	
Energy swaps			Discounted cash flow
Assets	**8.4**	0.2	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)	
Inflation swaps			Discounted cash flow
Liabilities	**(32.1)**	(27.7)	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI. Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.

34 Fair value of financial instruments (continued)

a) Fair value measurements (continued)

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 2019	(6.2)	(3.0)
Losses recognised in profit or loss	(21.5)	–
At 1 April 2020	(27.7)	(3.0)
Amounts paid	–	3.0
Losses recognised in profit or loss	(4.4)	–
At 31 March 2021	**(32.1)**	**–**

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 change of 10bps in the CPI wedge would result in a change in the carrying value of £7.0 million.

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:

	31 March 2021		31 March 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**858.4**	**860.0**	948.9	947.1
Other loans	**183.1**	**190.8**	187.2	180.9
Overdraft	**12.2**	**12.2**	–	–
	1,053.7	**1,063.0**	1,136.1	1,128.0
Fixed rate debt				
Bank loans	**30.4**	**30.7**	182.2	182.1
Other loans	**3,751.2**	**4,201.3**	3,472.8	3,903.1
Lease liabilities	**121.3**	**134.1**	122.7	129.5
	3,902.9	**4,366.1**	3,777.7	4,214.7
Index-linked debt				
Bank loans	**122.3**	**146.2**	120.8	138.0
Other loans	**1,537.0**	**2,490.1**	1,398.5	1,904.2
	1,659.3	**2,636.3**	1,519.3	2,042.2
	6,615.9	**8,065.4**	6,433.1	7,384.9

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 note 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 CPIH. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPIH, 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 CPIH.

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 AMP 7. 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:

	2021 £m	2020 £m
Net debt (note 38)	**6,443.8**	6,231.5
Cash and cash equivalents	**56.2**	48.6
Loans receivable from joint venture	**84.0**	92.6
Cross currency swaps included in net debt at fair value	**31.9**	60.4
Fair value hedge accounting adjustments	**(23.9)**	(29.3)
Exchange on currency debt not hedge accounted	**(8.4)**	(23.1)
Interest bearing financial liabilities	**6,583.6**	6,380.7

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.

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest. 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 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.

2021	*Floating rate* £m	*Fixed rate* £m	Index- linked £m	Total £m
Overdraft	(12.2)	-	-	(12.2)
Bank loans	(858.4)	(30.4)	(122.3)	(1,011.1)
Other loans	(183.1)	(3,718.9)	(1,537.0)	(5,439.0)
Lease liabilities	-	(121.3)	-	(121.3)
	(1,053.7)	**(3,870.6)**	**(1,659.3)**	**(6,583.6)**
Impact of swaps not matched against specific debt instruments	524.6	(524.6)	-	-
Interest bearing financial liabilities	**(529.1)**	**(4,395.2)**	**(1,659.3)**	**(6,583.6)**
Proportion of interest bearing financial liabilities that are fixed		**67%**		
Weighted average interest rate of fixed debt		**3.81%**		
Weighted average period for which interest is fixed (years)		**7.2**		

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		

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £17.0 million (2020: £7.0 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2021 %	2020 %	**2021** £m	2020 £m	**2021** £m	2020 £m
Pay fixed rate interest						
2-5 years	**5.10**	5.10	**(200.0)**	(200.0)	**(33.3)**	(41.4)
5-10 years	**5.52**	-	**(35.0)**	-	**(13.9)**	-
10-20 years	**5.41**	5.46	**(40.0)**	(75.0)	**(16.8)**	(37.1)
	5.20	5.20	**(275.0)**	(275.0)	**(64.0)**	(78.5)
Receive fixed rate interest						
10-20 years	-	2.75	-	50.0	-	4.9
			(275.0)	(225.0)	**(64.0)**	(73.6)

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

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:

	2021		2020	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**9.6**	**(10.8)**	6.2	(7.0)
Cash flow	**(6.7)**	**6.7**	(7.8)	7.8
Equity	**9.6**	**(10.8)**	6.2	(7.0)

(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 (2020: nil) in the income statement.

The Group has raised debt denominated in currencies other than sterling to meet its objective of accessing a broad range of sources of finance. The Group mitigated its exposure to exchange rate fluctuations by entering into cross currency swaps 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 adjusted 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).

The Group also has cross currency swaps with a sterling notional value of £98.3 million (2020: £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 debit of £19.7 million (2020: credit of £18.6 million) in the income statement, which is partly offset by the exchange gain of £12.3 million (2020: loss of £5.6 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.

