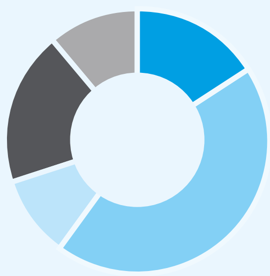
Governance report
Chairman's introduction to governance
Leadership & Effectiveness

Andrew Duff
Chairman

The Board provides strong leadership and support to the business. All Directors have a passion for the business and there is a sense of "creating a legacy for those who come after us".

Manchester Square Partners
Board Effectiveness Report

Board Focus 2017/18



Finance & Risk (Specific Finance Items and CFOs report)	16%
Strategy (items for discussion/approval)	44%
Governance (Governance items, Company Secretary's report, and Committee reports)	10%
Performance Review (Standing items – excluding CFOs report)	19%
Other (Procedural Business)	11%
TOTAL (Mins)	100%

Dear Shareholder

I am pleased to introduce our Governance report for 2018 on behalf of your Board in accordance with the April 2016 UK Corporate Governance Code (the 'Code'). This report reflects the themes of the Code and provides details on the activities and governance processes of the Board and its Committees (and refers you to other areas of the Annual Report and Accounts where further relevant information can be found).

The Board has had a diverse agenda during the year: from addressing the challenges of the upcoming Ofwat Price Review ('**PR19**') without losing focus on other key strategic and operational priorities; to ensuring that Dee Valley Water is operating effectively as a standalone, licensed business within the Group. PR19 is a key strategic item for the business that has required a robust governance process to ensure the right level of debate and oversight without allowing this topic to dominate the strategic landscape. In summary, the Board's principal areas of focus have been:

- PR19;
- Customer service;
- Water quality;
- Environmental performance;
- Financing our businesses;
- Dee Valley integration; and
- Profitable growth of the non-regulated business.

Customers continue to be at the forefront of our attention, as our strategic focus on such topics as delivering Upper Quartile Sector Performance and Customer Experience demonstrate. Customer Delivery, Water Quality and Environmental Performance have been the subject of regular 'performance review' items on the agenda. Financing has been addressed through the continuing important work of the Treasury Committee, through the Chief Financial Officer's regular reports to the Board and via specific finance related items on the agenda. The cost of debt methodology for PR19 has been a key consideration due to its wider impact for the business as a whole. (See Board activities on pages 76 and 77.)

Alignment on strategy and clarity on individual roles have allowed clear strategic focus for the Board during the year, and produced robust challenge where appropriate. There is a positive dynamic in the Boardroom but we are by no means complacent and recognise that there are still many challenges to tackle. We continue to foster a culture of ownership, stewardship and always **doing the right thing**, sharing the wider company values: we put our customers first; we are passionate about what we do; we act with integrity; we protect our environment; and we are inspired to create an awesome company.

The Board has continued to keep the Group's **risk management and internal control systems** under close scrutiny during the year and believes the quality of risk management and reporting, and in particular the risk identification, mitigation plans, business ownership and tracking, are excellent and continue to evolve and improve.

In respect of the Company's **stakeholders**, there has been oversight of, and a very active, engagement with shareholders, regulators, customers, pension trustees, communities and employees alike. There have been regular communications with shareholders and open lines of communication with our regulators: Ofwat, CCW and the DWI. In particular, the Corporate Responsibility Committee has overseen a broad range of well received community initiatives (detailed in its report on page 92). All the Board members have multiple formal and informal opportunities to engage with customers and employees and are constantly impressed at the quality of Severn Trent's people, wherever they work in the Group and whatever their role. Engagement scores from the annual employee engagement questionnaire are excellent and this is mirrored in the Board's communication with employees at and below management level.

We continue to strive for comprehensive **talent development and succession planning** at all levels of the business. Whilst much has been done in this respect and plans are in place, with well regard to graduate and apprenticeships programmes and strong external hiring and internal promotions, we are keen to make further progress in identifying, developing and progressing top talent through the organisation and making further improvements in respect of management and leadership development. The focus on improving diversity remains strong and, whilst we have made good progress on gender diversity in line with the Hampton-Alexander Review, we are looking to make further progress in terms of wider diversity.

Looking forward, Severn Trent has a strong unified Board with the broad range of professional backgrounds, skills and perspectives needed to take the Company into the next regulatory period.

Finally, on a personal note, whilst I hope you find this report provides insight into governance within Severn Trent, I always welcome feedback if you feel there is more we could do to enlighten shareholders. We encourage participation at our AGM and look forward to meeting with many of our shareholders in July.

Andrew Duff
Chairman

UK Corporate Governance Code Compliance Statement

The version of the Corporate Governance Code applicable to the current reporting period is the April 2016 UK Corporate Governance Code (the 'Code'). The Code is available on the Financial Reporting Council's ('FRC') website (www.frc.org.uk).

We are pleased to confirm that Severn Trent Plc was compliant with all of the provisions set out in the Code for the period under review.

In December 2017, the FRC published proposals for a revised code, which we expect to apply to our financial year ending 31 March 2019, to reflect the changing business environment and help in achieving the highest levels of governance. As the revised code is not yet finalised, we are reporting against the 2016 Code in this report but are looking closely at the new proposals and assessing what more we can do to align with best practice principles to further engender trust in our business.

In terms of the principles of the 2016 Code, you can find out more information on the following pages:

Leadership 68 to 74

Details of the Board are available (including their skill set and experience) and an overview of the governance structure, distinguishing between leadership by the Board and by Executive Management. The differing roles of the Chairman, Executive Directors and Non-Executive Directors is also set out.

Effectiveness 80 to 82

An overview of the process for appointment, induction, and evaluation of the Directors is provided here and further detail is set out in pages 80 to 82 covering the work of the Nominations Committee.

Accountability 83 to 89

The report of the Audit Committee details the corporate reporting, risk management and internal control measures that are overseen by the Board.

Remuneration 96 to 128

The Directors' Remuneration Report provides full details on remuneration.

Relations with shareholders 94 to 95

Details of the Group's engagement with shareholders is set out in this section.

Governance of subsidiaries

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

Severn Trent Water Limited complies with the Code and our regulator's Principles of Leadership and Governance to ensure the highest standards of governance.

Taking into account the Code and Ofwat's Principles of Leadership and Governance, we have undergone a programme of change during the year in Dee Valley Water Limited, and have appointed a majority of new independent non-executive directors to its Board. Dee Valley Water Limited also complies with the Code to ensure the highest standards of governance.

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

Board of Directors
Leadership & Effectiveness

1. Andrew Duff BSc FEI (59)

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

Membership: n Chair c r

Skills, competence and experience:

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

Other roles:

- Member of the CBI President's Committee
- Trustee of Macmillan Cancer Support and Earth Trust
- Fellow of the Energy Institute

2. Olivia Garfield BA (Hons) (42)

Appointed: Chief Executive on 11 April 2014

c e

Skills, competence and experience:

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

Other roles:

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

3. James Bowling BA (Hons) Econ, ACA (49)

Appointed: Chief Financial Officer on 1 April 2015

Membership: e t d

Skills, competence and experience:

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

4. John Coghlan BCom, ACA (60)

Appointed: Independent Non-Executive Director on 23 May 2014

Membership: a Chair t Chair n

Skills, competence and experience:

John is a chartered accountant and has a valuable background in financial and general management across a variety of sectors. Currently, John is also a Non-Executive Director and Audit Committee Chairman of Clarion Housing Association and Associated British Ports Holdings Limited. Previously, John was a Director of Exel plc for 11 years to 2006, where he was Deputy Chief Executive and Group Finance Director. Since 2006, John has been a Non-Executive Director of various publicly-quoted and private equity-owned companies.

Other roles:

- Chairman of Freight Transport Association Ireland Limited

Committee membership key

a Audit Committee	r Remuneration Committee
c Corporate Responsibility Committee	t Treasury Committee
e Executive Committee	d Disclosure Committee
n Nominations Committee	

Tenure and gender diversity

The graphics below show the tenure of the Non-Executive Directors over the short, medium and long term, together with the gender diversity across the Executive team, the full Board, and amongst Non-Executive Directors. See page 81 for gender diversity across the rest of the Severn Trent Group.

Gender diversity as at 31 March 2018

Executive

- Male 60.00%
- Female 40.00%

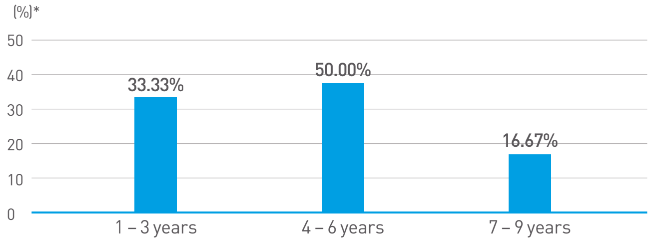
Main Board

- Male 5 (62.50%)
- Female 3 (37.50%)

Non-Executive

- Male 4 (66.67%)
- Female 2 (33.33%)

Tenure of Non-Executive Directors



* Figures as at the date of the report

5. Dame Angela Strank DBE, FRS, FREng, CEng, FIChemE, DSc, PhD (65)

Appointed: Independent Non-Executive Director on 24 January 2014

Membership: c Chair n r

Skills, competence and experience:

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

Other roles:

- Board Governor of The University of Manchester
- BP Group plc – Chief Scientist
- Member of the Royal Society's Science, Industry & Translation Committee

6. The Hon. Philip Remnant CBE FCA MA (63)

Appointed: Independent Non-Executive Director on 31 March 2014

Membership: r Chair a n t

Skills, competence and experience:

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

Other roles:

- Governor of Goodenough College
- Director and Trustee of St Paul's Cathedral Foundation

7. Dominique Reiniche MBA (62)

Appointed: Independent Non-Executive Director on 20 July 2016

Membership: c n

Skills, competence and experience:

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

8. Kevin Beeston FCMA (55)

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

Membership: a n r

Skills, competence and experience:

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

Director serving for part of the year

Emma FitzGerald MA, DPhil Oxon, MBA (51)

Managing Director, Wholesale Operations

Directorship ceased on 31 December 2017

Emma stepped down from the Board on 31 December 2017, having been a Director since 1 April 2016. She remained on the Executive Committee until 16 April 2018 and is due to leave Severn Trent in July 2018.

Executive Committee
Leadership & Effectiveness

1. Olivia Garfield BA (Hons) (42)
Appointed: Chief Executive on 11 April 2014

Please see full biography on page 68

2. James Bowling BA (Hons) Econ, ACA (49)
Appointed: Chief Financial Officer on 1 April 2015

Please see full biography on page 68

3. Dr. Tony Ballance BSc (Hons), MA (Econ), PhD (53)
Appointed: Director, Strategy and Regulation on 25 July 2005

Member of the Executive and Disclosure Committee

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

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

4. Sarah Bentley BSc (Hons), Management Science with Computing (46)
Appointed: Chief Customer Officer in December 2014

Member of the Executive Committee

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

Other roles:
- Twizzletwig Limited – Director and Secretary

5. Martin Kane BSc, CEng, CEnv, MICE, MIWEM, FIW (65)
Appointed: Martin joined Severn Trent Water in 1975 and was appointed Chief Engineer in July 2014

Member of the Executive Committee

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

Other roles:
- Member of the Boards of Utilities and Service Industries Training Limited
- Trustee of International Society for Trenchless Technology
- Chairman, Panton McLeod Ltd
- Chairman of the Coventry and Warwickshire Growth Hub


5.


10.

6. Bronagh Kennedy BA (Hons) (54)

Appointed: Group General Counsel and Company Secretary in June 2011

Member of the Executive and Disclosure Committee

Career and responsibilities:
Bronagh is a solicitor and was previously Group Company Secretary and General Counsel and HR Director at Mitchells & Butlers, where she worked for 15 years. Prior to that, she was a Senior Associate at Allen & Overy. She is a member of the GC100 Group and an Independent Non-Executive Director and Chairman of the HR and Remuneration Committee of British Canoeing.

7. Helen Miles CIMA (47)

Appointed: Group Commercial Director in November 2014

Member of the Executive Committee

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

8. Andy Smith BTech (Hons) (57)

Appointed: Managing Director, Business Services in 2014

Member of the Executive Committee

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

9. Neil Morrison Bsc (Hons), Chartered FCIPD (44)

Appointed: Director of Human Resources in August 2017

Member of the Executive Committee

Career and responsibilities:
Neil joined Severn Trent in August 2017 as a Director of Human Resources. Neil started a career in HR management in 1996 and for the subsequent 12 years he worked in a variety of HR roles within FTSE 100 companies, including Rentokil Initial and GUS (which latterly became Home Retail Group). Before joining Severn Trent, Neil worked at Penguin Random House taking responsibility for strategic people issues across their publishing and distribution offices in the UK, APAC, India and South Africa. He was one of the main leads in helping to steer and finalise the global merger between Random House and Penguin. Neil also sits on the board of the Chartered Institute of Personnel and Development (CIPD).

10. Dr. James Jesic BEng (Hons), PhD, MIChemE, CEng (39)

Appointed: Managing Director of Production on 1 December 2017

Member of the Executive Committee

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

Executives serving for part of the year

Evelyn Dickey BSc (Hons) (55)

Director of Human Resources

Evelyn stepped down from the Executive Committee on 31 August 2017 after 11 years of service.

Emma FitzGerald MA, DPhil Oxon, MBA (51)

See page 69

Governance Framework
Leadership & Effectiveness

Board of Directors

Responsible and accountable for the long term success of the Severn Trent Group; ensuring Severn Trent delivers the Group's strategic objectives whilst operating to the highest standards of corporate governance in meeting its obligations to all stakeholders.

Board Committees

Nominations Committee

Keeps the structure, size, composition and succession needs of the Board under review and assists the Board on conflicts of interest and independence issues.

Read more on pages 80 to 82

Audit Committee

Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment of the effectiveness of the systems of Internal Control, Risk Management and scrutinises the work of the Internal and External Auditors. It also reviews the adequacy of the Company's whistleblowing arrangements.

Read more on pages 83 to 89

Corporate Responsibility Committee

Provides guidance and direction to the Company's Corporate Responsibility and Sustainability programme based on Severn Trent's values and reviews the Group's non-financial risks and opportunities.

Read more on pages 91 to 93

Remuneration Committee

Determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chairman of the Board.

Read more on pages 96 to 128

Treasury Committee*

Provides oversight of treasury activities in implementing the policies, funding and treasury risk management plan including: the measurement and management of risks in respect of interest rates; funding; counterparty credit; liquidity and treasury operations; funding proposals; relationship with rating agencies; debt investor relations; bank relationship management; and treasury internal controls.

Read more on page 90

Severn Trent Executive Committee ('STEC')

Oversees the development and execution of Group strategy, with accountability for achieving financial and operational performance.

CEO – Liv Garfield

Delegated responsibility for the development and implementation of strategy and overall commercial objectives, and responsible for the day-to-day management of the business and the communication of Board agreed objectives to employees.

Executive Sub-Committee

Disclosure Committee

Executive Sub-Committee overseeing Severn Trent's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

Governance Framework Foundations

- Matters Reserved to the Board
- Terms of Reference for Board Committees
- Charter of Expectations
- Doing the Right Thing – the Severn Trent Way
- Group Authorisation Arrangements
- Conflicts of Interest review
- Board strategy days
- Training
- Board Effectiveness Review
- Policies and procedures
- Diversity/independence

Corporate Governance Code

* Membership of the Treasury Committee includes Head of Group Treasury, a non-Board position.

The Board is responsible to all stakeholders, including the Company's shareholders, for the approval and delivery of the Group's strategic objectives. It makes sure that the necessary financial, technical and human resources are in place for the Company to meet its objectives. The Board leads the Group within a framework of practical and effective controls which enable risk to be assessed and managed.

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives is delegated to the Chief Executive who is supported by the Severn Trent Executive Committee ('STEC').

In compliance with the Code, the Board also delegates certain roles and responsibilities to its various Committees, which assist by focusing in detail on their particular areas, reporting to the Board on decisions and actions they've taken, and making any necessary recommendations in line with their Terms of Reference.

Charter of Expectations

The Severn Trent Charter of Expectations sets out clearly the defined roles of the Chairman, Chief Executive, Chief Financial Officer, Senior Independent Director and Non-Executive Directors, the operation of the Board and Board Committees, and also reflects the Board's responsibility for setting the tone of the Group's culture, values and behaviour. In accordance with the Code, it sets out a clear division of responsibilities between the roles of Chairman and CEO.

The Charter of Expectations is reviewed annually, with the last review undertaken in March 2018. It's also used to assist in the ongoing assessment of the effectiveness of the Board and its Committees and that of individual Directors (see page 79 for further details). It is available on our website (www.severntrent.com).

Matters Reserved to the Plc Board

The Schedule of Matters Reserved to the Board sets out the processes in place regarding the Board's tasks and activities and the matters specifically reserved for the Board's decision making. A copy is available on our website (www.severntrent.com).

The Board has reserved the following matters, amongst others, for its own consideration:

- the Group's strategic and operating plans;
- financial reporting and controls;
- major acquisitions and disposals;
- key Group policies; and
- Group Authorisation Arrangements ('GAA').

Terms of Reference

The Terms of Reference for each Board Committee are reviewed annually, updated to take account of best practice, and to reflect the requirements of the UK Corporate Governance Code (as revised from time to time).

The sub-committee structure is detailed in the Governance Framework on page 72 and key responsibilities are set out on page 74.

Conflicts

The Board formally considers conflicts of interest at every meeting, and reviews the authorisation of any potential conflicts of interest every six months.

Group Authorisation Arrangements

The GAA is the framework through which the Severn Trent Plc Board authorises the right people, at the right level, to take important decisions to effectively control and manage legal, financial and administrative decisions throughout the Group. These arrangements are reviewed annually, with the last review undertaken in April 2018.

The flow of authority is from the Severn Trent Plc Board to the Chief Executive and the Severn Trent Executive Committee. In respect of certain decisions, the delegated authority is subject to an obligation to work with specialist business service areas (such as Tax, Treasury, Group Finance, Group Commercial and General Counsel), which provides additional expertise and a group-wide perspective.

'Doing the Right Thing – the Severn Trent Way'

In addition to the Charter of Expectations and Terms of Reference for the Board, and the company-wide GAA, Severn Trent also sets out the cultural tone expected of its workforce through clearly defined values and standards of behaviour that are expected from everyone who works for the Severn Trent Group. Its Code of Conduct 'Doing the Right Thing – the Severn Trent Way' has been rolled out across the Group in the form of all-employee training programme, is integral to the induction process and is continuously re-enforced by management to make sure that all of our people embody Severn Trent's values:

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

Our Code of Conduct is key to helping us achieve our vision of being the most trusted water company by 2020.

We know that the right culture must be set from the top. Our annual employee engagement survey, QUEST, is therefore designed to provide us with actionable data in a clear and comprehensive form, giving us a better understanding on what's going well and what can be improved across the whole of our business. QUEST is carried out by an independent research company to ensure the results are anonymous and results are reported to the Board.