2021	**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	**–**	**–**	**–**

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	–	–	–

35 Risks arising from financial instruments (continued)

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	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Double A range	**–**	15.0	**–**	–
Single A range	**890.5**	800.0	**–**	11.3
Below single A range	**10.0**	–	**–**	–
	900.5	815.0	**–**	11.3

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2021 £m	2020 £m
Double A range	**–**	4.9
Single A range	**40.9**	60.6
	40.9	65.5

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:

	2021 £m	2020 £m
Within 1 year	**55.8**	–
1 – 2 years	**789.2**	755.0
	845.0	755.0

35 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

(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.

2021 **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	**(247.8)**	**(396.3)**	**(28.1)**	**(53.8)**	**(726.0)**
1 - 2 years	**(11.0)**	**(390.9)**	**(124.3)**	**-**	**(526.2)**
2 - 5 years	**(661.5)**	**(1,194.3)**	**(129.8)**	**-**	**(1,985.6)**
5 - 10 years	**(172.0)**	**(1,395.7)**	**(187.0)**	**-**	**(1,754.7)**
10 - 15 years	**-**	**(752.7)**	**(221.1)**	**-**	**(973.8)**
15 - 20 years	**-**	**(735.0)**	**(153.8)**	**-**	**(888.8)**
20 - 25 years	**-**	**(367.1)**	**(181.0)**	**-**	**(548.1)**
25 - 30 years	**-**	**-**	**(210.8)**	**-**	**(210.8)**
30 - 35 years	**-**	**-**	**(918.8)**	**-**	**(918.8)**
35 - 40 years	**-**	**-**	**(2,950.8)**	**-**	**(2,950.8)**
40 - 45 years	**-**	**-**	**(20.2)**	**-**	**(20.2)**
45 - 50 years	**-**	**-**	**(257.8)**	**-**	**(257.8)**
Total	**(1,092.3)**	**(5,232.0)**	**(5,383.5)**	**(53.8)**	**(11,761.6)**

Undiscounted amounts receivable:	**Loans due from joint ventures £m**	**Trade and other receivables £m**	**Cash and short term deposits £m**	**Receipts from financial assets £m**
Within 1 year	**34.8**	**462.1**	**56.2**	**553.1**
1 - 2 years	**2.3**	**10.6**	**-**	**12.9**
2 - 5 years	**69.2**	**-**	**-**	**69.2**
5 - 10 years	**12.5**	**-**	**-**	**12.5**
Total	**118.8**	**472.7**	**56.2**	**647.7**

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)

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		
2021	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	**(20.7)**	**0.1**	**7.7**	**6.0**	**(2.2)**	**(9.1)**
1 – 2 years	**(19.6)**	**0.1**	**3.9**	**6.0**	**(2.6)**	**(12.2)**
2 – 5 years	**(36.5)**	**0.6**	**0.5**	**35.5**	**(21.0)**	**(20.9)**
5 – 10 years	**(20.4)**	**(5.2)**	**–**	**147.8**	**(135.1)**	**(12.9)**
10 – 15 years	**(0.8)**	**2.0**	**–**	**–**	**–**	**1.2**
15 – 20 years	**–**	**(37.3)**	**–**	**–**	**–**	**(37.3)**
	(98.0)	**(39.7)**	**12.1**	**195.3**	**(160.9)**	**(91.2)**

	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)

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 2021 as measured by CPIH). 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 is moving 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 (2020: £350 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

35 Risks arising from financial instruments (continued)

d) Inflation risk (continued)

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.

	2021		2020	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(13.4)**	**13.4**	(12.3)	12.3
Equity	**(13.4)**	**13.4**	(12.3)	12.3

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

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 adjusted debt, the swaps are expected tobe 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**	
	***2021* £m**	*2020* £m	***2021* £m**	*2020* £m
Euro	**11.4**	11.4	**9.1**	10.1
US dollar	**23.2**	23.2	**7.4**	3.4
Yen	**8.5**	8.5	**(0.6)**	10.2
	43.1	43.1	**15.9**	23.7

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	**2021 %**	2020 %	**2021 £m**	2020 £m	**2021 £m**	2020 £m
5 – 10 years	**2.53**	2.57	**130.4**	132.2	**(11.1)**	(15.3)
10 – 20 years	**1.83**	1.83	**248.0**	298.0	**(19.2)**	(34.9)
	2.07	2.06	**378.4**	430.2	**(30.2)**	(50.2)

The Group recognised a loss on hedge ineffectiveness of £2.0 million (2020: gain of £2.7 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	**2021 £/MWh**	2020 £/MWh	**2021 MWh**	2020 MWh	**2021 £m**	2020 £m
Less than 1 year	**43.2**	44.7	**306,360**	372,240	**3.8**	(4.4)
1 – 2 years	**38.6**	43.1	**175,680**	372,240	**2.0**	(1.6)
2 – 5 years	**48.3**	44.6	**284,040**	459,720	**2.6**	(1.0)
	44.0	44.2	**766,080**	1,204,200	**8.4**	(7.0)

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**	
2021	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Cross currency swaps	**–**	**(58.7)**	**–**	**(15.3)**
Interest rate swaps	**–**	**(377.9)**	**–**	**–**
	–	**(436.6)**	**–**	**(15.3)**

	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)

£58.7 million (2020: £65.4 million) of the carrying amount of hedged items and £15.3 million (2020: £19.5 million) of the cumulative amount of fair value adjustments on the hedged items relate to fair value hedges. The remainder relates to cash flow hedges.

36 Hedge accounting (continued)

b) Cash flow hedges (continued)

(ii) Energy swaps (continued)

Amendments to IFRS 9

From 1 April 2019, the Group 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 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'). On 5 March 2021, the FCA announced that all panel bank LIBOR settings will cease at the end of 2021.

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 risk-free rates ahead of 31 December 2021.

The Group has commenced transitioning its floating rate debt. In April 2021 Severn Trent Water refinanced its committed bank facilities, agreeing a £1 billion Revolving Credit Facility which uses SONIA as its reference rate. The Group is in dialogue with our other lenders, comprising bank lenders and USPP noteholders to agree amendments to the fall back provisions to move from GBP LIBOR to SONIA.

For the Group's derivatives, the Group plans to transition its swap book ahead of 31 December 2021 through adoption of the International Swaps and Derivatives Association ('ISDA') IBOR Fall Back protocol, or through bilateral agreement of the transition of individual swaps with its counterparties.

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	30.4	6m GBP LIBOR debt with same maturity and nominal of 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	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	50.0	
	Pay sterling fixed, receive 6m GBP LIBOR	2030	150.0	

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 of the swap
	Receive EUR fixed, pay 6m GBP LIBOR	2025	€19.9m	Fixed EUR debt with same maturity and nominal of the swap

36 Hedge accounting (continued)

b) Cash flow hedges (continued)

(ii) Energy swaps (continued)

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 adjusted cash flows that the Group is exposed 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 which 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 £7.8 million (2020: £8.1 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £23.86 (2020: £22.07).

At 31 March 2021, there were no options exercisable (2020: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan

Under the Long Term Incentive Plan ('LTIP'), conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2017, 2018, 2019 and 2020 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% (2020: 100%).

37 Share based payment (continued)

a) Long Term Incentive Plan (continued)

(ii) Awards outstanding

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
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 1 April 2020	718,151
Granted during the year	221,997
Vested during the year	(171,326)
Lapsed during the year	(76,633)
Outstanding at 31 March 2020	**692,189**

Details of LTIP awards outstanding at 31 March were as follows:

Date of grant	Normal date of vesting	Number of awards 2021	2020
July 2017	2020	-	181,070
July 2018	2021	**237,003**	266,178
July 2019	2022	**237,863**	270,903
July 2020	2023	**217,323**	-
		692,189	718,151

The awards outstanding at 31 March 2021 had a weighted average remaining contractual life of 1.3 years (2020: 1.4 years).

Details of the basis of the LTIP scheme are set out in the Directors' Remuneration Report on pages 123 and 131.

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 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 1 April 2020	3,956,022	1,633p
Granted during the year	1,046,301	1,860p
Forfeited during the year	(56,751)	1,607p
Cancelled during the year	(117,426)	1,689p
Exercised during the year	(722,538)	1,640p
Lapsed during the year	(2,848)	1,652p
Outstanding at 31 March 2021	**4,102,760**	**1,688p**

37 Share based payment (continued)

b) Employee Sharesave Scheme (continued)

Sharesave options outstanding at 31 March were as follows:

Date of grant	Normal date of exercise	Option price	Number of awards 2021	Number of awards 2020
January 2015	2020	1,584p	**–**	215,914
January 2016	2021	1,724p	**113,104**	117,428
January 2017	2020 or 2022	1,633p	**129,788**	625,429
January 2018	2021 or 2023	1,652p	**710,275**	740,496
January 2019	2022 or 2024	1,474p	**1,155,083**	1,219,105
January 2020	2023 or 2025	1,787p	**956,427**	1,037,650
January 2021	2024 or 2026	1,860p	**1,038,083**	–
			4,102,760	3,956,022

The options outstanding at 31 March 2021 had a weighted average remaining contractual life of 2.0 years (2020: 2.0 years).