Policies, Standards and Procedures

In addition to our Code of Conduct, Severn Trent has an additional 12 policies which apply to everyone who works for the Severn Trent Group. These policies have been designed to help employees and contractors understand their role within the Company and their responsibility to the Severn Trent Group. They also, in turn, outline the Group's responsibility to the individual. These policies are the strategic link between the Severn Trent vision and how we manage our day-to-day business, and are underpinned by specific company standards and procedures.

Key Board responsibilities
Leadership & Effectiveness

Board composition, roles and attendance

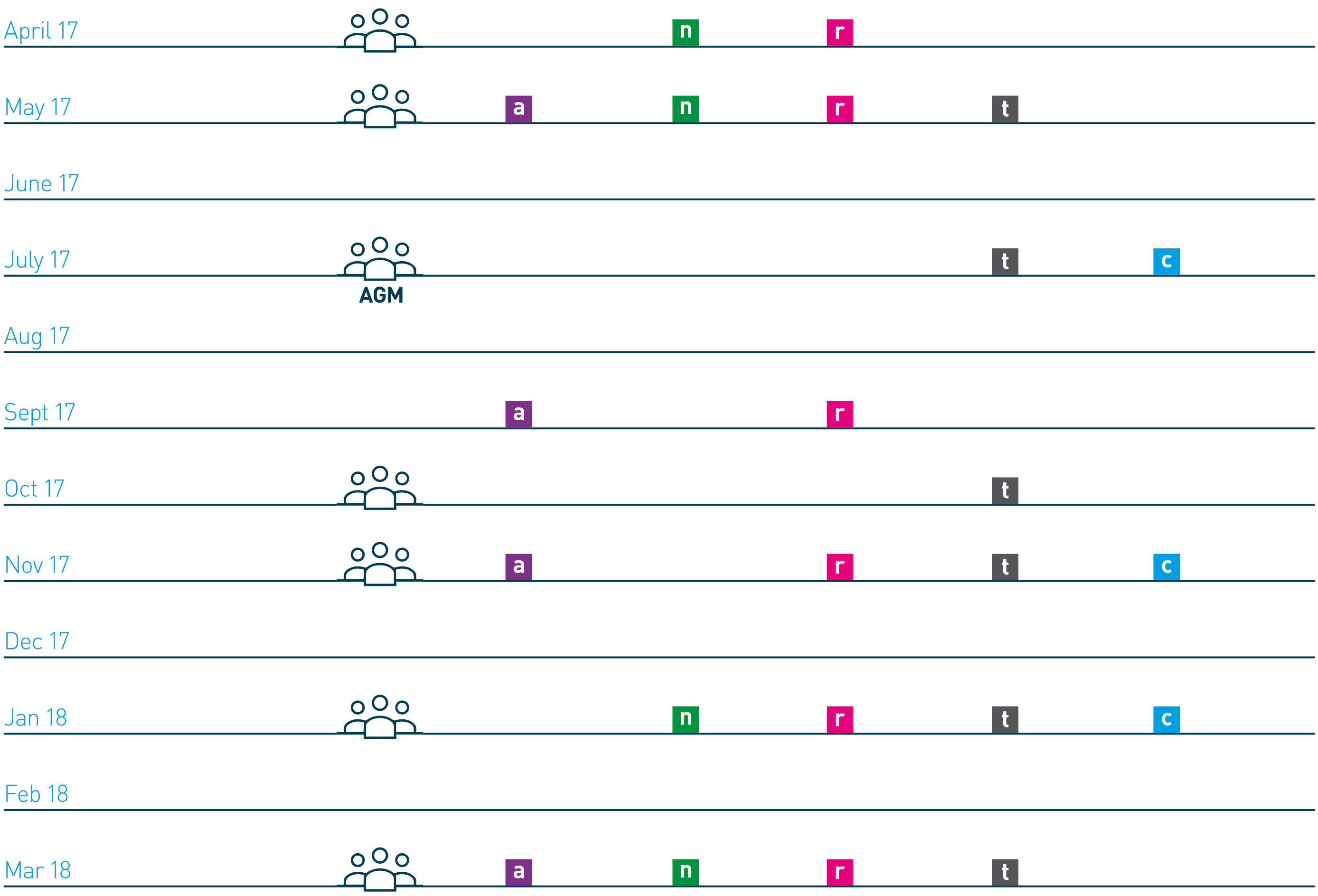
Where Directors have not been able to attend meetings, they have still received related papers in advance of the scheduled meeting and any input they have provided has been considered.

The Board held seven scheduled meetings during the year, and the key roles of individuals and their attendance is set out overleaf. For additional information on the activities of the Board, see pages 76 and 77.

There were 11 additional ad hoc meetings of the Board or Committee of the Board convened throughout the year.

Director		Responsibility
Chairman	Andrew Duff	• Leads our unified Board and is responsible for its effectiveness. • Sets agendas and ensure timely dissemination of information to the Board, in consultation with CEO, CFO and Company Secretary. • Responsible for scrutinising the performance of the Executive Committee. • Facilitates contribution from our Directors. • Ensures effective communication with our shareholders and other stakeholders.
CEO	Liv Garfield	• Develops and implements the Group's strategy, as approved by the Board. • Responsible for the overall commercial objectives of the Group. • Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance. • Sets the cultural tone of the organisation.
CFO	James Bowling	• Manages the Group's financial affairs. • Supports the CEO in the implementation and achievement of the Group's strategic objectives.
SID	Kevin Beeston	• Supports the Chairman in delivery of his objectives. • Alternative contact for shareholders should they have a concern that is unresolved by the Chairman, CEO or CFO. • Leads the appraisal of the Chairman's performance with the Non-Executive Directors. • Key role in succession planning for the Board, together with the Board Committees, Chairman, and NEDs.
NED	John Coghlan Dominique Reiniche Dame Angela Strank Philip Remnant	• Constructively challenge our Executive Directors in all areas. • 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. • Responsible for agreeing appropriate levels of remuneration for Executive Directors. • Key role in succession planning for the Board, together with the Board Committees, Chairman, and SID.
Executive Director	Emma FitzGerald (until 31.12.17)	• Responsible for the Group's wholesale business until 31 December 2017. • Supported the CEO in the implementation and achievement of the Group's strategic objectives until 31 December 2017.

Board attendance



Director	Board Meeting Attendance[i]	Audit Committee[i]	Nominations Committee[i]	Remuneration Committee[i]	Treasury Committee[i]	CR Committee[i]
Andrew Duff	7/7	–	4/4	6/6	–	2/3
Liv Garfield	7/7	–	–	–	–	3/3
James Bowling	7/7	–	–	–	6/6	–
Kevin Beeston[ii]	6/7	4/4	4/4	6/6	–	–
John Coghlan[iii]	6/7	4/4	3/4	–	6/6	–
Dominique Reiniche	7/7	–	4/4	–	–	3/3
Dame Angela Strank	7/7	–	4/4	6/6	–	3/3
Philip Remnant	7/7	3/4	4/4	6/6	6/6	–
Emma FitzGerald (until 31.12.17)	5/5	–	–	–	–	–

(i) Includes the scheduled Board meetings. Some additional meetings have been required to cover specific matters throughout the year.
(ii) Kevin Beeston was unable to attend a Board meeting due to illness during the year.
(iii) John Coghlan was unable to attend a Board and Committee meeting due to a bereavement.

Committee membership key

a Audit Committee
c Corporate Responsibility Committee
n Nominations Committee
r Remuneration Committee
t Treasury Committee
Board

Key Board responsibilities continued
Leadership & Effectiveness

Board activities

The table below sets out the main matters considered by the Board in 2017/18 at its scheduled Board meetings and the updates covered as part of its Lunch and Learn and operational site visit sessions. The Board's agenda is ordinarily structured as follows:

- procedural matters (including Board Committee reports);
- performance review (including health and safety, operational, customer and financial matters);
- strategic items; and
- items for approval/noting (including the Company Secretary's Update on governance, legal and regulatory issues).

This structure has been agreed to ensure that Matters Reserved to the Board are addressed appropriately and that the Board's time is spent effectively. Strategic items are regularly presented to the Board by senior managers within the business, giving the Directors the opportunity to meet with key members of management who report into the Executive team. This also assists the succession planning process.

Board strategy days

In addition to formal meetings at which strategic matters are regularly reviewed, in June 2017 the Board held a dedicated strategy meeting along with the Executive Committee to consider areas of future value creation across the Group and spent time considering asset strategy and potential future disruptors, regulatory strategy and growth strategies across our portfolio of businesses. For 2018, success of the PR19 plans are key, therefore a good portion of the Board's strategy meeting is scheduled to focus on this. Over the medium to long term it's anticipated that opportunities and risks to the business will come from emerging technologies such as artificial intelligence and robotics so this will be on the agenda, together with mergers and acquisitions and a discussion about our future people strategy.

The format of each day involves a few topics being discussed in-depth; with external speakers to challenge thinking and an interactive approach to each of the conversations.

Summary Board Activities 2017/18

Overview

All Board meetings are a full day's agenda consisting of: Procedural matters; Performance Reviews; Strategy; Items for approval/noting. Further details are provided below:

Board Focus – Topics & Actions

Procedural matters

Agreeing minutes of last meeting, reviewing progress against specific actions. Updates from the Chairman of each Board Committee has been strategically moved to this early part of the agenda to reflect the importance of the Committees' activities. See Committee reports on pages 80 to 93 for further details.

Performance Reviews

Reviews are received from the CEO and CFO at every meeting and from Directorates at regular intervals. There has been a strong focus on Production, Customer Delivery and Capital Delivery & Commercial during the year. The financial reviews have included consideration of the Annual Report and Accounts and the pension scheme funding, in addition to budget and dividend approval. From 2018, separate operational reviews for the Regulated Business and those for Business Services have been introduced to better reflect how the Group's divisions operate.

Strategy

Whilst the following is not an exhaustive list of all the matters the Board have considered during the financial year, it does indicate the key areas of activity and hopefully provide insight into the strategic workings of the Board:

Upper Quartile: As part of its focus on achieving and maintaining Upper Quartile retail, water and waste performance as measured by Ofwat, the Board have reviewed a route map of key milestones on outputs so it can monitor progress towards achieving this aspiration.

M&A Strategy: The Board have continued to keep merger and acquisition opportunities under review and gave more detailed consideration to this matter at its Strategy Day.

Bioresources Trading: The Board have been considering the opportunities created by the development of this market. Technology and potential investment opportunities have been discussed and considered in more depth at its Strategy Day.

Insourcing Opportunities: To address service issues, the Board have considered proposals for insourcing, exploring alternative models and seeking practical worked examples from management for specified issues and considering the resources required in each case.

Water Resources Management Plan: The Board have challenged the prescribed methodology and drilled down in terms of the assumptions, variances and scenarios in addition to simply testing alternative methodologies, applying the expertise of those Board members who have the skills set for such matters.

Dee Valley Water Limited Board Composition: Further to consultation with Ofwat, the Board, in consultation with the Nominations Committee, have considered the future make-up of the Dee Valley Water Limited Board, appointed the Chairman of this Board and appointed three new Independent Non-Executive Directors.

Customer Service: As well as receiving updates on performance at every meeting the Board met with CCW for both England and Wales to listen to its perspective on Customers' views on Severn Trent's performance.

OSUK&I Update: Following the transfer of customers to Water Plus and the sale of its Italian and US businesses, the Board has reviewed the operational effectiveness of its Business Services operations in the UK and Ireland and the future structure of this division of the business moving forward, commending management on markedly improved customer satisfaction and better performance. It is keeping opportunities for growth and the risk profile of each business unit under review.

PR19: This price review is a particularly challenging area this year (further details on pages 16 to 17) and the Board has therefore spent a commensurate amount of time on it to enable progressive scrutiny.

Enterprise Risk Management ('ERM') Update: The Board receives six monthly updates on ERM risks. Following its feedback to management, the Board now receives 'Cost to Target' and 'Flightpath' analysis on Board level risks, the former providing confirmation that risk reduction actions have been reflected in the budgeting process, business plans and long range plans, and the latter mapping out the risk reduction over time. The combined effect of these enhancements now provides the Board with greater insight to enable reprioritisation of such risks enabling more efficient risk reduction. The Board is also rolling out true cost of control approach across all ERM risks.

Health, Safety and Wellbeing Strategy: The Board received an update and noted pleasing progress with the achievement of certain important milestones during the year (see page 41 for further information) but acknowledges there are still further issues to improve upon and the cultural challenge continues.

Property Strategy: The Board considered the new clear strategy and approved the communication of property profits to the market and the inclusion of property profits in future business targets to reflect the value arising from that strategy in the Company's share price.

Review of Water Plus Performance: The Board receives six monthly updates on Water Plus. Whilst the business has been competing well in the market, the Board keeps the performance of Water Plus under close scrutiny.

HomeServe Update: The Board has reviewed the HomeServe affinity partnership.

Re-nationalisation Debate: The Board has been closely following topical debate around the proposal by the Labour Party in its May 2017 election manifesto to re-nationalise utilities including the water sector.

Water Quality: The Board met with the DWI and invited it to give feedback on the Company's water quality performance, both in terms of current performance and challenges for the next AMP.

Business Security and Resilience Review: The Board have kept abreast of progress during the year through its established incident management steering group which continually reviews and learns from incidents, both planned events and real incidents. It receives reports which include a guide path showing progress against specified targets.

Cyber Security: Given the Cyber Security landscape continues to evolve with an increasing level of activity and a number of high profile incidents for other companies and government departments, the Board has received an update on the Company's Cyber Security Roadmap during the year. It noted the scrutiny by the National Cyber Security Centre, its risk based approach and investment priorities, and increased in-house support and positive reviews by Defra and PwC.

GDPR: The Board recognises that the implementation of GDPR is challenging but through a considered update during the year was reassured about what has to be done by management in order to prepare for it. It has scheduled future updates to review progress.

Innovation Investment Review: The Board reviewed the work of the innovation team and the progress that has been made to accelerate the pace of application in deploying value-generating technology.

Items for approval/noting

This is a standing item on the agenda to meet the requirements of the business in terms of approving matters such as leases and land disposals, the alignment of water licences (particularly in light of re-defining the English/Welsh boundaries following the acquisition of Dee Valley Water Limited), and setting tariff charges. This item always includes the Company Secretary's Update to address regular reviews of governance matters (by way of example see annual reviews shown below), keep abreast of regulatory changes and obtain Board approvals for specific matters reserved to the Board.

Annual Governance Reviews:

- Directors' conflicts of interest;
- Gifts and Hospitality Register;
- Anti-Slavery and Human Trafficking Statement;
- Board Diversity Policy;
- Sharesave Invitation;
- Board Evaluation Process;
- Board Committee Terms of Reference;
- Charter of Expectations;
- Matters Reserved to the Board;
- Group Authorisation Arrangements; and
- Feedback from Institutional Shareholders.

Lunch and Learn Sessions

The Board's time has been maximised by utilising the time spent over lunch to conduct deep dives into topics such as:

- Investor Technology Day;
- Building an ethical culture;
- HS2, update on route, programmes and costs;
- Nationalisation Defence Debate;
- Water Forum; and
- Responding to customers: Inspiring the next generation of water users.

Effectiveness
Leadership & Effectiveness

Term of office

The Board recognises the Code's recommendation that Directors serve a fixed term of appointment and considers plans for orderly succession to the Board to maintain an appropriate balance of skills and experience within the Company. As such, the Company maintains a clear framework of Non-Executive Director tenure and the skill set that each Director provides. Individual Directors' biographies can be found on pages 68 and 69. In accordance with the Code, all the Directors will retire at this year's AGM and submit themselves for reappointment by shareholders. An overview of tenure for the Board is shown in the table on page 69. Each of the Non-Executive Directors seeking reappointment at the AGM is considered by the Board to be independent in character and judgement.

Diversity

The Board and Nominations Committee are committed to diversity. Female representation on the Board exceeds 30% in respect of the main Board and is 40% on the Executive Committee (see table on page 69). There is also a continual focus on promoting wider diversity. We believe that our Company should reflect our communities and customers, and embrace a diverse range of perspectives, experiences and expertise to support our long term viability and commercial success.

We are committed to developing our talent pipeline, to ensure we have appropriate representation from minority ethnic candidates, as well as other relevant diverse groups. You can find additional details on our progress and ambitions on page 81 of the Nominations Committee report and details of diversity across the Severn Trent Group on page 81.

Training and continuing professional development

As well as Board agenda items, training sessions in relation to specific topics of interest that were presented to Directors during the year are set out on page 77.

The aim of the training sessions is to continually refresh and expand the Board's knowledge and skills to enable them to fulfil their roles effectively on the Board and its Committees and contribute to discussions on technical and regulatory matters. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further insight into our businesses and management capability.

Directors' resources

An online resource library and Continuing Professional Development ('CPD') repository is available for use by the Directors, which is constantly reviewed and updated. The library includes a Corporate Governance Manual, a Results Centre and Investor Relations section, Strategy Day materials and details of Board training sessions. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice. The Directors also have access to professional development provided by external bodies and our advisers. CPD requirements were considered, through individual performance review meetings between the Chairman and each Director, as part of the externally facilitated Board effectiveness review in 2017/18.

Induction programme

Whilst there have been no new appointments to the Board of Severn Trent Plc during the year, there is an induction programme in place which can be tailored as applicable and includes the following elements/details:

- Ofwat pre-appointment process;
- Company structure including regulatory overview and performance;
- Company strategy;
- Key stakeholder relations including customers, suppliers, regulators and service providers;
- Key operations and processes including operational areas and key sites;
- Financial performance including analyst and investor opinion;
- Our people – including health, safety and wellbeing, talent and succession, trade unions and an overview of our Remuneration Policy;
- Group risk profile and our approach to risk;
- Governance Framework;
- Board calendar, effectiveness reviews and action plans; and
- Insight into key areas of focus for any specific appointment.

We will continue to enhance the Board's induction process, particularly bearing in mind feedback from new appointees.

The new Independent Non-Executive Directors of Dee Valley Water Limited received an appropriate induction facilitated by the Company Secretary covering the above topics, as well as a tour of key operational sites to understand our water treatment and distribution processes, and the customer journey, in a live environment, as follows:

- Water process – from rain to tap;
- Waste water process – from drain to river; and
- Customer journey – from moving into a new home to moving out.

Independence of NEDs

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board evaluation exercise. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence. The Board recognises the Code's recommendation that Directors serve a fixed term of appointment and considers plans for orderly succession to the Board to maintain an appropriate balance of skills and experience within the Company. Individual Director biographies can be found on pages 68 and 69. In accordance with the Code, all the Directors will retire at this year's AGM and submit themselves for reappointment by shareholders. Each of the Non-Executive Directors seeking reappointment are considered to be independent in judgement and character.