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:

	2021			2020		
	LTIP	SAYE		LTIP	SAYE	
		3-year scheme	5-year scheme		3-year scheme	5-year scheme
Share price at grant date (pence)	**2,460**	**2,336**	**2,336**	2,026	2,515	2,515
Option life (years)	**3**	**3.5**	**5.5**	3	3.5	5.5
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**4.2**	**4.3**	**4.3**	5.0	5.0	5.0
Risk free rate (%)	**N/A**	**(0.1)**	**(0.1)**	N/A	0.5	0.6
Fair value per share (pence)	**2,443**	**342**	**302**	2,007	489	416

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 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2021 £m	2020 £m
Profit before interest and tax	**470.7**	568.2
Depreciation of property, plant and equipment	**342.0**	327.4
Depreciation of right-of-use assets	**3.6**	6.6
Amortisation of intangible assets	**32.1**	30.8
Amortisation of acquired intangible assets	**2.1**	2.1
Impairment of property, plant and equipment	**-**	0.5
Pension service cost	**0.5**	0.2
Defined benefit pension scheme administration costs	**3.9**	3.4
Defined benefit pension scheme contributions	**(38.1)**	(46.2)
Share based payment charge	**7.8**	8.1
Profit on sale of property, plant and equipment and intangible assets	**(2.2)**	1.2
Profit on disposal of subsidiary undertaking	**(0.2)**	-
Release from deferred credits	**(15.5)**	(15.4)
Contributions and grants received	**41.4**	39.6
Provisions charged to the income statement	**4.9**	3.3
Utilisation of provisions for liabilities	**(12.2)**	(13.1)
Operating cash flows before movements in working capital	**840.8**	916.7
Increase in inventory	**(1.6)**	(8.4)
Decrease/(increase) in amounts receivable	**51.6**	(12.8)
Increase in amounts payable	**10.9**	32.6
Cash generated from operations	**901.7**	928.1
Tax received	**-**	0.4
Tax paid	**(23.2)**	(34.3)
Net cash generated from operating activities	**878.5**	894.2

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 (2020: 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 venture £m	Net debt £m
At 1 April 2020	48.6	(1,251.9)	(5,058.5)	(122.7)	60.4	92.6	(6,231.5)
Cash flow	(4.6)	243.3	(415.5)	5.6	-	1.0	(170.2)
Fair value adjustments	-	-	5.4	-	-	-	5.4
Inflation uplift on index-linked debt	-	(1.0)	(18.2)	-	-	-	(19.2)
Foreign exchange	-	-	14.8	-	-	-	14.8
Other non-cash movements	-	(1.5)	0.7	(4.2)	(28.5)	(9.6)	(43.1)
At 31 March 2021	**44.0**	**(1,011.1)**	**(5,471.3)**	**(121.3)**	**31.9**	**84.0**	**(6,443.8)**

38 Cash flow statement (continued)

e) Liabilities from financing activities

	Overdraft £m	Bank loans £m	Other loans £m	Lease liabilities £m	Total £m
At 1 April 2020	–	(1,251.9)	(5,058.5)	(122.7)	(6,433.1)
Cash flow	(12.2)	243.3	(415.5)	5.6	(178.8)
Fair value adjustments	–	–	5.4	–	5.4
Inflation adjustment on index-linked debt	–	(1.0)	(18.2)	–	(19.2)
Foreign exchange	–	–	14.8	–	14.8
Other non-cash movements	–	(1.5)	0.7	(4.2)	(5.0)
	(12.2)	**(1,011.1)**	**(5,471.3)**	**(121.3)**	**(6,615.9)**

39 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2020: nil) is expected to arise in respect of either bonds or guarantees.

b) Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies ('PSCs') which allege that the information held by Severn Trent Water Limited ('STW') used to produce the CON29DW residential reports and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited ('STPS'), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which could be held in late 2021 or early 2022.

40 Financial and other commitments

Investment expenditure commitments

	2021 £m	2020 £m
Property, plant and equipment contracted for but not provided for in the financial statements	**236.4**	287.6

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.

41 Post balance sheet events

Water Plus equity investment

On 23 April, the Group extinguished the £32.5 million RCF previously extended to Water Plus, and subscribed for £32.5 million of equity shares. This confirms the Group's documented intention at 31 March 2021 to replace the RCF with a long-term capital investment. Refer to note 4 for further details.

Refinancing

On 22 April the Group completed the refinancing of Severn Trent Water's £900 million revolving credit facility ('RCF') and £75 million of bilateral loan arrangements, with a new £1.0 billion RCF. The new syndicated RCF provides equal financing from twelve banks, and extends the maturity date to April 2026 (plus two one-year extension options).

Dividends

On 18 May, the Board of Directors approved a final dividend of 60.95 pence per share. Further details of this are shown in note 14.

42 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.