Board Evaluation
Leadership & Effectiveness

The effectiveness of the Board and of the Board's committees is reviewed annually and progress is reviewed every six months. An independent externally facilitated review of the effectiveness of the Board is conducted every three years. An externally facilitated evaluation was therefore undertaken this year, the last having taken place in 2014/15. Manchester Square Partners ('MSP'), who undertook the previous review, were chosen to facilitate the exercise to provide continuity and measure progress against their prior review. MSP has no other connection with the Company.

While the Board was functioning well at the time of the last external review a number of areas were highlighted for attention:

- Strategy: While there was alignment at a high level on the strategic priorities there was more to be done on agreeing the strategic opportunities to be pursued and the plans to achieve these.
- Pace of change: There was a need to ensure the pace of change could be delivered in a sustainable way, with the Board considering major change earlier in the process, so as to be able to review over several meetings and provide appropriate support and challenge.
- Mentoring: Talent management and succession planning were identified as needing further focus once the new Executive team was in place.
- Board Agenda: Change suggested to provide more time to discuss a range of strategic opportunities and other key initiatives, whilst not losing focus on performance and finance.

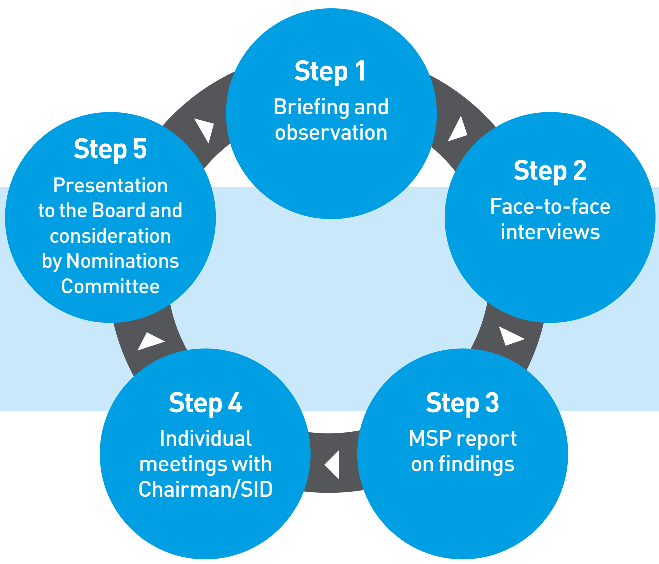
MSP concluded that significant progress had been made since 2014/15 and there had been a noticeable step change in the focus, alignment, contribution and effectiveness of the Board with well planned and structured board agendas.

The process for the 2017/18 review is set out below:

Step 1	MSP briefed by Chairman and Company Secretary and attended the January Board Meeting in order to observe the Board first hand. They were also provided with access to prior years' Board and Committee papers and minutes and details of the previous internal reviews and progress updates to provide relevant background material.
Step 2	MSP conducted face-to-face interviews with each Director and the General Counsel and Company Secretary.
Step 3	MSP produced a report setting out their findings which they discussed with the Chairman and Senior Independent Director. Details of their observations and suggested focus areas are shown below, together with the related actions arising from the evaluation process.
Step 4	The Chairman met with each of the Directors and the General Counsel and Company Secretary to discuss the performance of the Board and their individual contributions. The Senior Independent Director met with the Non-Executive Directors to discuss the performance of the Chairman and the Non-Executive Directors met to discuss the performance of the Chief Executive Officer.
Step 5	MSP's report discussed by the Nominations Committee in its consideration of the re-election of Directors and reported to the full Board at its meeting in April 2018, together with a recommendation by MSP.
Step 6	Six-monthly reviews of progress against recommendations in the report.

MSP reported favourably against all dimensions to the 2017/18 review with noticeable alignment on strategy and areas of potential challenges and risk. Overall, the Board functioned extremely well and in line with first class corporate governance. There were only two areas requiring further development, as follows:

- Continuing to maintain focus on strategic, operational and reputational priorities other than PR19; and
- A more structured plan for succession planning and talent development discussions at Nominations Committee and the Board.



Review dimensions

Strategy, challenges and risks, and values and culture,
Role of the Board, Board dynamics and engagement,
Structure of the Board, its composition and succession planning,
Governance, execution and leadership.

Nominations Committee report
Leadership & Effectiveness

"A significant part of the Committee's work this year has been in developing our talent pipeline with a focus on the need for diversity."

Andrew Duff
Chairman of the Nominations Committee

Introduction

As Chairman of the Nominations Committee, I am pleased to introduce the report of the Nominations Committee which details the role of the Committee. The pages that follow provide additional details on the role of the Committee and the work it has undertaken during the year.

Throughout the year, increased focus continued to be given to the Group's succession and contingency planning and diversity needs. Discussion centred on the importance of developing, and maintaining, a diverse range of perspectives, skills, experiences and expertise, essential to ensuring our long-term viability and commercial success. More information on our diversity initiatives can be found in the Strategic report on page 40.

Other significant parts of the Committee's work this year have been the evaluation of the Board, its Committees and Directors and developing our talent pipeline for Directors and high performing individuals below Board level with a focus on the need for diversity. The Committee also considered and approved the appointment of three Independent Non-Executive Directors to the Board of Dee Valley Water Limited.

Andrew Duff
Chairman of the Nominations Committee

Attendance table

Member of the Nominations Committee	Meetings attended	Max possible
Andrew Duff (Chairman)	4	4
John Coghlan[i]	3	4
Dominique Reiniche	4	4
Kevin Beeston	4	4
Philip Remnant	4	4
Dame Angela Strank	4	4

(i) John Coghlan was unable to attend a Committee meeting due to a bereavement.

The members of the Committee in 2017/18 were the Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, members of senior management, the Director of Human Resources and external advisers may be invited to attend meetings as and when appropriate.

Nominations Committee responsibilities

The responsibilities of the Nominations Committee include:

- reviewing the structure, size and composition (including the skills, knowledge, experience, availability and diversity) of the Board;
- reviewing the leadership needs of the Company, both Executive and Non-Executive, at regular intervals;
- reviewing the adequacy of Board and Executive succession planning in the long and short term;
- ensuring an effectiveness review of the Board, its Committees and Directors are conducted annually;
- recommending to the Board the appointment or reappointment by shareholders of Directors at the AGM, in accordance with the Code; and
- carrying out an annual review of the Company policy on Board level diversity.

The Nominations Committee Terms of Reference, which were updated in May 2018, can be found at www.severntrent.com

Nominations Committee activities

Diversity and succession planning

As highlighted earlier in the report, the Board and Nominations Committee continue to drive the agenda of diversity across the Group and are proud of the progress made, especially in respect of female representation on the Board and Executive Committee (now at 37.5% and 40% respectively). A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as at 31 March 2018 is set out below.

The Board also remains focused on promoting broader diversity, and creating an inclusive culture in line with the recommendations from the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Board is committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work to strengthen our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts.

The Board Diversity Policy (the 'Policy'), which is approved annually by the Board, was updated and approved by the Board in October 2017. The objective of the Policy is to develop a pipeline of diverse high calibre candidates for Board level roles. The Nominations Committee reviews the Board's effectiveness and composition each year and, in particular, considers the balance of skills, experience and independence of the Board, in accordance with the Policy. It considers the benefits of all aspects of diversity but without compromise as to the calibre of Directors, when identifying candidates for appointment. The selection of candidates to join the Board will continue to be made based on merit and the individual's ability to contribute to the effectiveness of the Board, which in turn will be dependent on the pool of candidates available. To support this, we continue only to engage with executive search firms who have signed up to the voluntary Code of Conduct on gender and BAME diversity and best practice. Diversity was a key consideration for the Committee when nominating candidates to the Board of Dee Valley Water Limited during the year. Throughout the year, focus also continued to be given to succession and contingency planning, including diversity needs. Succession Planning is reviewed annually by the Committee with discussion centred on the importance of developing and maintaining a diverse range of perspectives, skills, experiences and expertise, essential to ensuring our long-term viability and commercial success. With great graduate and apprenticeships programmes, as well as external hires and internal promotions, we are keen to make further progress in identifying, developing and progressing top talent through the organisation, ensuring succession remains in line with the Groups' strategic needs.

Talent development

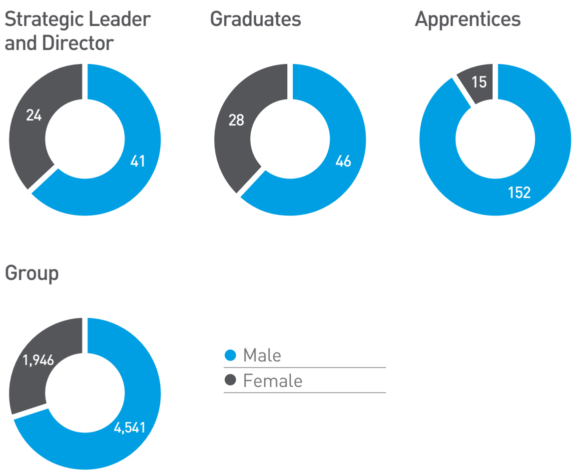
We continue to recognise the importance of developing our people and as such talent management remains a key topic of discussion. The Group's five year talent plan focuses on building both technical and leadership capability, and creating talent pipelines for the future.

We currently have a total of 73 graduates in training – 38 places were offered in 2016 and 35 in 2017. We have four entry programmes for graduates – Business Leadership, Finance, IS and Engineering. Our placements programme for undergraduates offers a range of summer and 12 month placements across Engineering, Finance and the Visitor Experience teams, with 21 opportunities filled in 2017.

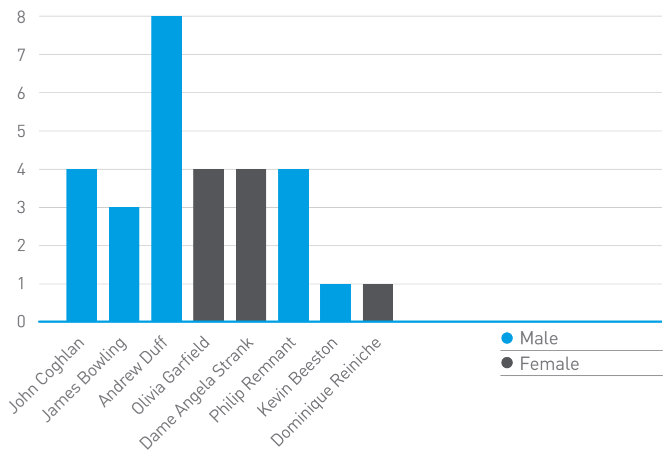
We currently have 161 apprentices in training. In 2017, we launched four new Apprenticeship programmes within Finance, Group Commercial, Project Management and Senior Network Technician populations. This means we now have nine active Apprenticeship programmes, and we expect this to increase to 12 in 2018, which includes a degree level legal Apprenticeship and a Higher Apprenticeship in HR.

We have been a key partner in the development and implementation of the new water industry apprenticeships standards through the Government's Trailblazer initiative.

Gender diversity
at 31 March 2018



Severn Trent Board diversity figures
Tenure (Years)



*Emma FitzGerald stepped down from the Board on 31 December 2017.

Nominations Committee report continued

Leadership & Effectiveness

As one of the 13 firms making up the employer group we have ensured that Severn Trent has been at the forefront of the development of this new avenue for apprenticeships. There are now two Trailblazer programmes being successfully delivered across the industry for Water Process Technicians ('WPT') and Utilities Engineering Technician ('UET') and we currently offer both of these Apprenticeship routes in partnership with our learning provider, the EEF Technology College.

Our innovative delivery model for Trailblazer has allowed us to design a programme that ensures high quality apprenticeship training delivered in just 24 months – significantly faster than any previous schemes, as elsewhere in the industry this course would take at least 36 – 48 months for apprentices to complete, and we are proud to have had the first four water industry Trailblazer apprentices in the UK to complete the new standard and qualify through the new assessment model.

Evaluation of the Board

The effectiveness of the Board is reviewed annually and an independent externally facilitated review of the effectiveness of the Board is conducted every three years and conducted according to the guidance set out in the Code. The Board therefore conducted an externally facilitated board effectiveness evaluation this year, the last having taken place in 2015.

This year, the Board evaluation was externally facilitated by Manchester Square Partners with support from the Chairman and Company Secretary. The next externally facilitated review is scheduled for 2021. More information on the Board evaluation can be found on page 79 of the Governance report.

The subsequent report prepared by Manchester Square Partners was discussed by the Nominations Committee in its consideration of the re-election of Directors and it was also the subject of a presentation to the Board.

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. We reviewed Directors' other appointments, including the time commitment required for each, as part of the evaluation exercise. The outcome of which is as follows:

Director	Number of Listed Company Appointments as Chairman (including Severn Trent Plc)	Number of Listed Company Appointments as Non-Executive Director (including Severn Trent Plc)
Kevin Beeston	1	1
James Bowling	0	0
John Coghlan	0	1
Andrew Duff	2	0
Emma FitzGerald (Stepped Down 31 December 2017)	–	–
Liv Garfield	0	0
Dominique Reiniche	0	2
Philip Remnant	1	2
Dame Angela Strank	0	1

As a result of this review, the Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc.

The full list of external appointments held by our Non-Executive Directors can be found on pages 68 and 69.

Progress against 2016/17 Action Plan

The areas identified for further focus and attention in the April 2017 Board Effectiveness Report to the Board were:

Area for further focus identified in 2016/17 internal review	Progress against areas for further focus identified in 2017/18 internal review
Seeking opportunities to improve the ethnic diversity of the Board	Whilst there are currently no vacancies on the ST Plc and STW Boards, the recruitment of Dee Valley NEDs gave an opportunity to seek to improve the diversity of the Group's NED population.
Succession planning for the Executive team	Neil Morrison has only recently taken up the role of HR Director but talent development and succession planning will be an area of focus for him going forward. The new role of Production Manager on STEC also creates less of a big 'step up' in terms of senior operational succession.
Additional/more depth of content on regulatory topics in director induction material	The regulatory section of the induction material and the induction programme will have additional face to face meetings with the regulatory team, 3 and 6 months in, following appointment. John Coghlan has also kindly agreed to help provide support to any new Director in this regard.
Improved communication of Committee proceedings to the Board	Committee meeting reports now take place at the beginning of every Board meeting giving a greater opportunity for non-members to ask questions or seek clarification.
A distinct separation of strategy days from Board meeting as an opportunity to step back and discuss, debate and interrogate	The recent strategy day was entirely different in format, offsite and with external speakers, and received very positive feedback from NEDs.

Further information is available within the Board Evaluation section on page 79.

Audit Committee report
Accountability

"The Committee continues to focus on ensuring the adequate mitigation of risks faced by the Group."

John Coghlan
Chairman of the Audit Committee

Introduction

As Chairman of the Audit Committee, I am pleased to introduce the report of our role and the work we have undertaken during the year. The pages that follow provide additional detail on the activities and discussions of the Committee and provides an overview of the significant issues the Committee assessed and steps taken to address any issues identified.

The Committee has continued to play a key role in supporting the Board in discharging its oversight responsibilities for the integrity of the Company's financial statements and matters relating to the Group's system of internal controls and risk management. As such, there is a continued focus on ensuring the adequate mitigation of risks faced by the Group. This report provides additional detail of how we carried out our risk assessment activities and you can read more about how we identify and manage risks on pages 57 and 58 of our Strategic report.

Other significant parts of the Committee's work this year have included: oversight of the relationship with our External Auditor; including the assessment of its ongoing objectivity and independence; overseeing the assurance of regulatory returns made by Severn Trent Water Limited and Dee Valley Water Limited to Ofwat; oversight of the wholesale charges; new connections charging; PR19 assurance framework; customer ODI forecast; company monitoring framework and Water Resource Management Plan for both Severn Trent Water Limited and Dee Valley Water Limited.

John Coghlan
Chairman of the Audit Committee

Attendance table

Member of the Audit Committee	Meetings attended	Max possible
John Coghlan (Chairman)	4	4
Philip Remnant	3	4
Kevin Beeston	4	4

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

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

During 2017/18, the Committee held five additional quorate meetings convened at short notice.

Audit Committee responsibilities

The responsibilities of the Audit Committee include:

- oversight of financial statements and accounting policies;
- review of risk management and internal controls;
- oversight of Internal and External Audit;
- review of the adequacy of the Group's procedures for whistleblowing, reporting fraud and other inappropriate behaviour, including reviewing reports of all allegations at their meetings;
- review of the Financial Reporting Council ('FRC') reporting requirements on Going Concern and Long-Term Viability Statements; and
- regulatory reporting obligations of our subsidiaries Severn Trent Water Limited and Dee Valley Water Limited.

The Audit Committee Terms of Reference, which were updated in March 2018, can be found at www.severntrent.com

Audit Committee report continued
Accountability

Audit Committee activities

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

Meeting	Matters considered
May 2017	• Financial results 2016/17 • Severn Trent Plc Annual Report and Accounts 2016/17, including fair, balanced and understandable review • Severn Trent Water Limited Annual Report and Accounts 2016/17 • Regulatory: Annual Performance Report and Annual Regulatory Compliance Statement for Severn Trent Water Limited and Dee Valley Water Limited • Regulatory: Annual Performance Report assurance, including ODIs for Severn Trent Water Limited • Internal control and risk management effectiveness • External Audit: Deloitte year end final report • Whistleblowing update
September 2017	• Internal Audit: half-year report • Gifts and Hospitality Update • External Audit: 2017/18 plan and terms of engagement • External Audit: Review of non-audit fees • Draft Wholesale charges • Enterprise Risk Management update • Water Resource Management Plan for Severn Trent Water Limited and Dee Valley Water Limited • Assurance Map re-design • Whistleblowing update • PR19 Assurance Framework
November 2017	• Interim results • External Audit: Deloitte half-year report • Management Representation letters • Regulatory: Company Monitoring Framework • Report from the Disclosure Committee • Severn Trent Water Limited Customer ODI Forecast • Water Resource Management Plan • Material litigation and compliance update • Whistleblowing update
December 2017	• Dee Valley Water Limited – Water Resources Management Plan • Water Resources RCV Allocation for PR19 • New Connections Charging
January 2018	• New Connections Charging
March 2018	• Finance: Year end considerations and Long-Term Viability Statement update • Regulatory: Year end considerations, Annual Performance Report and Annual Compliance Statement • Regulatory: WICS Compliance Statement • External Audit: Effectiveness review • External Audit: Non-audit fees policy and review of non-audit fees • Committee Terms of Reference • Internal Audit Q4 Update • Internal Audit Plan 2018/19 • Enterprise Risk Management update – Draft Principal Risks 2018 for the Annual Report • Report from the Disclosure Committee • Material litigation and legal compliance update • Whistleblowing update • Bribery and fraud prevention and detection • Assurance Map update • Accounting policies update • Subsidiary Audit Exemptions

In addition to the matters considered above, the Committee reviewed the proposed presentations to analysts in conjunction with the draft results announcements for both the interim and full year results, applying particular attention to the tone of the announcements and presentations to maintain consistency with the financial statements. In reviewing the financial statements, the Committee receives input from the Disclosure Committee, a sub-committee of the Executive Committee which is chaired by the CFO.

In May 2018, the Audit Committee also reviewed the outcome of the process to confirm that the Annual Report and Accounts are 'fair, balanced and understandable'. The Disclosure Committee undertook a detailed review of the Annual Report and Accounts prior to making a recommendation to the Board that it could make the fair, balanced and understandable statements contained in the Directors' Responsibilities Statement on page 135.

Significant financial statement reporting issues

The Committee looked carefully at those aspects of the financial statements which required significant accounting judgements or where there was estimation uncertainty. These areas are explained in note 4 of the financial statements on page 152.

The Committee receives detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believe should be drawn to the attention of the Committee. The Committee also reviews the draft of the External Auditor's report on the financial statements, with particular reference to those matters reported as carrying risks of material misstatement. The Committee discusses the range of possible treatments both with management and with the External Auditor and satisfies itself that the judgements made by management are robust and should be supported. The significant issues that the Committee considered in 2017/18 were:

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and long-term viability statement.	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic report on going concern and long-term viability.
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited. At 31 March 2018, the provision in Severn Trent Water Limited's financial statements was £124.5 million and the charge for the year was £25.0 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 the changes made to the methodology for calculating the provision during the year and critically appraised management's explanations for these changes. The Committee considered the work performed by the Auditor and the conclusions they reached regarding the adequacy of the provision. The Committee determined that no adjustment to the amounts recorded was required.
Revenue recognition in relation to the estimation of metered revenue from the new non-household retail market in Severn Trent Water Limited. In the year ended 31 March 2018, Severn Trent Water Limited recognised £371.4 million in revenue from sales to retailers in the new non-household retail market. On 1 April 2017, the non-household retail market in England opened to competition. This enabled all non-household customers to choose their water and waste water supplier although wholesale services remained with the incumbent companies. Market Operator Services Limited ('MOSL') was established to operate the market and to provide data to wholesalers and retailers to allow settlement between market participants to take place. MOSL provides data for monthly settlement periods based on actual meter readings and estimations extrapolated from the last known meter read. This is an iterative process with subsequent settlement runs including more actual readings for the same period. Empirical observations have shown that metered consumption is consistently higher than the previous estimates.	The Committee does not consider that there is a significant risk of a material adjustment in respect of this estimate in the next financial year because the estimated amount is not material. Nevertheless, the Committee considered this to be a significant issue because the systems and processes are new and the amounts recognised are subject to management judgement. The Committee reviewed the process for calculating the metered revenue estimate from non-household retailers and considered the reasonableness of the estimates in the light of emerging trends and the experience of other market participants. The Committee scrutinised management's evidence supporting its judgements and examined the data from the underlying evidence. The Committee discussed the Auditor's work and their conclusions. The Committee determined that the approach taken by management was reasonable and that no adjustment was required to the amounts recognised in the financial statements.
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited. Severn Trent Water Limited has a significant capital programme that includes projects made up of a combination of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgements are required to determine the appropriate accounting treatment.	The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year. The Committee enquired of management whether the policies had been applied consistently from year to year and sought explanation for the increase in amounts capitalised. The Committee considered the results of the Auditor's work and discussed the conclusions with the Auditor. The Committee determined that no adjustment to the amounts recorded was required.

Audit Committee report continued
Accountability

Issue	How the issue was addressed by the Committee
Determination of the amount of the Group's retirement benefit obligations. At 31 March 2018, net retirement benefit obligations amounting to £519.8 million were recognised. The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made regarding expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management.	The Committee scrutinised the assumptions underlying the valuation of the obligations, noting and probing assumptions that were not in line with their expectations. The Committee considered whether the assumptions taken as a whole were appropriate, taking account the work of the Auditor and the benchmark information provided by them. The Committee considered that the assumptions were reasonable and that no adjustment was required to the draft financial statements.

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

Internal control over financial reporting

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

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

Effectiveness of the Audit Committee

The Committee's performance was considered and reviewed as part of the annual review of the Board and its Committees, details of which can be found on page 79.

The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries and that all members have competence relevant to regulated and/or utilities businesses as well as significant recent and relevant financial experience.

Internal and External Audit

Internal Audit and internal controls

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management. The Internal Audit function is supported by a co-sourcing partner, PricewaterhouseCoopers. The arrangement is reviewed annually and the Committee believes this structure adds value, through greater access to specific areas of expertise, increased ability to scale up operations, and the ability to challenge management independently. Co-source specialists will continue to bring expertise to support the team and delivery of the audit plan where relevant. During the year, and following a meeting with the Chairman of the Audit Committee, a new Head of Internal Audit was appointed. This appointment complemented planned changes to the Internal Audit team to help deliver third line assurance for PR19 and other regulatory activities, without compromising the delivery of the 2018/19 audit plan.

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

The Audit Committee is confident that, where any failings or weaknesses are identified in the course of its review of internal control systems, management puts in place robust actions to address these on a timely basis. An internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. To ensure continued efficiency, an external review of the effectiveness of the Internal Audit function will be carried out in October 2018.

External Auditor

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

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

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

Based on our consideration of the responses to the effectiveness review the Committee remains satisfied with the efficiency and effectiveness of the audit.

Non-audit fees

The Company has approved a formal policy on the provision of non-audit services aimed at safeguarding and supporting the independence and objectivity of the External Auditor. The policy sets out the approach to be taken by the Group when using the services of the External Auditor, including requiring that certain services provided by the External Auditor are pre-approved by the Committee or its Chairman and separately sets out those non-audit services which are prohibited, since the independence of the External Auditor could be threatened.

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

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

Non-audit services where the External Auditor may be used include: audit-related services required by statute or regulation, services related to fraud, Corporate Responsibility report reviews and regulatory support.

Audit Committee report continued

Accountability

During the year, Deloitte received £558,000 in fees for work relating to the audit services they provide to the Group. Non-audit related work undertaken by Deloitte amounted to fees of £201,000 this year, which amounts to 36% of the total audit fees paid to them. Fees paid to Deloitte are set out in note 7 of the financial statements on page 157, but details of significant non-audit work undertaken are set out below:

Nature of service	Reason for Deloitte's appointment	Fees (£'000)
Audit related assurance services		
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor. The same safeguards that apply to the External Audit also apply to this work.	£54
Assurance of regulatory returns	Audit of sections 1 and 2 of Dee Valley Water Limited's and Severn Trent Water Limited's Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	£65
Reporting under Group financing documents	These documents require reports from the Auditor.	£49
Subtotal		£168
Other assurance services		
Assurance in connection with regulatory reports to Ofwat	Agreed-upon procedures relating to section 4 of Dee Valley Water Limited's and Severn Trent Water Limited's Annual Performance Reports and Severn Trent Water Limited's wholesale scheme of charges.	£15
Other assurance		£18
Subtotal		£33
Total 2017/18 non-audit fees		**£201**

In approving these non-audit fees, the Committee considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services.

Regulated subsidiaries

The regulated activities carried out by Severn Trent Water Limited and Dee Valley Water Limited also require annual reporting submissions to Ofwat which are reviewed by the Committee. They include an annual submission on their regulatory performance and obligations known as the Annual Performance Report, together with a Compliance Statement and a statement to underpin the customer charges made by each subsidiary.

In November 2017, the Committee reviewed the statement of risks, strengths and weaknesses and draft assurance plans for Severn Trent Water Limited and Dee Valley Water Limited, which is a requirement of Ofwat's Company Monitoring Framework. These documents set out the process, timeline and assurance framework in place for information published for customers and other stakeholders, including the Annual Performance Report.

For each of Severn Trent Water Limited and Dee Valley Water Limited, Deloitte provides an audit opinion on the regulatory financial reporting and price control segmentation sections of the respective Annual Performance Reports, and assurance of certain aspects of additional regulatory information that is included. The respective Annual Performance Reports also provide an overall picture of performance, covering many aspects which are not financial including performance against commitments and ODIs for each of Severn Trent Water Limited and Dee Valley Water Limited. Both Severn Trent Water Limited and Dee Valley Water Limited appoint independent engineering consultants, Jacobs and Black & Veatch respectively, to report and provide assurance on those aspects. The Committee receives reports from Jacobs and Deloitte on their work for Severn Trent Water Limited, and Black & Veatch and Deloitte for Dee Valley Water Limited, as part of its review of the respective Annual Performance Reports.

Risk management

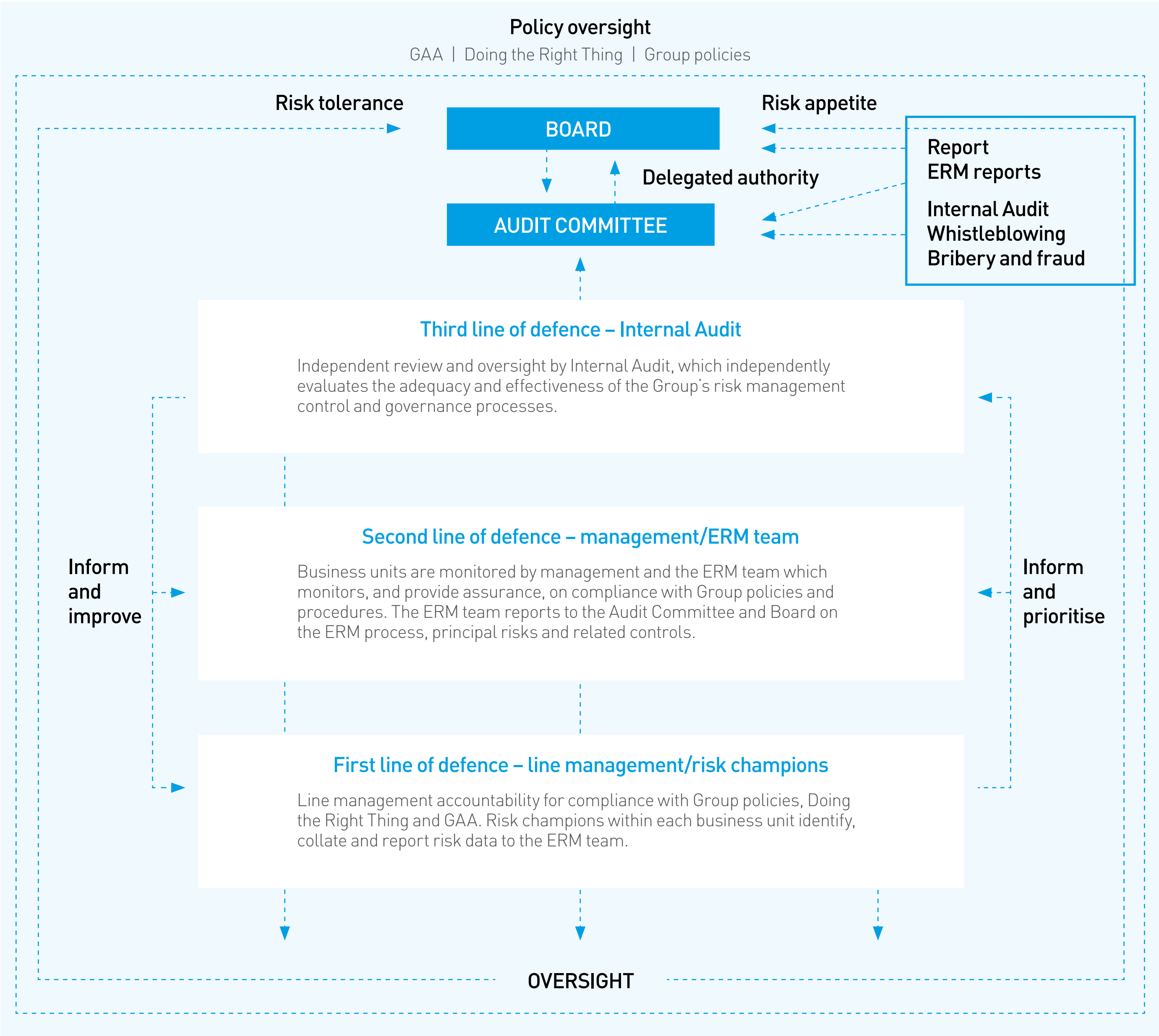
The Audit Committee reviews the processes for, and outputs from, the Group's Enterprise Risk Management ('ERM') process, through which our principal risks and related controls are identified. The Committee also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which to enhance the control and assurance arrangements. The Committee receives half-yearly reports from the Head of Risk detailing the significant risks and uncertainties faced by the Group, an assessment of the effectiveness of controls over each of those risks and an action plan to improve controls where this has been assessed as necessary.

To further enhance the clarity of reporting and insight that can be gained from this ERM information 'risk flightpaths' are now reported to the Audit Committee. The flightpaths graphically demonstrate the level of risk the Group faces and the timeline for the key risk mitigation steps to manage the risk to the target position. This builds upon the established reporting dashboard for the Group's significant risks. The flightpaths and the reporting dashboard help to facilitate a more thorough review of the target risk positions considering risk appetite and whether improvement actions to achieve these are on target with the correct prioritisation in place.

The Board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Group have been in place for the year to 31 March 2018 and up to the date of this report, which is in accordance with the Code and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting September 2014 (the 'Guidance'). A risk identification and horizon scanning update was provided to the Board in March 2018. During its review of risk management during the year, the Board explicitly considered the target position for significant risks and whether target risk positions are appropriate and confirmed that suitable timescales had been agreed for reaching them.

Risk management governance process

The Group's risk management governance process is based on the three lines of defence model and is scrutinised by the Audit Committee, through delegated authority from the Severn Trent Plc Board.



Treasury Committee report
Accountability

"The Committee has focused on the ensuring that the Group has sufficient ongoing liquidity to meet the committed funding requirements of its regulated and non-regulated businesses, provided through a sustainable, resilient financial structure".

John Coghlan
Chairman of the Treasury Committee

Attendance table

Member of the Treasury Committee	Meetings attended	Max possible
John Coghlan	6	6
Philip Remnant	6	6
James Bowling	6	6

The members of the Committee in 2017/18 are shown above. The Group Treasurer is also a member of the Committee, but not a member of the Board of Directors.

The Treasury Committee Terms of Reference were updated in March 2018 and can be found at www.severntrent.com

Only members of the Committee have the right to attend Committee meetings. In addition to the attendance set out above, Andrew Duff, Kevin Beeston, the Group Commercial Director and the Group Financial Controller normally attend, by invitation, all meetings of the Committee. Other individuals may be invited to attend meetings as and when appropriate.

To ensure that the Company's treasury practices are in line with best practice, the Committee has access to advice from advisers. Evercore are independent advisers to the Committee, with no other connection to the Company, and provide regular market updates to the Committee. The Committee is satisfied that the advice it receives is objective and independent.

During 2017/18, the Committee held one additional quorate meeting convened at short notice.

Introduction

As Chairman of the Treasury Committee, I am pleased to introduce this report which details the role of the Committee and the important work it has undertaken during the year.

The Committee has continued 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.

John Coghlan
Chairman of the Treasury Committee

Treasury Committee Responsibilities

The responsibilities of the Treasury Committee include:

- oversight of treasury activities in implementing approved treasury policies;
- oversight of interest rate and inflation risk management strategies. In particular, the monitoring of the impact of changes in forecast interest rates and inflation on Group earnings;
- oversight of the Group's funding strategy;
- monitoring the Group's exposure to financial institution credit risk;
- monitoring the Group's exposure to foreign currency risk;
- monitoring the Group's exposure to financial liquidity risk;
- receiving updates on general financial market movements; and
- oversight of treasury internal controls.

Key areas of Focus in 2017/18

The Committee provides Board oversight of the Group's key financing risks and opportunities.

Some key areas of discussion for the Committee during 2017/18 included:

- the impact of prevailing economic conditions on the accurate forecasting of long-term interest rates and associated interest rate and inflation risk management policy;
- the impact of Brexit on existing and future sources of funding for the Group's businesses;
- the introduction of CPI-linked debt into the Group's debt mix;
- analysis of Ofwat's proposed PR19 cost of debt methodology, including an early view of the impacts of a number of scenarios on the Company's credit metrics going forward; and
- the review of the Group's European Medium Term Note Programme and approval for bonds to be issued pursuant to that Programme during the year.

Corporate Responsibility Committee report
Stakeholder Engagement

"Acting in a socially and environmentally responsible manner is embedded in our Group strategy, and this year, we are reporting our performance against our CR Framework as part of our annual Group performance reporting".

Dame Angela Strank
Chairman of the Corporate Responsibility Committee

Attendance table

Member of the Corporate Responsibility Committee	Meetings attended	Max possible
Dame Angela Strank (Chairman)	3	3
Andrew Duff	2	3
Dominique Reiniche	3	3
Liv Garfield	3	3

In addition to the attendance set out above, the Company Secretary normally attends, by invitation, all meetings of the Committee. Other members of senior management, including the Head of Internal Audit, and subject matter experts are also invited to attend as appropriate.

Introduction

As Chairman of the Corporate Responsibility ('CR') Committee, I am pleased to introduce this report which details the role of the Committee and the important work it has undertaken during the year. The Committee has continued to play a key role in supporting the Board, monitoring performance against our Corporate Responsibility Framework, reviewing in detail our CR commitments including several ODIs and providing an oversight of the Group's key non-financial risks and opportunities.

Dame Angela Strank
Chairman of the Corporate Responsibility Committee

Corporate Responsibility Committee responsibilities

The responsibilities of the Corporate Responsibility Committee include:

- development of the Corporate Responsibility Framework and metrics;
- regularly receiving and reviewing reports on progress against our Corporate Responsibility Framework;
- consideration of our Code of Conduct and associated Group policies for recommendation to the Board. Particular focus includes the provision of a healthy and safe working environment for employees and contractors, human rights (including Modern Slavery) and employee diversity and inclusion;
- review of our environmental performance standards and commitments; and
- the promotion of socially responsible values and standards that relate to the social and economic community in which the Company operates.

The Corporate Responsibility Committee Terms of Reference, which were updated in April 2018, can be found at www.severntrent.com.

Our Corporate Responsibility Framework

Our Corporate Responsibility Framework is ambitious, broad ranging and underpinned by stretching targets, to ensure we are delivering the commitments expected of a leading socially and environmentally responsible business. Acting in a responsible manner is integral to supporting our purpose of serving our communities and customers, building a lasting water legacy and achieving our vision to be the most trusted water company by 2020.

We hold ourselves to account against our CR Framework and agreed metrics through an effective performance management system. Our CR performance is embedded within the organisation, with ODIs embedded in the large majority of our CR metrics, demonstrating we are focusing on issues of upmost importance to our customers.