	2021 £m	2020 £m
Sale of services	**216.1**	306.6
Net interest income	**2.3**	3.2
	218.4	309.8

42 Related party transactions (continued)

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2021 £m	2020 £m
Amounts due (to)/from related parties	**(2.4)**	12.1
Loans receivable from joint venture	**84.0**	92.6
	81.6	104.7

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.

	2021 £m	2020 £m
Short term employee benefits	**7.3**	7.4
Share based payments	**4.9**	4.2
	12.2	11.6

43 Alternative performance measures

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own APMs, these might not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items
Exceptional items are income or expenditure which individually or, 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) Adjusted PBIT
Adjusted 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. The calculation of this APM is shown on the face of the income statement and in note 5 for reportable segments.

c) Adjusted earnings per share
Adjusted 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 and deferred tax. The Directors consider that the adjusted 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 38.

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.

43 Alternative performance measures (continued)

e) Effective interest cost (continued)

$$\frac{\textit{(net finance costs – net finance costs from pensions + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2021 £m	2020 £m
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Capitalised finance costs	**30.4**	44.2
	212.1	221.5
Average net debt	**6,263.6**	5,972.2
Effective interest cost	**3.4%**	3.7%

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 indexation adjustments on index-linked debt).

$$\frac{\textit{(net finance costs – net finance costs from pensions – indexation adjustments + capitalised finance costs)}}{\textit{(monthly average net debt)}}$$

	2021 £m	2020 £m
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Indexation adjustments	**(19.2)**	(34.0)
Capitalised finance costs	**30.4**	44.2
	192.9	187.5
Average net debt	**6,263.6**	5,972.2
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) Adjusted PBIT interest cover

The ratio of adjusted PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

$$\frac{\textit{Adjusted PBIT}}{\textit{(net finance costs – net finance costs from pensions)}}$$

	2021 £m	2020 £m
Adjusted PBIT	**472.8**	570.3
Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Net finance costs excluding net finance costs from pensions	**181.7**	177.3
	ratio	ratio
Adjusted PBIT interest cover ratio	**2.6**	3.2

This is used to show how the adjusted PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

43 Alternative performance measures (continued)

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.

$$\frac{\text{(adjusted PBIT + depreciation + amortisation)}}{\text{(net finance costs - net finance costs from pensions)}}$$

	2021 £m	2020 £m
Adjusted PBIT	**472.8**	570.3
Depreciation (including right-of-use assets)	**345.6**	334.0
Amortisation (excluding amortisation of intangible assets recognised on acquisition of subsidiaries)	**32.1**	30.8
EBITDA	**850.5**	935.1

Net finance costs	**187.1**	188.4
Net finance costs from pensions	**(5.4)**	(11.1)
Net finance costs excluding finance costs from pensions	**181.7**	177.3

	ratio	ratio
EBITDA interest cover ratio	**4.7**	5.3

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

i) Adjusted 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.

$$\frac{\text{(Current year current tax charge in the income statement - current tax on exceptional items - current tax on financial instruments - current tax on amortisation of acquired intangible assets)}}{\text{(PBT - share of net loss of JVs - exceptional items - net losses/gains on financial instruments - amortisation of acquired intangible assets)}}$$

	2021 £m	2021 Current tax thereon £m	2020 £m	2020 Current tax thereon £m
Profit before tax	**267.2**	**(30.4)**	310.7	(36.2)
Adjustments				
Share of net loss of joint venture	**13.8**	**-**	46.8	-
Amortisation of acquired intangible assets	**2.1**	**-**	2.1	-
Exceptional items	**-**	**-**	4.9	(0.9)
Net losses on financial instruments	**6.2**	**(2.6)**	17.4	(2.6)
	289.3	**(33.0)**	381.9	(39.7)
Adjusted effective current tax rate		**11.4%**		10.4%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in note 15. Share of net loss of joint venture 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.

43 Alternative performance measures (continued)

j) Operational cashflow

Cash generated from operations less contributions and grants received.

	2021 £m	2020 £m
Cash generated from operations	**901.7**	928.1
Contributions and grants received	**(41.4)**	(39.6)
Operational cashflow	**860.3**	888.5

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.

	2021 £m	2020 £m
Purchase of property, plant and equipment	**613.7**	777.2
Purchase of intangible assets	**22.2**	74.8
Payments to acquire right-of-use assets	**0.7**	-
Contributions and grants received	**(41.4)**	(39.6)
Proceeds on disposal of property, plant and equipment	**(2.0)**	(12.9)
Cash capex	**593.2**	799.5

This APM is used to show the cash impact of the Group's capital programmes.