Performance against the CR Framework is reported on a quarterly basis to the Committee, and externally on an annual basis through our Annual Report and Accounts, through our website and through selected environmental, social and governance indices. Our employees' reward is directly linked to our CR performance, with customer ODIs, health and safety and our key CR metrics contributing to the bonus which our employees receive. We believe that by focusing on the issues most important to our customers, our CR Framework has the right focus, and we are proud that we have again been accredited by FTSE4Good.

Corporate Responsibility Committee report continued

Stakeholder Engagement

Key areas of focus for 2017/18

The Committee provides Board oversight of our CR strategy and our performance against our CR Framework. The Committee regularly reviews reputational risks, non-financial Internal Audit reports, whistleblowing allegations and reviews in detail key topics against our CR Framework. Some key areas of discussion and review during 2017/18 included:

- Our goal zero mind-set for serious pollutions, as a key indicator of our environmental leadership. Reviewing our performance and plan for continuous improvement.
- Our ambition to make our region the most water efficient in the UK. Reviewing progress against our commitment to empower our customers to save 25 million litres a day (Mld) and future challenges we need to consider.
- Delivering our ambition for our vulnerable customers. Reviewing performance against our commitment to support 50,000 customers who struggle to pay their bill and customer research into developing our next five year plan to ensure we lead at supporting customers in vulnerable circumstances, both in terms of accessibility and service.
- Our approach to catchment management and taking a catchment based approach. Reviewing our performance against our AMP6 catchment ambitions and demonstrating the benefits of developing a vision for catchments across the Severn Trent region in collaboration with farmers.
- Our zero tolerance approach to modern slavery and our plans to take all reasonable efforts to eradicate modern slavery within both our business and our supply chain.
- Our approach to whistleblowing. Reviewing the effectiveness of our whistleblowing procedures to ensure we provide adequate support for both the whistleblower and training for the investigating managers.

Corporate Responsibility Committee activities

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

July 2017

- Quarterly Corporate Responsibility performance report
- The identification and management of political risk
- Demonstrating environmental leadership – a Deep Dive on 'Pollution Performance'
- Anti-Slavery and Human Trafficking Statement 2017 Update
- Whistleblowing Report

November 2017

- Quarterly Corporate Responsibility performance report
- Deep Dive: Water Efficiency
- Deep Dive: Help if you struggle
- Whistleblowing Report

January 2018

- Corporate Responsibility Update 2018
- Deep Dive: Catchment Management and the Catchment Based Approach
- Deep Dive: Supporting our Colleagues' Mental Wellbeing
- Review of Whistleblowing policy and procedures
- Whistleblowing Report

April 2018

- Quarterly Corporate Responsibility performance report
- Deep Dive: Community Champions – employee volunteering
- Internal Audit aligned with CR Framework
- Whistleblowing Report
- Anti-Slavery and Human Trafficking Statement 2018 – Update

Ambition One
We will make our region the most water efficient in the UK

Ambition Two
We will play a leading role to help make our region's rivers even healthier

Values

1 We put our customers first

2 We are passionate about what we do

3 We act with integrity

4 We protect our environment

5 We are inspired to create an awesome company

Human rights

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, 'Doing the Right Thing'. We have a responsibility to understand our potential impact on human rights and to mitigate or eliminate any potentially negative impacts. Whilst not having a specific human rights policy, we have Group policies on Human Resources, Anti Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement. These policies are, in turn, supported by a broader range of policies to support key human rights.

Prevention of child labour and forced labour

We will not condone the use of child labour and forced labour under any circumstances. Our highest risk is through our supply chain. Therefore we work with our suppliers to ensure they operate to the same standards we set ourselves, and we have also been working closely with our suppliers to ensure they understand the risks involved in their own supply chains. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly states our zero tolerance, and is built into our procurement tender process as part of the pre-qualification questionnaire template. We encourage all suppliers, irrespective of turnover, to make a modern slavery and human trafficking statement that they do not tolerate modern slavery and human trafficking in their businesses.

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 seeking 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. We also believe that the Company forum provides a suitable opportunity for engagement with the whole workforce to ensure workforce views are taken into account.

Whistleblowing

All Severn Trent employees are encouraged to raise concerns at work in the first instance through their line manager, or senior management, however, we recognise that employees may find this difficult under certain circumstances. If this might be the case, employees are encouraged to use our confidential and independent whistleblowing helpline or email service, operated by Safecall, an independent company that specialises in handling concerns at work. The service is available internationally and Safecall provides a translation service, allowing any employee to access it, wherever they are in the world. All investigations are carried out independently of direct line management and the findings are reported directly through to the Audit and CR Committees. This year we reviewed the effectiveness of our whistleblowing procedures to ensure we offer suitable support to both the whistleblowers and also the investigating managers.

'Doing The Right Thing – The Severn Trent Way'

Every day our employees have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what is safe, doing the right thing for our customers, doing what is right ethically and what is right legally. But there are always going to be times when the situation isn't completely clear, and that's where our Code of Conduct 'Doing the Right Thing' comes in. It details the values we work by and explains who we are, what we stand for and how we work. It also tells our customers, investors and business partners that they can trust and rely on us. These principles apply to everyone in the Group, no matter where in the world they are based or what they do. It clearly sets out the standards we need to follow in our day-to-day activities. This remains an essential part of our employee induction and last year we introduced an e-learning module for all employees to ensure they understand their personal responsibilities.

Prevention and detection of bribery and corruption

Our Group financial crime policy prohibits bribery, corruption and fraud in all our business dealings, regardless of the country or culture within which we work. This year we have also updated our policy to take into account the new tax evasion offences. Employees identified as high risk, through a risk review for all Group employees, are required to undertake an online training module and test to ensure awareness of and compliance with anti-bribery and corruption. The Audit Committee carries out an annual review of our systems and controls to detect and prevent bribery and corruption.

Responsible business practices are an integral part of our business strategy and so this year, rather than having a separate CR Report within our Annual Report and Accounts, we have integrated our performance throughout the report to reflect the importance of its embedded nature.

Investor relations
Stakeholder Engagement

Primary investor events

May 2017	London Roadshow
May 2017	Edinburgh Roadshow
May 2017	US Roadshow
June 2017	Geneva & Zurich Roadshow
June 2017	BAML Utilities & Renewables Conference
June 2017	Exane European CEO Conference
June 2017	RBC Reverse Roadshow
July 2017	Scott Harris Roadshow
September 2017	Investor Site Visit
September 2017	Citi Reverse Roadshow
September 2017	Morgan Stanley Power and Utility Summit
September 2017	Bernstein Strategic Decisions Conference
November 2017	London Roadshow
November 2017	US/Canada Roadshow
November 2017	Edinburgh Roadshow
November 2017	Geneva Roadshow
January 2018	Citi European Utilities Conference
February 2018	London Roadshow
March 2018	US Roadshow

Institutional shareholders and analysts

The Board recognises the importance of representing and promoting the interests of its shareholders and that it is accountable to shareholders for the performance and activities of the Company. Various mechanisms have been put in place to ensure it remains in touch with key activities and developments, including:

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

Retail shareholder engagement strategy

The Board has an active shareholder engagement strategy, the main elements of which are set out below.

The Annual Report and Accounts is the principal means of communicating with shareholders. The Group has adopted e-communications as an alternative method of sending company information. Following a consultation with shareholders in March 2017, a significant majority of shareholders, 85% elect to view and download the Annual Report online, whilst 15% continue to receive a hard copy. The next consultation will take place in 2019.

Our website contains an archive of Annual Reports together with other information relevant to investors, including comprehensive share price information, financial results, Company news and a financial calendar. The Company offers a Dividend Reinvestment Plan ('DRIP'), details of which are available on our website and the website of Equiniti, our registrar.

Additional investor engagement

Presentations are made to shareholders and city analysts following the release of the half-year and full-year results. Furthermore, the Chief Executive and Chief Financial Officer regularly meet shareholders during the year.

The Chairman and Senior Independent Director also offer to meet with our largest shareholders without the Executive Directors once every year and are available to meet with investors at any other time upon request.

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

A clear Investor Relations strategy has been documented and agreed by the Board. This sets out the Investor Relations team's approach to identification of, and engagement with, the Company's shareholders, sell-side analysts and debt investors.

2017/18 engagement

During 2017/18, the key topics for our investors have been a combination of company specific, performance-orientated factors and broader regulatory and political factors.

At a company level, conversations with our investors have largely focused on our performance against the three key regulatory outperformance levers of customer Outcome Delivery Incentives (ODIs), Totex and financing. In particular, questions have been targeted on how the outperformance to date has been achieved, what areas have received specific attention and what scope there is for further improvement. Investors have also been interested in opportunities for further growth in our regulatory capital value ('RCV'), the performance of our non-regulated business, in particular our renewable energy activities, and the potential for further merger and acquisition activity in the sector. We are also seeing an increased level of interest in our approach to Corporate Social Responsibility.

Broader factors impacting Severn Trent and the water sector have played a more significant part in investor conversations this year. In particular, the increased regulatory news flow relating to PR19 (the price review process which will set prices for AMP7, the regulatory period for 2020-25) and the inclusion in the Labour Party's 2017 election manifesto of a policy to renationalise certain sectors, including the water sector, have dominated recent conversations.

Regarding PR19, there were two key announcements from Ofwat, in July and December 2017, in which it set out its methodology that helped shape the regulatory framework for AMP7 and gave clear guidance on how companies can outperform. The focus from investors has been on how these changes will impact Severn Trent and how well the Company is positioned to benefit from the sharpened incentive regime.

The renationalisation debate has been at the forefront of investors' minds since the general election in June 2017. In particular, they have sought to understand the likelihood of it happening, should the Labour Party win the next general election, and what the success story of the industry has been since privatisation.

Looking ahead to 2018/19

We have already established a structured programme of investor engagement for 2018/19, incorporating roadshows to many of the key locations where our shareholder base are located, including London, Edinburgh and North America. We have also confirmed attendance at a number of industry conferences.

We expect the PR19 process to be the key theme for investors throughout 2018/19, with several key milestones in the process of being reached, including the submission of company business plans to Ofwat in September 2018 and the initial assessment of business plans by Ofwat in January 2019. The dialogue with our shareholders on the risk of renationalisation will be maintained. At a company level, the focus will likely remain on our ability to outperform the regulatory incentive mechanisms of customer ODIs, Totex and financing.

Tax Strategy

We are committed to managing our tax affairs in a responsible manner. This means paying the right amount of tax at the right time in compliance with UK tax rules and acting in accordance with the values set out in our Corporate Responsibility Framework. References to 'tax' include taxes that we incur (corporation tax, business rates, employer's NIC, VAT and various environmental taxes) as well as taxes that we administer and collect on HMRC's behalf (PAYE and employee's NIC).

Our approach to tax

Our approach to tax is overseen by the Severn Trent Plc Board and is governed by the following key principles:

- We will manage our tax affairs responsibly, in a manner consistent with our vision to be the most trusted water company by 2020;
- We will not undertake aggressive tax planning or any planning not otherwise in support of business requirements;
- We will make use of widely claimed incentives that Government has chosen to make available to encourage investment; and
- We will maintain an open, transparent and collaborative relationship with HMRC consistent with maintaining our good working relationship.

The effective management of our tax affairs is in the best interests of customers as it helps to keep our bills as low as possible.

Tax Governance

Responsibility for tax governance sits with the Chief Financial Officer, with oversight from the Board and Audit Committee and day-to-day support from a team of qualified in-house tax professionals.

In accordance with Group risk management procedures, tax risks are recorded and monitored throughout the year. If a material uncertainty is identified, external advice may be sought to ensure that our interpretation of the relevant UK tax rules is appropriate. We may also seek to resolve an uncertain tax position directly with HMRC before a tax return is filed, in accordance with HMRC's framework for co-operative compliance.

Any significant tax risk is reported to, and overseen by, the Group's Audit Committee, who also receive tax status updates as part of the interim and year end financial reporting programmes.

Relationship with HMRC

In maintaining a good working relationship with HMRC, we seek to ensure that HMRC are kept up to date with business developments, including any commercial transactions with potentially significant tax implications. Where queries arise, these are managed on the basis of full disclosure. We will make representations to, and consult with, HMRC on issues that could adversely affect investment in UK infrastructure or our customers' bills.

Non-UK operations

Substantially all of the Group's revenues and profits are generated in the UK and are subject to UK tax. Details of the Group's overseas subsidiaries at 31 March 2018 are set out below:

- Severn Trent Response Limited is a 60% owned subsidiary company operating in Ireland. It designs, builds, operates and maintains water infrastructure assets in Ireland and is subject to Irish tax.
- Lyra Insurance Guernsey Limited and Derwent Insurance Limited are wholly owned subsidiary companies incorporated in Guernsey and Gibraltar respectively. They were established to provide insurance services to the Group. Both companies are subject to the UK Controlled Foreign Company ('CFC') rules and therefore the Group incurs tax at the UK Corporation Tax rate on their profits.
- Severn Trent Holdings SA is a wholly owned subsidiary company incorporated in Belgium. It was the holding company for businesses that the Group previously owned in Belgium. Following the disposal of those businesses the holding company was retained to deal with a number of legacy legal issues. These issues have now been resolved and the Group is considering options for liquidating the company. This company is subject to Belgian tax.
- Severn Trent Africa (Pty) Ltd is a dormant company incorporated in South Africa. It has no impact on the Group's tax.

Scope

This Tax Strategy covers the period ended 31 March 2018 and applies to Severn Trent Plc and its UK subsidiary undertakings. It is published in compliance with the Finance Act 2016 requirement for large businesses to publish their tax strategy.

Directors' remuneration report
Remuneration

Philip Remnant
Chairman of the Remuneration Committee

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The policy framework for remunerating all senior executive managers is consistent with the approach taken for Executive Directors. The Committee also provides oversight of all-employee reward, for example the annual bonus scheme, and reviews the cascade and alignment of reward throughout the Group.

The Remuneration Committee Terms of Reference were updated in March 2018 and can be found at www.severntrent.com.

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Term	Definition
AMP	Five year Asset Management Plan
Customer ODIs	Outcome Delivery Incentives which are important to customers
FD	Final Determination of price controls set by Ofwat for every five year AMP period
LTIP	Long Term Incentive Plan
PBIT	Profit Before Interest and Taxation
RoRCV	Return on Regulatory Capital Value
RoRE	Return on Regulated Equity
SIM	Service Incentive Mechanism
Totex	Total Expenditure (Capital Expenditure + Operational Expenditure)
UQ	Upper Quartile performance compared with peers
WaSCs	Water and Sewerage Companies

Chairman's Statement

Dear Shareholder,

Our performance

As a Remuneration Committee we are focused on ensuring that the reward our Executive Directors receive reflects the performance of the Company and remains proportionate to the overall employee base and to the returns received by shareholders. We are mindful of the external focus on executive pay and the need to ensure both fairness and transparency, challenging ourselves to make sure that we only reward for delivering for our customers and communities. The Committee scrutinises performance targets to ensure that there is always an appropriate link between performance and reward.

This is why we are particularly proud to be UQ for our customer satisfaction performance commitments, achieving fourth position in the utilities sector on the Institute of Customer Service's UK Customer Service Index and, whilst our SIM performance remains below our end of AMP target, we continue to focus time and energy on driving further improvement.

Through investing responsibly for sustainable growth, we have locked in a further £100 million of Totex efficiencies, taking our gross efficiencies for AMP6 to £870 million. Taking account of our £220 million total reinvestment plans, our net total outperformance versus our FD is £240 million, of which half will be shared with our customers through lower bills in AMP7. We are proud that we continue to have the lowest combined bills in Britain and moreover we exceeded our commitment to help 50,000 of our most vulnerable customers with their bills. In addition, strong financial performance continues, delivering RoRE of 11.5% calculated in line with the Ofwat measure (10.6% on the Severn Trent RoRE measure).

Across a large number of our customer ODI measures we have performed well and we are particularly proud of our continuing performance in waste water measures. We also know that we can do more in areas such as supply interruptions and in the last year management has reorganised the business to deliver greater focus on areas which we want to improve for our customers. We have achieved a customer ODI reward of £80.2 million, up from £47.4 million on the previous year.

As a large regional business and employer we are always conscious of the positive impact our performance can play in the communities that we serve. Our environmental leadership has led us to improve 9.86 hectares as we progress towards our 2020 target. We have supported over 40% of our employees to volunteer in their local area and, when it comes to employment, we are proud to have had our work to improve social mobility recognised in the first social mobility index.

Remuneration for the year under review

Overall, the business has continued to perform strongly in 2017/18 against a set of stretching annual bonus targets, which required the delivery of improvements across all areas, whilst navigating a number of challenging headwinds. Respective bonus outturns were 72.54% of salary for each of the CEO and CFO, out of a maximum annual bonus opportunity of 120% of salary.

LTIP awards based on RoRE over the three years to 31 March 2018 will vest in full for the CEO and the CFO. This is representative of outstanding performance in customer ODIs, financing and Totex.

There is a detailed breakdown on pages 111 to 114 of the targets set and the payments under the annual bonus and LTIP.

The new Remuneration Policy

The Company's current Remuneration Policy was approved by 97.99% of shareholders at the 2015 AGM. The votes in favour for the implementation of the Policy demonstrated through the annual votes on the Directors' remuneration report were 98.26% in 2016 and 97.30% in 2017. Given this level of shareholder support and the Committee's view that the current Remuneration Policy remains largely appropriate, the new Remuneration Policy is evolutionary rather than revolutionary.

The Company is proposing to put the new Remuneration Policy to shareholders for a binding vote at the AGM on 18 July 2018. Once approved, this Policy will operate for up to three years.

Aim of the new Remuneration Policy and link to our strategy

The Company's new Remuneration Policy focuses on delivering business priorities through a framework designed to promote the long-term success of Severn Trent and remains aligned with the interests of customers, shareholders and the communities which we serve. The Committee has endeavoured to construct a policy which has a fair and competitive approach to pay and which ensures that as a company we can attract and retain the best people with the skills to run this essential service efficiently and effectively for our customers.

At the heart of our business is ensuring the service and experience we provide meets the needs of our customers. We believe that the long-term success of our business should be aligned with this goal. As such, we positively welcome Ofwat's message that customers must be at the heart of AMP7 business plans. To reflect this, at least 28% of annual bonus will continue to relate to customer ODIs and customer experience, which we know are the measures that matter most to them, and to customer experience.

Within the LTIP, we have selected RoRE as our measure for 2018 LTIP awards. RoRE measures our success over three years in a range of areas, one being the all-important customer ODIs, and we believe that RoRE continues to be the most appropriate measure in terms of our long-term success.