44 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2021 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
Athena Holdings Limited	Hong Kong	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 Investment Holdings Limited
Dee Valley Services Limited	Severn Trent LCP Limited
Dee Valley Water (Holdings) Limited	Severn Trent Leasing Limited
East Worcester Water Limited	Severn Trent Metering Services Limited
Etwall Land Limited	Severn Trent MIS Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent Overseas Holdings Limited
Midlands Land Portfolio Limited	Severn Trent Pension Scheme Trustees Limited
North Wales Gas Limited	Severn Trent PIF Trustees Limited
Northern Gas Supplies Limited	Severn Trent Property Solutions Limited
Severn Trent (W&S) Limited	Severn Trent Reservoirs Limited
Severn Trent Data Portal Limited	Severn Trent Retail and Utility Services Limited
Severn Trent Draycote Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Limited	Severn Trent Services Defence Limited
Severn Trent General Partnership Limited	Severn Trent Services Holdings Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (CW) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (North London) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (RBWM) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (Wallingford) Limited	Severn Trent Water Limited
Severn Trent Green Power (West London) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power Biogas Limited	Severn Trent WWIF Limited
Severn Trent Green Power Composting Limited	Wrexham Water Limited

The Group owns 100% of the share capital of the following subsidiary undertakings.

All subsidiary undertakings	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
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

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

44 Subsidiary undertakings (continued)

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
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

44 Subsidiary undertakings (continued)

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2021 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company number
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 Retail and Utility Services Limited	2562471
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Trimpley Limited	10690056
Severn Trent WWIF Limited	11966722

Company Statement of Comprehensive Income
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Profit for the year		**55.9**	237.8
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	15	**(0.7)**	0.5
Deferred tax on net actuarial losses/gains	6	**0.1**	(0.1)
Deferred tax arising on change of rate	6	**–**	0.2
Other comprehensive (loss)/income for the year		**(0.6)**	0.6
Total comprehensive income for the year		**55.3**	238.4

Company Statement of Changes in Equity
For the year ended 31 March 2021

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 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
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
Profit for the year		–	–	–	55.9	55.9
Net actuarial losses	15	–	–	–	(0.7)	(0.7)
Deferred tax on net actuarial losses	6	–	–	–	0.1	0.1
Total comprehensive income for the year		–	–	–	55.3	55.3
Share options and LTIPs						
– proceeds from shares issued	11,12	0.7	11.1	–	–	11.8
– value of employees' services		–	–	–	7.8	7.8
Transfer		–	–	(3.6)	3.6	–
Dividends paid	19	–	–	–	(240.2)	(240.2)
At 31 March 2021		**237.2**	**148.1**	**157.1**	**2,814.7**	**3,357.1**

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 £1,593.5 million.

Company Balance Sheet
For the year ended 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Intangible fixed assets	2	–	0.1
Tangible fixed assets	3	**0.4**	0.6
Right-of-use assets	4	**0.9**	1.0
Investments in subsidiaries	5	**3,353.8**	3,346.0
Deferred tax asset	6	**1.5**	1.5
Trade and other receivables	7	**846.3**	855.5
		4,202.9	4,204.7
Current assets			
Trade and other receivables	7	**21.3**	27.3
Current tax receivable		–	2.6
Cash and cash equivalents		–	7.7
		21.3	37.6
Current liabilities			
Borrowings	8	**(28.3)**	(35.1)
Trade and other payables	9	**(95.9)**	(95.5)
Current tax payable		**(47.4)**	–
Provisions for liabilities	10	**(1.8)**	(5.3)
		(173.4)	(135.9)
Net current liabilities		**(152.1)**	(98.3)
Total assets less current liabilities		**4,050.8**	4,106.4
Non-current liabilities			
Borrowings	8	**(684.6)**	(571.4)
Trade and other payables	9	**(0.1)**	(1.5)
Retirement benefit obligations	15	**(8.3)**	(7.9)
Provisions for liabilities	10	**(0.7)**	(3.2)
		(693.7)	(584.0)
Net assets		**3,357.1**	3,522.4
Capital and reserves			
Called up share capital	11	**237.2**	236.5
Share premium account	12	**148.1**	137.0
Other reserves	13	**157.1**	160.7
Retained earnings		**2,814.7**	2,988.2
Total capital and reserves		**3,357.1**	3,522.4

The profit for the year is £55.9 million (2020: £237.8 million).

Signed on behalf of the Board who approved the accounts on 18 May 2021.

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 11 (2020: 10).

2 Intangible fixed assets

	Purchased software £m
Cost	
At 1 April 2020 and 31 March 2021	**0.2**
Amortisation	
At 1 April 2020	(0.1)
Amortisation for the year	(0.1)
At 31 March 2021	**(0.2)**
Net book value	
At 31 March 2021	**–**
At 31 March 2020	0.1

3 Tangible fixed assets

	Office fixtures and equipment £m	Assets under construction £m	Total £m
Cost			
At 1 April 2020	–	0.6	0.6
Transfers on commissioning	0.5	(0.5)	–
Disposals	–	(0.1)	(0.1)
At 31 March 2021	**0.5**	**–**	**0.5**
Depreciation			
At 1 April 2020	–	–	–
Charge for the year	(0.1)	–	(0.1)
At 31 March 2021	**(0.1)**	**–**	**(0.1)**
Net book value			
At 31 March 2021	**0.4**	**–**	**0.4**
At 31 March 2020	–	0.6	0.6

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 2021:

	2021 £m	2020 £m
Depreciation charge of right-of-use assets:		
Property	**0.1**	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.

4 Right-of-use assets (continued)

b) Balance sheet

The balance sheet includes the following amounts relating to leases:

	2021 £m	2020 £m
Right-of-use assets:		
Property	**0.9**	1.0

There were no additions to right-of-use assets.

	2021 £m	2020 £m
Lease liabilities:		
Current	**0.1**	0.1
Non-current	**0.9**	1.0
	1.0	1.1

Net lease obligations were as follows:

	2021 £m	2020 £m
Within 1 year	**0.1**	0.1
1 – 2 years	**0.1**	0.1
2 – 5 years	**0.4**	0.3
After more than 5 years	**0.4**	0.6
Included in non-current liabilities	**0.9**	1.0
	1.0	1.1

5 Investments in subsidiaries

	£m
At 1 April 2020	3,346.0
Additions	7.8
At 31 March 2021	**3,353.8**

Details of principal subsidiaries of the Company are given in note 44 to the Group financial statements.

6 Deferred tax

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Total £m
At 1 April 2019	0.1	1.5	1.6
Credit 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 1 April 2020	–	1.5	1.5
Charge to income	–	(0.1)	(0.1)
Credit to equity	–	0.1	0.1
At 31 March 2021	**–**	**1.5**	**1.5**

7 Trade and other receivables

	2021 £m	2020 £m
Current assets		
Other amounts receivable	**0.5**	6.9
Prepayments	**0.2**	-
Amounts owed by group undertakings	**20.6**	20.4
	21.3	27.3
Non-current assets		
Other amounts receivable	**2.9**	-
Loan receivable	**97.6**	-
Amounts owed by group undertakings under loan agreements	**745.8**	855.5
	846.3	855.5
	867.6	882.8

8 Borrowings

	2021 £m	2020 £m
Current liabilities		
Bank overdraft	**12.2**	9.8
Amounts due to group undertakings under loan agreements	**16.0**	25.2
Lease liabilities	**0.1**	0.1
	28.3	35.1
Non-current liabilities		
Amounts due to group undertakings under loan agreements	**392.0**	279.4
Other loans	**291.7**	291.0
Lease liabilities	**0.9**	1.0
	684.6	571.4
	712.9	606.5

At the balance sheet date the Company had £100 million (2020: £100 million) undrawn borrowing facilities.

9 Trade and other payables

	2021 £m	2020 £m
Current liabilities		
Trade payables	**0.1**	0.1
Social security and other taxes	**0.1**	0.1
Other payables	**2.8**	4.6
Accruals	**2.4**	1.1
Amounts due to group undertakings	**90.5**	89.6
	95.9	95.5
Non-current liabilities		
Accruals	**0.1**	1.5
	96.0	97.0

10 Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2020	3.1	5.4	8.5
Charged to income statement	(1.5)	(1.3)	(2.8)
Utilisation of provision	(1.2)	(0.5)	(1.7)
Other	–	(1.5)	(1.5)
At 31 March 2021	**0.4**	**2.1**	**2.5**

	2021 £m	2020 £m
Included in.		
Current liabilities	**1.8**	5.3
Non-current liabilities	**0.7**	3.2
	2.5	8.5

The claim outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

11 Share capital

	2021 £m	2020 £m
Total issued and fully paid share capital		
242,259,862 ordinary shares of $97^{17}/_{19}$p (2020: 241,537,324)	**237.2**	236.5

At 31 March 2021 3,376,054 (2020: 3,581,338) treasury shares were held at a nominal value of £3,304,979 (2020: £3,505,941).