Shareholder consultation

During the year, we embarked on an extensive shareholder consultation exercise with our largest shareholders and representative bodies on our new Remuneration Policy. We contacted our 30 largest shareholders representing over 50% of our issued share capital, as well as Glass Lewis, The Investment Association and ISS, to consult on proposed changes to our policy. The proposed changes discussed with shareholders were:

- Changing the annual bonus opportunity from 120% to 150% of salary for both the CEO and CFO;
- Changing the LTIP opportunity from 150% to 200% of salary for the CEO and 100% to 150% of salary for the CFO;
- Recalibrating the current stretch target as target and introducing a new stretch target of UQ performance;
- Introducing a two year post-vesting holding period for new awards under the LTIP which will continue to operate post cessation of employment;
- Increasing the minimum shareholding requirement from 200% to 300% of salary for the CEO and 150% to 200% of salary for the CFO; and
- Reducing the maximum pension contribution to 15% of salary, in line with the general workforce, for new Executive Directors.

The feedback and responses received on the proposed changes were positive and supportive overall of the Committee's approach. Having listened carefully to that feedback, we decided not to progress with the increase in the bonus opportunity. This recognised a preference from a number of shareholders that any quantum increase be provided through the LTIP.

The table following this letter sets out full details of the Committee's rationale for the proposed changes to the current policy, shareholder feedback during the consultation and the final position reached.

Directors' remuneration report continued

Remuneration

Wider workforce considerations and our approach to fairness

Through being a successful business we can create good jobs in our community and value for colleagues by offering a competitive total reward package. This includes a bonus for all, flexible benefits and a market-leading defined contribution pension scheme as well as a competitive salary. We are in the unusual position in our sector that social mobility is weak in many of the areas in which we operate, so we believe we have a role to invest well to build secure employment opportunities and create fulfilling careers for our colleagues. Over half of our employees have joined from areas of lower social mobility and benefit not just financially, but from our training, development and career opportunities.

We recognise the central importance of all of our teams in delivering success which is why one of our five key strategic goals is to create an awesome place to work for them. We understand that this will mean different things to different people and seek to create a working environment which enables everyone to contribute fully and be the best they can be. Our annual employee engagement survey shows a significant increase in overall engagement of six percentage points.

The Committee and management are committed to fair pay across the organisation. We continue to see diversity and inclusion as central to everything we do and we are pleased to report a relatively low mean gender pay gap of 2.4%.

To ensure the voice of our employees is heard, we have an active Company employee forum which meets every quarter to discuss business challenges and opportunities. The forum is chaired jointly by a member of the Executive Committee and the Trade Unions. Members include representatives from HR, joint Trade Unions and employees from our other business area employee forums. The objectives of the Company employee forum are to:

- Involve employees by sharing information on the future of our business and the water industry;
- Work together on issues that affect our employees; and
- Work in partnership to deliver better solutions to improve the way we work.

During 2017/18, the CEO discussed with the Company employee forum the performance of the business, key financial information and ideas for efficiencies. We have already taken steps to utilise further this forum in line with the draft FRC UK Corporate Governance Code. The Chairman has attended his first meeting and will be attending on an annual basis to share views and seek feedback to ensure the Board is able to consider the views of employees in its decision making.

More information relating to the wider workforce can be found on page 108.

Board changes

Emma FitzGerald was appointed to the Board on 1 April 2016 and stepped down on 31 December 2017 following the successful completion of the restructuring of the wholesale operating model. Details of Emma's remuneration relating to her time on the Board, during 2017, are contained within this report.

Structure of the report

This year, we include a comprehensive explanation of our proposed Remuneration Policy which will be put to shareholders for approval at the 2018 AGM. This can be found after the Annual Report on Remuneration section starting on page 120.

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, Company Secretary and Group General Counsel.

Philip Remnant
Chairman of the Remuneration Committee

The table below sets out full details of the Committee's rationale for the proposed changes to the current Policy, shareholder feedback during the consultation and the final position reached.

<table>
<tr><th>Key points</th><th>Committee's rationale</th><th>Majority view of shareholders consulted</th><th>Final proposals</th></tr>
<tr>
<td>Increase in quantum</td>
<td>The Committee's rationale was as follows:
• The Executive Directors were inexperienced at the time the current Policy was introduced and incentive levels reflected this. The Committee believes that the Executive Directors are now fully embedded in the business and over the past three years they have performed successfully in their roles, demonstrating an exceptional level of commitment in executing the business strategy for the benefit of our shareholders, customers and the wider community;
• The Committee wants to provide an appropriate level of incentive opportunity to deliver a competitive total remuneration package that retains and motivates a truly exceptional management team for the rest of this AMP and into the next;
• The Committee is keen to ensure that there is an appropriate level of incentive opportunity in the remuneration to reflect the greater focus of Ofwat on the relative performance of WaSCs and the tougher regulatory context during AMP7; and
• It should be noted that even with the proposed increase in quantum the total remuneration available to the Company's Executive Directors is around the median for the FTSE 51-150, the Committee's main external reference point. See page 106 for further details.</td>
<td>Shareholders were supportive of the increase in quantum for longer term performance measured through the LTIP. While in general shareholders were also supportive of a proposed increase to the annual bonus maximums, there was a concern about increasing the bonus opportunity in the current environment. In addition, in general the preference of shareholders was for any increase in quantum to be focused on the LTIP.</td>
<td>Based on this feedback, the Committee determined to make increases to the LTIP quantum only.
The proposed policy sets out the following maximum annual LTIP grants (current policy in brackets):
• CEO 200% of salary (150%);
• CFO 150% of salary (100%).
It should be noted that the increase in the LTIP opportunity has been accompanied by an increase in the stretch of the performance conditions (see below).</td>
</tr>
<tr>
<td>Type of LTIP performance condition</td>
<td>The Committee proposed RoRE as the sole performance condition for the LTIP (as is the case for the current policy). The Committee's rationale was as follows:
• RoRE is a holistic measurement of performance requiring management to focus on performance across a range of areas such as Totex, customer ODIs and financing which help measure long-term success within the business. Therefore, whilst it is a single measure, delivering the RoRE performance requires the Executive Directors to deliver on a number of Company KPIs; and
• RoRE is the primary measure used by Ofwat to measure the performance of the Company and other WaSCs. In addition, Ofwat calculates and ranks RoRE for the WaSCs giving an independently verified and comparable value for the Company.</td>
<td>During the consultation a number of different performance measures were discussed with shareholders. However, on engagement with the Committee the general view of shareholders was that RoRE was the key long term metric for the Company and appropriate as the sole performance condition for the LTIP.</td>
<td>Given the strong level of shareholder support the Committee determined to proceed with its proposal to retain RoRE as the performance condition for the LTIP.</td>
</tr>
<tr>
<td>Calibration of LTIP performance condition</td>
<td>The Committee proposed a new calibration of the RoRE targets for 2018 LTIP grants:
<table>
<tr><th></th><th>Threshold FD
% Salary
No change</th><th>1.39 x FD
% Salary
No change</th><th>UQ RoRE Compared with WaSCs
% Salary
New maximum</th></tr>
<tr><td>CEO</td><td>37.5%</td><td>150%</td><td>200%</td></tr>
<tr><td>CFO</td><td>25%</td><td>100%</td><td>150%</td></tr>
</table>
The Committee is setting these targets for the 2018 LTIP grant. The Committee will review the targets in 2019 as two years of the performance period will be in the new AMP7.
Current maximum vesting (2016 and 2017 awards) occurs for 1.39x FD (7.78% return).
The Committee wants to ensure that any additional incentive opportunity can only be earned through even more stretching performance. The rationale for the use of the UQ comparison against other WaSCs is that:
• It ensures full vesting is only achieved for UQ comparative performance. At the point of AMP change over it is difficult to set an absolute target for UQ performance; and
• It aligns with the Company's aspirations to remain an UQ performer.</td>
<td>Shareholders supported:
• The introduction of a comparative element to RoRE; and
• The increased performance stretch required to earn the additional incentive opportunity.</td>
<td>Given the strong level of shareholder support the Committee determined to proceed with its proposed calibration of the RoRE performance condition for the 2018 LTIP awards, accompanied by an increase in the stretch of the performance conditions.</td>
</tr>
</table>

Directors' remuneration report continued

Remuneration

Key points	Committee's rationale	Majority view of shareholders consulted	Final proposals
Addition of holding period to the LTIP	The Committee's rationale was to provide further alignment with shareholders' interests and to bring the LTIP into line with best practice.	This change was universally supported by shareholders.	Introduction of a two year holding period post vesting for Executive Directors which will continue to operate post cessation of employment.
Increase in the minimum shareholding Requirement	The Committee's rationale was to provide further alignment with shareholders' interests.	This change was universally supported by shareholders.	Increase in requirement: • CEO 300% of salary (200% current); and • CFO 200% of salary (150% current).
Reduction in maximum pension contribution	The Committee's rationale was to align pension contribution quantum for new Executive Directors with pension contribution for the wider workforce.	This change was universally supported by shareholders.	No change for current Executive Directors. New appointments will have a maximum pension contribution of 15% of salary (25% current).

At a Glance

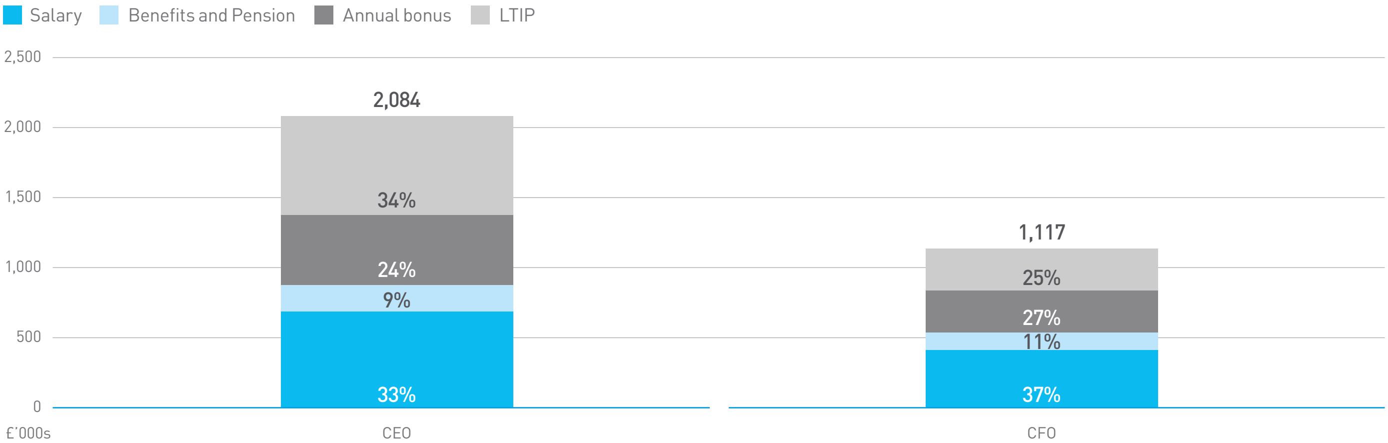
Shareholders approved Severn Trent's Remuneration Policy at the 2015 AGM (set out in full in the 2015 Annual Report). As highlighted last year, and in line with regulations, Severn Trent is now seeking shareholder approval for a new Remuneration Policy at the 2018 AGM, after which the new Remuneration Policy will come into effect and govern pay arrangements for our Executive Directors for the next three years.

The following section sets out our remuneration framework, how our previous Remuneration Policy was applied in 2017/18 and how the Committee intends to implement the proposed Remuneration Policy in 2018/19.

2017/18 Remuneration outcomes

Single figure remuneration 2017/18

This table shows how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors. The table and chart below provide a summary total single figure of remuneration for 2017/18. We note that Emma FitzGerald (Managing Director, Wholesale Operations) stepped down from the Board in December 2017. The 'At a Glance' section contains remuneration for the CEO and CFO only. The full explanatory notes for each element of remuneration are detailed on page 110 in the Annual Report on Remuneration.



Executive Directors	Year	Salary (£'000)[i]	Benefits (£'000)	Annual bonus (£'000)	LTIP (£'000)	Pension (£'000)	Other (£'000)	Total 2017/18 (£'000)
CEO	2017/18	687.2	17.7	501.0	706.6	171.8	–	2,084.3
CFO	2017/18	414.2	18.7	301.9	278.3	103.5	–	1,116.6

(i) Salaries are shown before the deduction of benefits purchased through the Company's salary sacrifice scheme.

Directors' remuneration report continued

Remuneration

Annual bonus scheme 2017/18

An annual bonus of 72.54% of salary for each of the CEO and CFO was awarded. Further details are set out on page 111 in the Annual Report on Remuneration.

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
STW PBIT	£515.8m	£529.2m	£542.6m	47%	21%
	Actual: £527.6m				
Customer ODIs	£13m	£23m	£33m	20%	20%
			Actual: £80.2m		
Business Services PBIT	£35.6m	£36.6m	£37.6m	10%	10%
			Actual: £38.1m		
Health and safety[i]	0.20	0.16	0.12	8%	2%
	Actual: 0.17				
Customer experience[ii]	15%	20%	25%	8%	2%
	Actual: 17.20%				
Personal performance		Details on pages 112 and 113		7%	6% – CEO 6% – CFO

(i) Measured as number of lost time incidents divided by number of hours worked multiplied by 100,000.

(ii) Measured as the percentage reduction in complaints.

LTIP 2015/18

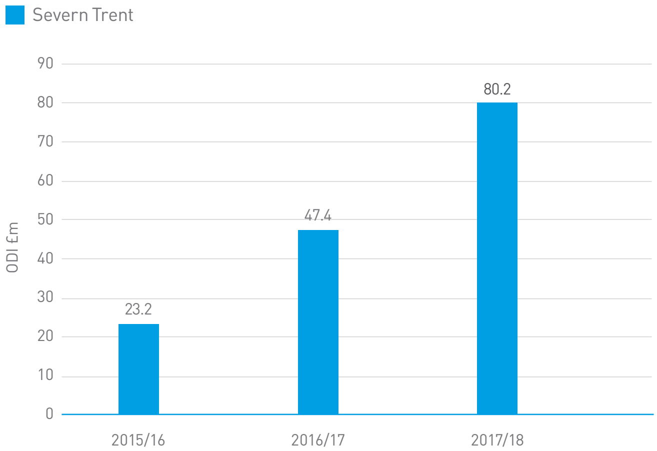
The 2015 LTIP vested at 100% of maximum. Further information is provided on page 114 in the Annual Report on Remuneration.

	Threshold (25% payable)	Maximum (100% payable)	Vesting outcome as % of award CEO	Vesting outcome as % of award CFO
RoRE – measured as multiple of Ofwat FD	FD	1.29x	100%	100%
		Actual: 1.79x		

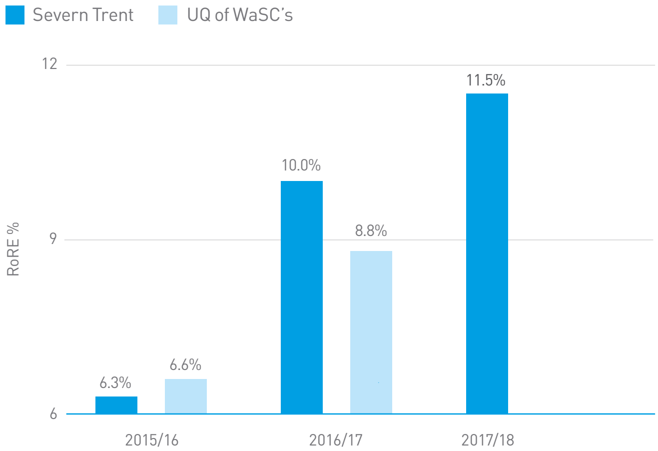
Link between long-term performance and the remuneration outcomes

The charts below show our customer ODI and RoRE performance since the beginning of the current AMP. This strong sustained level of performance has informed the level of reward received by our Executive Directors and our employees through the company-wide bonus scheme, which is linked to the same performance measures.

Severn Trent performance – ODI £m(i)



Severn Trent performance – RoRE %(ii)



(i) ODIs gross of tax.

(ii) Calculated in accordance with Ofwat methodology. UQ data not yet available for the current year.

Remuneration principles

The remuneration principles which underpin our policy support our strategic priorities, align our interests with those of customers and inform the decisions made by the Committee in relation to executive pay. Our core remuneration principles are as follows:

Simplicity	Relevance	Objectivity	Competitive
The Remuneration Policy should support transparency in terms of design and communication to internal and external stakeholders.	Reward will be relevant to our business goals and objectives, and be affordable. Remuneration outcomes should mirror the customer, shareholder, employee and wider stakeholder experience. The Remuneration Policy should clearly link individual pay outcomes to corporate results.	Performance measures and targets for incentive plans will be objectively determined. The Remuneration Policy should support potential changes in business priorities over time.	Remuneration will be aligned to support the interests of our shareholders. The Remuneration Policy should provide opportunity which is competitive against companies of a similar size and complexity with a strong emphasis on variable elements.

Directors' remuneration report continued
Remuneration

Strategic alignment of remuneration
The Committee believes it is important that for Executive Directors, and senior management, a significant proportion of the remuneration package is performance-related and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy through our five strategic priorities. The following table sets out how each of these are reflected in the annual bonus and LTIP.

	Strategic priorities	Embed customers at the heart of what we do	Drive operational excellence and continuous innovation	Investing responsibly for sustainable growth	Change the market for the better	Create an awesome place to work
Annual bonus	PBIT		✓			
	Customer ODIs	✓	✓			
	Health and safety		✓			✓
	Customer experience	✓				
	Personal objectives	✓	✓	✓	✓	✓
LTIP	RoRE	✓	✓	✓		

Summary of Remuneration Policy, proposed amendments and implementation in 2018/19
Shareholders approved the Remuneration Policy at the AGM in 2015 (97.99% voted in favour). As such, the Company is required to seek approval for the new policy at the 2018 AGM. The table below sets out an overview of the key areas of the policy and summarises how the Committee is proposing to implement the policy in 2018/19. Full details of the proposed policy can be found on pages 120 to 128.

The Committee believes that the fundamental architecture of the Executive Directors' remuneration package is appropriate but we have made a number of evolutionary changes to the previous Remuneration Policy to reflect the development of the Company, our Executive Directors and the latest corporate governance best practice:

- Pension contributions for any new Executive Directors will be capped at 15% of salary in line with other employees;
- The maximum LTIP award opportunity will be increased to 200% of salary for an additional stretch performance of UQ;
- A two year holding period will apply following the vesting of LTIP awards for the Executive Directors (this holding period will continue post cessation of employment); and
- The minimum shareholding requirement will be increased to 300% of salary for the CEO and 200% of salary for other Executive Directors.

The diagram below illustrates the balance of pay and time period of each element of the proposed Remuneration Policy for Executive Directors.