Changes in share capital were as follows:

	Number	£m
Ordinary shares of $97^{17}/_{19}$p		
At 1 April 2019	240,943,929	235.9
Shares issued under the Employee Sharesave Scheme	593,395	0.6
At 1 April 2020	241,537,324	236.5
Shares issued under the Employee Sharesave Scheme	722,538	0.7
At 31 March 2021	**242,259,862**	**237.2**

12 Share premium

	2021 £m	2020 £m
At 1 April 2020	**137.0**	128.0
Share premium arising on issue of shares for Employee Sharesave Scheme	**11.1**	9.0
At 31 March 2021	**148.1**	137.0

13 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total
At 1 April 2019 and 31 March 2020	157.1	3.6	160.7
Transfer to retained earnings	–	(3.6)	(3.6)
At 31 March 2021	**157.1**	**–**	**157.1**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arose 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. The hedging reserve has been transferred to retained earnings during the current year.

14 Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 37 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

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 (2020: £0.4 million). There were no amounts outstanding for contributions to the defined benefit schemes (2020: 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 Group Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee in respect of liabilities to wholesalers is capped at £54.1 million (2020: £54.1 million).

The Company has two revolving credit facilities available to Water Plus totalling £132.5 million. The facility of £32.5 million was terminated on 23 April 2021. At 31 March 2021 the amount drawn was £100 million (2020: nil).

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 2021, the Company had no contingent liabilities (2020: nil).

18 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 60.95 pence per share.

19 Dividends

For details of the dividends paid in the years ended 31 March 2021 and 31 March 2020 see note 14 in the Group financial statements.

Five-year Summary

Continuing operations	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Turnover	**1,827.2**	1,843.5	1,767.4	1,696.4	1,638.0
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**472.8**	570.3	573.6	539.8	520.1
Gain on impairment of loans receivable	**3.6**	–	–	–	–
Net exceptional items before tax	**(4.9)**	(51.7)	(9.6)	(12.6)	16.6
Amortisation of acquired intangible assets	**(2.1)**	(2.1)	(0.7)	–	–
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	**(187.1)**	(188.4)	(194.2)	(219.5)	(205.1)
(Losses)/gains on financial instruments	**(6.2)**	(17.4)	16.0	(6.7)	(1.8)
Results of associates and joint venture[1]	**(8.9)**	–	(0.4)	0.2	(1.8)
Profit on ordinary activities before taxation	**267.2**	310.7	384.7	301.2	328.0
Current taxation on profit on ordinary activities	**(26.8)**	(30.1)	(31.8)	(32.9)	(36.3)
Deferred taxation	**(28.2)**	(29.1)	(39.4)	(28.7)	(22.4)
Exceptional tax	**–**	(92.7)	1.8	–	52.2
Profit on ordinary activities after taxation	**212.2**	158.8	315.3	239.6	321.5
Results from discontinued operations	**–**	–	–	13.2	21.1
Profit for the year	**212.2**	158.8	315.3	252.8	342.6
Net assets employed					
Fixed assets	**10,261.4**	9,954.8	9,337.7	8,660.1	8,315.7
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(1,276.0)**	(1,142.0)	(992.6)	(956.0)	(916.8)
Derivative financial instruments[2]	**(86.0)**	(158.5)	(95.1)	(104.3)	(161.1)
Net retirement benefit obligation	**(367.7)**	(234.0)	(452.9)	(519.8)	(574.6)
Provisions for liabilities and deferred tax	**(949.2)**	(945.1)	(798.9)	(726.5)	(657.5)
	7,582.5	7,475.2	6,998.2	6,353.5	6,005.7
Financed by					
Called up share capital	**237.2**	236.5	235.9	235.1	234.7
Reserves	**901.5**	1,007.2	928.2	761.8	688.6
Total shareholders' funds	**1,138.7**	1,243.7	1,164.1	996.9	923.3
Non-controlling interests	**–**	–	–	–	–
Net debt[3]	**6,443.8**	6,231.5	5,834.1	5,356.6	5,082.4
	7,582.5	7,475.2	6,998.2	6,353.5	6,005.7
Statistics					
Earnings per share (continuing) – pence	**89.1**	66.7	133.4	101.8	136.8
Adjusted earnings per share – pence	**105.4**	146.0	145.8	120.5	115.7
Dividends per share (excluding special dividend) – pence	**101.6**	100.1	93.4	86.6	81.5
Dividend cover (before exceptional items and deferred tax)	**1.0**	1.5	1.6	1.4	1.4
Gearing[4] – %	**85.0**	83.4	83.3	84.4	84.6
Ordinary share price at 31 March – pence	**2,306.0**	2,280.0	1,976.0	1,844.0	2,382.0
Average number of employees					
– Regulated Water and Waste Water	**6,536**	6,345	5,680	5,660	5,273
– Other	**497**	451	900	605	596

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 Monday to Friday, 9.00am to 5.00pm (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	27 May 2021
Record date to be eligible for the final dividend	28 May 2021
AGM	8 July 2021
Final dividend payment date	16 July 2021
Capital Markets Day	24 September 2021

All dates are indicative and may be subject to change.

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