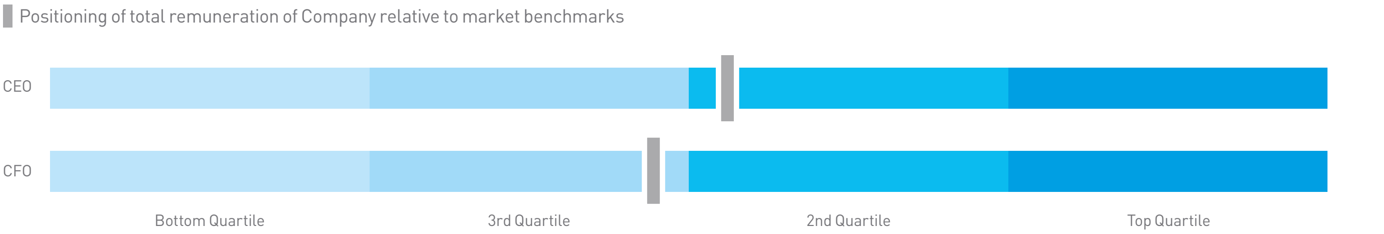
Total pay	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary				
Fixed pay	Benefits, Pension				
Annual Bonus (Malus and clawback provisions apply)	50% in cash	50% in shares 3-year deferral period No further performance conditions			
LTIP (Malus and clawback provisions apply)	Up to 200% salary 3-year performance period			2-year holding period No further performance conditions	

The Company's Remuneration Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long term success of Severn Trent, aligned with shareholder interests. The table below sets out the key components of the Executive Directors' remuneration package, including the proposed changes from the current Remuneration Policy along with rationale. Further information regarding the proposed Remuneration Policy is set out on pages 120 to 128 of this report.

Element and link to strategy	Key features of current Policy	Policy change	How we will implement the proposed Policy in 2018/19
Salary To recruit and reward Executive Directors of a suitable calibre for the role and duties required.	• Salaries for individual Executive Directors are reviewed annually by the Committee and 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 2.5% will be applied at the salary review date. From 1 July 2018, Executive Director salaries will be: • CEO – £708,000 • CFO – £426,600 These rises are lower than the general employee salary increase.
Benefits To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors	• The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically	No change.	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.	• A defined contribution scheme and/or cash supplement in lieu of pension. • Maximum pension contribution of 25% of salary.	• For current Executive Directors, the maximum pension contribution will remain at 25% of salary. • For future appointments the maximum pension contribution will be capped at 15% of salary. This is in line with the level provided to the wider workforce.	Executive Director pension arrangements for 2018/19 are as follows: • CEO – 25% of salary • CFO – 25% 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 in shares.	• 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 2018/19: • CEO – 120% of salary • CFO – 120% of salary The weightings of performance measures in the annual bonus will be as follows: • Regulated Water and Waste Water PBIT – 47% • Business Services PBIT – 10% • Customer ODIs – 20% • Health & safety – 8% • Customer experience – 8% • Personal objectives – 7% 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 outcomes.
LTIP To encourage strong and sustained improvements in financial performance, in line with the Company's strategy and long term shareholder returns	• Maximum award of 150% of salary. • Awards are granted annually and are subject to a three year performance condition being RoRE. • Malus and clawback provisions apply.	• Increase in maximum award opportunity to 200% of salary. • The Committee will ensure that the increased opportunity is reflected in the level of challenge in the LTIP targets and has introduced a stretch target based on UQ performance. • Introduction of a two year holding period post-vesting which will continue to operate post-cessation of employment.	The following grant levels will apply in 2018/19: • CEO – 200% of salary • CFO – 150% of salary RoRE will remain the sole LTIP performance condition, with the addition of a stretch target. RoRE is calculated as profit after tax (plus incentives earned in the year) divided by the average equity proportion of our regulatory capital value, as prescribed by Ofwat. See page 99 for details of the RoRE target for the 2018 LTIP awards.
Shareholding requirement To encourage strong shareholder alignment and interests of Executive Directors with the rest of the workforce.	• The CEO is expected to build and maintain a holding of shares to the value of 200% of salary, and other Executive Directors 150% 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.	• Increase in minimum shareholding requirement to 300% of salary for the CEO and 200% of salary for other Executive Directors. • Other terms of the shareholding requirement remain.	Application of the new shareholding requirement.

Directors' remuneration report continued
Remuneration

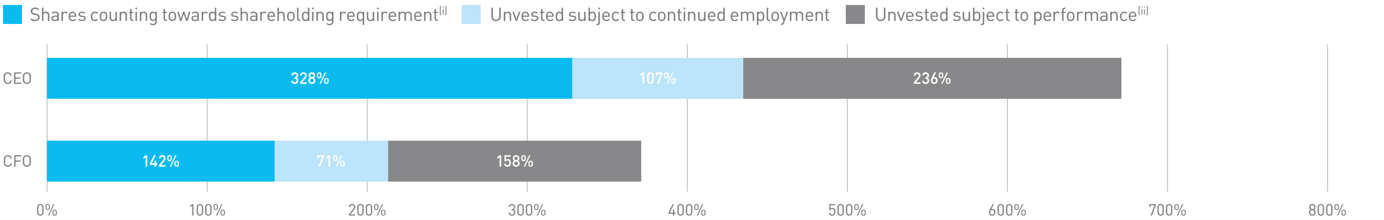
Our policy quantum compared with peers
The following table shows the relative position of target total compensation under the proposed policy for our Executive Directors compared with the FTSE 51-150.



When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant market for Executive Directors, which we believe is the FTSE 51-150, and the size of the Company compared with these peers. The Company is around the median by market capitalisation and the proposed target total compensation has been set broadly in line with this position.

Shareholding requirement
The minimum shareholding requirement for Executive Directors is set out below. It must be built up over a five year period and then subsequently held. The table below sets out the current share interests of the Executive Directors taking into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance.

Share interests



(i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share awards (of which 50% deducted to cover statutory deductions).

(ii) Represents the 2016 and 2017 LTIP awards which are subject to performance.

Calculated using the closing share price on 31 March 2018 of £18.44.

The CEO has exceeded the shareholding requirement applicable in 2017/18 of 200% of salary and the CFO is close to exceeding the shareholding requirement applicable in 2017/18 of 150% of salary.

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. That is why when we look at the remuneration paid in the year we also look at the total equity they hold in relation to the performance of the Company. The ability of Executive Directors to lose and gain, dependent on share price performance, can have a material impact on their total remuneration and is a central focus of our Remuneration Policy.

The following table sets out the single figure for 2017/18, the number of shares beneficially owned by the Executive Director at the beginning and end of the financial year and the impact on the value of these shares taking the opening price and closing price for the year.

	2017/18 Single Figure	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£'000s)[i]	Value of shares at end of year (£'000s)[ii]	Difference (£'000s)
CEO	2,084.3	75,127	103,274	£1,789.5	£1,904.4	+£114.9
CFO	1,116.6	15,263	23,464	£363.6	£432.7	+£69.1

(i) Based on a closing share price on 31 March 2017 of £23.82.

(ii) Based on a closing share price on 31 March 2018 of £18.44.

Chairman and Non-Executive Directors' fees (audited)

From 1 April 2018, Non-Executive Director fees were increased by 3% from £53,450 to £55,100 and the Chairman's fee was increased by 2.5% from £280,500 to £287,600. These increases are in line with the general employee salary increase.

The current fee levels and those for the future financial year are set out in the table below:

	Fees 2018/19	Fees 2017/18	Increase %
Chairman's fee	£287,600	£280,500	2.5%
Fee paid to all Non-Executive Directors	£55,100	£53,450	3.0%
Supplementary fees:			
– Senior Independent Director	£10,000	£10,000	0.0%
– Audit Committee Chairman	£15,000	£15,000	0.0%
– Remuneration Committee Chairman	£15,000	£15,000	0.0%
– Corporate Responsibility Committee Chairman	£13,000	£13,000	0.0%
– Treasury Committee Chairman	£15,000	£15,000	0.0%

The Chairman and Non-Executive Directors normally serve for terms of three years. The current expiry dates of their letters of appointment are Kevin Beeston (1 June 2019), Dominique Reiniche (20 July 2019) John Coghlan (23 May 2020), Andrew Duff (9 May 2019), Philip Remnant (31 March 2020) and Dame Angela Strank (24 January 2020). However, all of the Directors are subject to annual appointment or reappointment at the AGM.

Employment at Severn Trent

We recognise the central importance of all of our teams in delivering success and as such we seek to create an inclusive working environment, reward our employees in a fair and equitable manner and provide fulfilling careers. We do this by providing all our employees with:

Item	Details
Market competitive pay	Our approach is to position ourselves as a market median payer, balancing competitive pay for employees with responsible use of our customers' money. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary Living Wage. We also closely monitor the rates of pay of people who are training with us to make sure they remain fair and competitive. Our 2018 Apprentice starting rate is £14,926 and 2018 Graduate starting rate is £26,500.
Sharing in success	We want our employees to share in our success and our all-employee bonus plan is based on Company performance, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives. For this year the bonus paid out £964 to 88.5% of our frontline employees in Severn Trent Water Limited and Dee Valley Water Limited. Those who were not eligible were new starters after the beginning of January 2018. 71% of our people are active participants in our Sharesave scheme which gives employees a chance to save up to £500 per month over three or five years, with the option to buy Severn Trent Plc shares at a discounted rate at the end of the period.
Flexibility	We provide a flexible benefits scheme for all, which we believe is amongst the best in the industry. Including insurance and health cover with retail and childcare vouchers, it is designed to support a positive work-life balance. 45% of our people choose to tailor their benefits via our flexible benefits scheme, saving a combined total of £40,000 on everything from everyday essentials to holidays and luxuries through our employee discount partnerships.
An opportunity to save for the future	We know many of our colleagues want to be able to save for their future security. We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary), regardless of level or seniority. When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. We are proud that 98% of our people are members of the pension scheme and 57% pay contributions above the statutory minimum 3%.
Building a career	As a major regional employer, we recognise the importance of equipping our colleagues with the skills for now and the future. Our focus is on both leadership and technical development across the whole organisation. We support the development of colleagues at all stages of their career, from foundation apprenticeships and graduate entrants, through to higher level apprenticeships and Masters degrees. Our aim is to ensure that every employee feels competent and confident in their everyday work.
Diversity and inclusion	Our employees tell us we are doing well on diversity and inclusion, through great scores in our employee engagement survey, but we know there are opportunities to reflect better the demographics of our region. We are recognised for leading performance in the FTSE 100 for women's representation at Board and Executive Committee level and our mean gender pay gap for the year was just 2.4%. This year we have also launched our menopause awareness programme, supported by our Trades Unions. Our apprenticeship scheme has a Black, Asian and Minority Ethnic ('BAME') representation of 9.6% and this is 15.3% for our graduate scheme.
Investing in the community	Our education and work experience programmes now actively focus on the areas of lowest social mobility in our region. We already have a strong track record of creating jobs in these areas, with over half of our employees from areas outlined by the Social Mobility Commission, but we want to do more. Our employee volunteering programme gives all employees two paid days per year to participate in voluntary work in our community. This year saw participation numbers increase to 40%.

Diversity and inclusion policies

We continue to focus on long term improvement through our diversity and inclusion policies:

Developing role models	We believe that strong role models inspire more junior employees and demonstrate an inclusive culture to potential candidates. We are leading the way on senior leader gender diversity, placing us ahead of many of our industry peers.
Reflecting the communities we serve	We have increased our programme of school career events over the last two years, helping to broaden the range of students who are aware of Severn Trent and the career opportunities we offer.
Changing the way we recruit	During 2016, we moved to a strengths-based interview process for our graduate and apprentice positions. This is helping us to understand the potential of each candidate and remove bias throughout the process. We want to attract candidates who share the same passion about the water industry and understand the needs of the communities we serve.
Breaking down stereotypes	We are making progress in attracting more diverse candidates into roles that require science, technology, engineering and mathematics ('STEM') backgrounds. By taking part in engineering initiatives aimed at women, including National Women in Engineering Day, we are raising our profile among prospective applicants. The challenge to increase diversity in these areas is longer term and we will continue to face a challenge to recruit female employees if we do not receive a sufficient level of applications to these roles.

Gender Pay Gap Reporting

We reported our Gender Pay Gap in November 2017 in line with statutory requirements. The data was based on 5 April 2017 and showed a mean gap of 2.4% and a median gap of 14.6%. The relatively low mean gap is predominately due to our senior gender diversity. The higher median gap is representative of occupational segregation. We have a large number of operational roles which attract shift, on-call and stand-by allowances, and these roles are principally held by men.

By way of comparison, the average mean and median gaps for those WoCs and WaSCs that have reported data is 11.9% and 15.3% respectively.

Our full Gender Pay Gap report can be found on www.severntrent.com

Alignment of pay throughout Severn Trent

The Committee is keen that remuneration decisions are made in the context of the cascade of reward structures throughout the business, shown in the diagram below:

Element of pay	CEO	Board	Executive Committee	Senior Management	Management	Wider workforce
Salary	✓	✓	✓	✓	✓	✓
Annual bonus (all employees aligned to the same measures)	✓	✓	✓	✓	✓	✓
LTIP	✓	✓	✓	✓[i]	✓[i]	
Pension	✓	✓	✓	✓	✓	✓
Benefits	✓	✓	✓	✓	✓	✓

(i) A proportion of this population participate in the LTIP by annual invitation.

Percentage change in the remuneration of the CEO

The table below shows the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee. The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Company.

	CEO (£'000)			Average per employee (£'000)		
	2017/18	2016/17	% Change	2017/18	2016/17	% Change
– Salary[i]	**690.6**	677.0	2%	**30.5**	29.9	2%[iv]
– Benefits[ii]	**17.7**	18.0	–1.7%	**0.4**	0.4	0%
– Bonus[iii]	**501.0**	615.8	–18.6%	**1.8**	2.0	–11%

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

(ii) The benefits figures include car allowance and family level private medical insurance for senior and middle managers.

(iii) The figures shown are reflective of any bonus earned during the respective financial year. Bonuses are paid in the following June.

(iv) The average pay increase for the wider workforce during the year was 2%.

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Company's total wage bill as a result of movements in the number of employees. The comparator group used is Severn Trent employees in the UK as this is where the vast majority of employees are based.

Directors' remuneration report continued

Remuneration

Annual Report on Remuneration

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 18 July 2018. The information on pages 110 to 119 is audited.

Total single figure of remuneration (audited)
The total single figure of remuneration table below sets out the remuneration received by the Directors for 2017/18 (or for performance periods ending in 2017/18 in respect of the long term incentives) and, for the purposes of comparison, for 2016/17. Where necessary, further explanations of the values provided are included below. This table and the explanatory notes below this table have been audited.

	Year ending 31 March 2018							Year ending 31 March 2017						
Executive Directors	**Salary and fees (£'000)[i]**	**Benefits (£'000)[ii]**	**Annual bonus (£'000)[iii]**	**LTIP (£'000)[iv]**	**Pension (£'000)[v]**	**Other (£'000)[vii]**	**Total (£'000)**	Salary and fees (£'000)[i]	Benefits (£'000)[ii]	Annual bonus (£'000)[iii]	LTIP (£'000)[vi]	Pension (£'000)[v]	Other (£'000)[vii]	Total (£'000)
Liv Garfield	**687.2**	**17.7**	**501.0**	**706.6**	**171.8**	**–**	**2,084.3**	673.7	18.0	615.8	948.1	168.4	–	2,424.0
James Bowling	**414.2**	**18.7**	**301.9**	**278.3**	**103.5**	**–**	**1,116.6**	406.0	19.8	368.7	315.8	101.5	–	1,211.8
Emma FitzGerald[viii]	**302.4**	**13.1**	**209.8**	**271.3**	**75.6**	**–**	**872.2**	395.9	17.6	360.2	324.3	99.0	–	1,197.0
Non-Executive Directors	**Salary and fees (£'000)**	**Benefits (£'000)**	**Annual bonus (£'000)**	**LTIP (£'000)**	**Pension (£'000)**	**Other (£'000)**	**Total (£'000)**	Salary and fees (£'000)	Benefits (£'000)	Annual bonus (£'000)	LTIP (£'000)	Pension (£'000)	Other (£'000)	Total (£'000)
Andrew Duff (Chairman)	**280.5**	**–**	**–**	**–**	**–**	**–**	**280.5**	275.0	–	–	–	–	–	275.0
John Coghlan	**83.5**	**–**	**–**	**–**	**–**	**–**	**83.5**	67.4	–	–	–	–	–	67.4
Philip Remnant	**68.5**	**–**	**–**	**–**	**–**	**–**	**68.5**	67.4	–	–	–	–	–	67.4
Kevin Beeston	**63.5**	**–**	**–**	**–**	**–**	**–**	**63.5**	50.7	–	–	–	–	–	50.7
Dominique Reiniche	**53.5**						**53.5**	36.6						36.6
Dame Angela Strank	**66.5**	**–**	**–**	**–**	**–**	**–**	**66.5**	61.5	–	–	–	–	–	61.5

(i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions via salary sacrifice – this is consistent with the approach taken last year.

(ii) Benefits include a car allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme.

(iii) The annual bonus is paid 50% in cash and 50% in shares with the portion deferred into shares subject to an additional holding period of three years with no further performance conditions attached.

(iv) This relates to the vesting of the 2015 LTIP which is based on RoRE performance over the three year period to 31 March 2018. The value of the shares has been estimated using the average share price for the period from 1 January 2018 to 31 March 2018 of £18.69.

(v) The Executive Directors' pension provision is equal to 25% of salary. No Executive Directors accrued benefits under any defined contribution pension plans during the year or have participated in a defined benefits scheme while an Executive Director.

(vi) This relates to the vesting of the third tranche of James Bowling's and the second tranche of Emma FitzGerald's Recruitment Award. The performance condition for these awards was the same as for the 2015 LTIP grant, which was based on RoRE performance over the three year period to 31 March 2018. The awards vested at 100% and the figures shown have been updated to reflect their actual share price on vesting (£22.37).

(vii) This figure relates to taxable expenses relating to travel.

(viii) Stepped down from the Board on 31 December 2017. Amounts for Emma FitzGerald are pro-rated for the period in which she was an Executive Director, with one exception of the vesting of the 2015 LTIP award.

Salary for 2017/18 (audited)

Salaries for individual Executive Directors are reviewed annually by the Committee and normally take effect from 1 July. The Committee considered the Executive Directors' pay review in July 2017 in light of pay review budgets across the Group. As a result, the Committee determined that the salaries for the Executive Directors would increase by 2% in 2017/18, in line with the average increase that applied to the general UK workforce. For 2018/19, a 2.5% increase to salaries for Executive Directors has been agreed, lower than the average increase that will apply to the general UK workforce.

	Salary 01/07/2017	Salary 01/07/2018	Percentage increase
CEO	£690,600	£708,000	2.5%
CFO	£416,200	£426,600	2.5%

Benefits for 2017/18 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered is reviewed periodically. In line with our Remuneration Policy outlined on page 121, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

	Typical annual value 2017/18	Typical annual value 2016/17	Percentage increase
Car allowance	£15,000	£15,000	0%
Private medical insurance	£1,500	£1,500	0%
Life assurance	Up to 6 x salary	Up to 6 x salary	0%
Personal accident cover	As per the group-wide policy	As per the group-wide policy	0%
Biennial health screening	£620 per health screen	£620 per health screen	0%
Incapacity benefits	Worth 50% of salary for a period of five years (subject to qualifying criteria)	Worth 50% of salary for a period of five years (subject to qualifying criteria)	0%

Annual bonus outturn for 2017/18 (audited)

Annual bonus performance is measured over a single financial year against a range of financial and non-financial targets and against personal objectives. The maximum bonus opportunity was 120% of salary. An annual bonus was awarded of 72.54% of salary for each of the CEO and CFO, and 68.94% of salary for the Managing Director, Wholesale Operations. The table below shows a summary of the metrics and targets which were used to determine the annual bonus awards:

	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
STW PBIT	£515.8m	£529.2m	£542.6m	47%	21%
		Actual: £527.6m			
Customer ODIs	£13m	£23m	£33m	20% 30% – MD, WO	20% 30%
			Actual: £80.2m		
Business Services PBIT	£35.6m	£36.6m	£37.6m	10%	10%
			Actual: £38.1m		
Health and safety[i]	0.20	0.16	0.12	8%	2%
	Actual: 0.17				
Customer experience[ii]	15%	20%	25%	8%	2%
	Actual: 17.20%				
Personal performance		Details on pages 112 and 113		7%	6% – CEO 6% – CFO 3% – MD, WO

(i) Measured as number of lost time incidents divided by number of hours worked multiplied by 100,000.

(ii) Measured as the percentage reduction in complaints.

Directors' remuneration report continued

Remuneration

Despite a period with some significant operational challenges and a difficult year on bad debt, we have continued to make good progress in managing our underlying cost base to absorb these and other cost pressures to end the year delivering PBIT of £527.6 million in STW (before property profits). Our customer ODI rewards of £80.2 million were underpinned by significant improvements in internal and external sewer flooding, and sustained performance on Category 3 pollutions with a gross performance on waste of £109 million. However, this was offset by the impact of operational incidents on water measures such as supply interruptions, which resulted in a net penalty of £29 million. This year the Committee agreed to include an additional measure to drive improvement in customer experience, targeting a 20% reduction in written complaints.

In the last few months we have seen a significant improvement in performance driven by a significant improvement in billings related complaints, with these learnings being rolled out across our other teams. The result of these improvements is represented by a 17.2% reduction for the year. We set ourselves bold targets to improve the safety of our employees this year and, although we still incurred 18 LTIs, this represents a 23% year on year improvement, resulting in our best ever year and the lowest LTI rate in the sector in England. Business Services has had a particularly strong year, benefiting from a new contract with plumbing and drainage insurers that contributed significantly to both revenue and PBIT.

Personal objectives for the Executive Directors are linked to our strategic framework which will move us towards our ambition to be the most trusted water company. Objectives were shared across the team with each Executive Director leading on the areas which best align with their accountabilities and expertise.

As noted on page 111, the achievement of the personal objectives for each of the Executive Directors was as follows: 6%, 6% and 3% for the CEO, CFO and Managing Director, Wholesale Operations, respectively.

The table below sets out performance outcomes for each Executive Director in relation to their specific personal objectives.

CEO

Objective	Activity	Key achievements in 2017/18	Performance outcome
Embed customers at the heart of all we do	• Deliver a step change in customer experience • Support financially vulnerable customers • Be recognised as a UQ Wholesaler • Provide an industry leading New Connections experience	• Conducted detailed customer research study. Focused efforts on resolving issues more rapidly. Customer complaints down 6% • 38,000 customers have received financial help with their bills through relaunched Big Difference scheme. 50,000 vulnerable customers supported overall • Achieved 1st and 2nd place in Ofwat's water and waste rankings respectively for new connections • UQ for UK Customer Service Index for 2017/18	Partly met
Drive operational excellence and continuous innovation	• Be UQ in water and waste • Develop the profitability and growth of the Business Services operations • Deliver a sustainable pipeline and process for innovation	• UK Business Services profit increased and US business sold • Held a staff roadshow to capture and share ideas around innovation and improvement • Exceptional waste customer ODI performance	Fully met
Invest responsibly for sustainable growth	• On track delivery of AMP6 plans to deliver growth and reduce risk • Integrate and deliver benefits from the acquisition of Dee Valley • Set up Severn Trent and Water Plus for success in new business retail market	• Delivery of additional £100million Totex savings • Completed integration of Dee Valley into the business • Advanced in realigning boundaries along national borders • Water Plus maintaining its share of a growing market	Partly met
Change the market for the better	• Clear PR19 plan in place that evidences our leading status • Produce compelling case for investment at PR19 • Design and implement the Bioresources change programme and business model • Be seen as the water sector's thought leaders	• Strong position to submit by September 2018 • Created a standalone Bioresources team identifying opportunities for operating efficiencies • Collaborated with Thames Water and United Utilities to publish thought leadership document	Fully met
Create an awesome place to work	• Improve safety programme • Deliver 5% uplift in employee engagement scores • Strive to continue to improve diversity and inclusion	• Lost Time Injury frequency rate decreased by 23% • Employee engagement increased by 6% • Increase in the number of 'BAME' employees on graduate programme • Launched key inclusion initiatives such as 'Dying to work' charter and menopause education	Fully met

CFO

Objective	Activity	Key achievements in 2017/18	Performance outcome
Embed customers at the heart of all we do	• Improve insurance approach to third party damage	• Completed the review and implemented identified improvements	Fully met
Drive operational excellence and continuous innovation	• Support the business to identify and achieve cost efficiencies • Continue the evolution of finance, internal audit and enterprise risk functions • Reduce the downside risk to pension scheme liability • Finance plan in place for key remaining maturities	• Identified £100 million of efficiencies to be reinvested into the business • ERM Champions and coordinators operate throughout the business • Significantly reduced pension risk through implemented hedging strategy and financing actions	Fully met
Invest responsibly for sustainable growth	• Build and deploy new risk based interest management policy • Support the Energy and Renewables growth strategy • Deliver target M&A strategy	• Generated 38% of energy needs from renewable sources	Partly met
Change the market for the better	• Support regulatory finance in PR19 and Bioresources plan	• Created a standalone Bioresources team identifying opportunities for operating efficiencies	Fully met
Create an awesome place to work	• Deliver change in visible Health and Safety leadership, with a focus on mental wellbeing • Deliver better engagement and diversity in finance	• LTI rate improvement • Improvement of 5% in Finance Employee Engagement performance	Fully met

MD, WO

Objective	Activity	Key achievements in 2017/18	Performance outcome
Embed customers at the heart of all we do	• Improvement in customer experience and delivery of customer strategy • Be recognised as a UQ Wholesaler	• Exceptional waste customer ODI performance	Partly met
Drive operational excellence and continuous innovation	• Be UQ in water and waste • Provide environmental leadership • Deliver 10 innovation projects	• Gained provisional EA 4* status • Strong progress made on innovation	Partly met
Invest responsibly for sustainable growth	• On track delivery of the AMP6 plan to deliver growth and reduce risk • Integrate and deliver benefits from the acquisition of Dee Valley	• Delivery of Totex savings • Delivery of Water Resources Management Plan • Completed integration of Dee Valley into the business	Partly met
Change the market for the better	• Clear PR19 plan in place that evidences our leading status and investment case • Design and implement the Bioresources change programme and business model • Be seen as the water sector's thought leaders	• Strong position to submit by September 2018 • Created a standalone Bioresources team identifying opportunities for operating efficiencies	Partly met
Create an awesome place to work	• Deliver change in visible Health and Safety leadership, with a focus on mental wellbeing • Deliver 5% uplift in employee engagement scores • Progress our talent agenda, including BAME talent agenda • Contribute to resolve the top 10 company irritants	• LTI rate improvement of 23% and strong supply chain performance sustained • Wholesale employee engagement increased by 8% • External recognition of graduate and apprentice programme and increase of 13% in number of 'BAME' employees on graduate programme	Partly met

Directors' remuneration report continued

Remuneration

LTIP awards vesting in relation to performance in 2017/18 (audited)

The table below shows the outcome of LTIP awards which had performance periods ended 31 March 2018. The LTIP based on RoRE over the three years to 31 March 2018 will vest in full. This is representative of outstanding performance in customer ODIs, financing and Totex.

	Threshold FD (25% payable)	Maximum (100% payable)	CEO outcome (vesting as % of award)	CFO outcome (vesting as % of award)	MD, WO outcome (vesting as % of award)
RoRE – measured against multiple of Ofwat FD[i]	1x	1.29x	100%	100%	100%
		Actual 1.79x			

Executive	Award type	Grant date	Number of shares granted	End of performance period	% award vesting	Number of shares vesting	Value of resultant award £000s[ii]	Vesting date
CEO	2015 LTIP	15/07/15	37,808	31/03/18	100%	37,808	£706.6	15/07/18
CFO	2015 LTIP	15/07/15	14,890	31/03/18	100%	14,890	£278.3	15/07/18
MD, Wholesale Operations	2015 LTIP	15/07/15	14,518	31/03/18	100%	14,518	£271.3	15/07/18

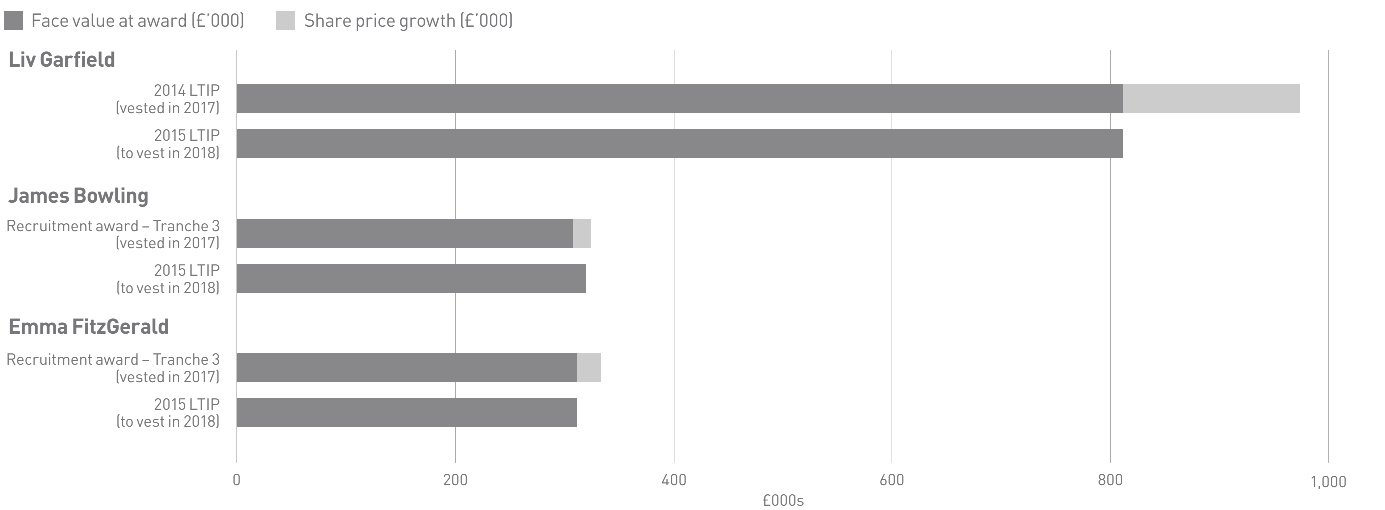
(i) The RoRE calculation used for LTIPs differs slightly from that used in the annual performance report, which uses the Ofwat definition. The LTIP measure seeks to align better our LTIP targets to actual cash flows and against a clearly defined target. In this measure, financing outperformance is based on actual gearing rather than the notional capital structure and compares our cost of debt against the allowance in the Ofwat Financial Model. It includes profits/losses associated with land sales, miscellaneous activities and the impact of the wholesale revenue forecasting incentive mechanism.

(ii) Based on the average share price over the final three months of the performance period (£18.69) as the awards will not be released until after the end of the close period.

LTIP vesting

The chart below sets out a breakdown of the LTIP awards for the Executive Directors in 2017 and 2018 and shows the face value of the awards and share price growth, if applicable.

Value of LTIP awards



Outstanding scheme interests, including share awards granted during the year (audited)

The table below sets out details of the Executive Directors' outstanding share awards as at 31 March 2018.

Executive	Award type	Maximum number of shares[i]	Percentage vesting at threshold performance	Exercise price (pence)	End of performance period	Vesting/ exercise date[ii]	Awards granted during the year: Basis of award	Awards granted during the year: Face value £000	Notes
Liv Garfield	2015 LTIP	37,808	25%	–	31/03/18	15/07/18	–	–	(a)
	2015 ABS	9,668	–	–	31/03/15	29/06/18	–	–	(d)
	2015 SAYE	1,136	–	1,584	–	May–18	–	–	(e)
	2016 LTIP	46,115	25%	–	31/03/19	21/06/19			(b)
	2016 ABS	16,260	–	–	31/03/16	28/06/19			(d)
	2017 LTIP	42,383	25%	–	31/03/20	20/06/20	150% of salary	£1,015.5	(c)
	2017 ABS	12,850	–	–	31/03/17	28/06/20	Deferred bonus	£307.9	(d)
	2018 SAYE	1,089	–	1,652	–	May–21	–	–	(e)
	Total	167,309							
James Bowling	2015 LTIP	14,890	25%	–	31/03/18	15/07/18	–	–	(a)
	2016 LTIP	18,529	25%	–	31/03/19	21/06/19			(b)
	2016 ABS	9,634	–	–	31/03/16	28/06/19			(d)
	2016 SAYE	1,044	–	1,724	–	May–19	–	–	(e)
	2017 LTIP	17,028	25%	–	31/03/20	20/06/20	100% of salary	£408.0	(c)
	2017 ABS	7,693	–	–	31/03/17	28/06/20	Deferred bonus	£184.3	(d)
	Total	68,818							
Emma FitzGerald[iii]	2015 LTIP	14,518	25%	–	31/03/18	15/07/18	–	–	(a)
	2016 LTIP	14,453	25%	–	31/03/19	21/06/19			(b)
	2016 ABS	7,112	–	–	31/03/16	28/06/19			(d)
	2017 LTIP	13,282	25%	–	31/03/20	20/06/20	80% of salary	£318.2	(c)
	2017 ABS	7,516	–	–	31/03/17	28/06/20	Deferred bonus	£180.1	(d)
	Total	56,881							

(i) Additional dividend equivalent shares may be released where provided in the rules.

(ii) Awards that are due to vest in a close period will be released as soon as practicable after the end of the close period.

(iii) See page 117 for details on Emma FitzGerald's 2016 and 2017 Annual Bonus Scheme and LTIP awards on cessation of employment.

a) 2015 LTIP award

The 2015 awards are subject to a RoRE performance condition measured over three financial years. Average RoRE performance is compared with the baseline RoRE figure set by Ofwat in our FD. 25% of the award will vest if average RoRE matches the baseline figure of 5.65%, increasing on a straight-line basis to full vesting for outperforming the baseline by 1.29 times (equivalent to 7.29%).

The 2015 LTIP awards were granted on 15 July 2015. The share price used to calculate the number of shares granted was £21.49 (being the average price over the preceding three days).

b) 2016 LTIP award

The 2016 awards are subject to a RoRE performance condition measured over three financial years. Average RoRE performance is compared with the baseline RoRE figure set by Ofwat in our FD. 25% of the award will vest if average RoRE matches the baseline figure of 5.65%, increasing on a straight-line basis to full vesting for outperforming the baseline by 1.39 times (equivalent to 7.86%).

The 2016 LTIP awards were granted on 21 June 2016. The share price used to calculate the number of shares granted was £21.59 (being the average price over the preceding three days).

c) 2017 LTIP award (awards granted during the year)

The 2017 awards are subject to a RoRE performance condition measured over three financial years. Average RoRE performance is compared with the baseline RoRE figure set by Ofwat in our FD. 25% of the award will vest if average RoRE matches the baseline figure of 5.65%, increasing on a straight-line basis to full vesting for outperforming the baseline by 1.39 times (equivalent to 7.86%).

The 2017 LTIP awards were granted on 20 June 2017. The share price used to calculate the number of shares granted was £23.96 (being the average price over the preceding three days).

d) Deferred shares under the annual bonus scheme (awards granted during the year)

Each year, 50% of an Executive Director's annual bonus is deferred in shares for three years. The awards are granted in the form of deferred shares. The 2017 award relates to the deferral of the annual bonus for 2016/17. The awards were granted on 28 June 2017. The share price used to calculate the number of shares granted was £23.96 (being the average price over the preceding three days). The deferred shares relating to the annual bonus for 2017/18 will be granted in June 2018.

e) Save As You Earn (SAYE)

The Executive Directors, in common with all eligible UK employees, are entitled to participate in the Company's HMRC tax-advantaged SAYE Scheme.

External directorships

Emma FitzGerald was appointed as a Non-Executive Director of DCC Plc in December 2016 and, in respect of her appointment for the year ended 31 March 2018, she was paid fees of £49,601 (converted from EUR using the exchange rate of 1 EUR = £0.88), which she retained (this covers the period to December 2017).

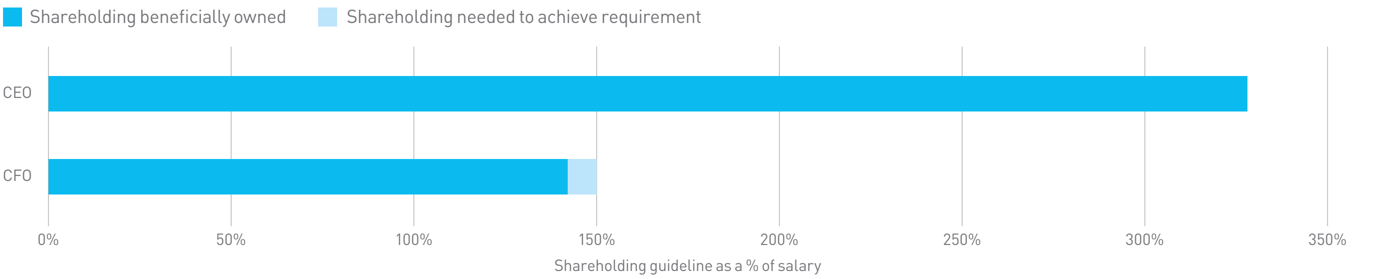
Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2018 she was paid fees at £5,000 which she retained.

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

The Company operates shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company of 200% of salary for the CEO and 150% of salary for the CFO. Details of the current shareholdings of the Directors and whether Executive Directors have met the shareholding requirements are set out below.

The Committee believes that it is an essential part of the Company's Remuneration Policy that Executive Directors become material shareholders. The retention and build-up of equity is important in a long term business such as Severn Trent as it encourages decisions to be made on a long term sustainable basis for the benefit of customers and shareholders.

The CEO has exceeded the shareholding requirement applicable in 2017/18 of 200% of salary and the CFO is close to exceeding the shareholding requirement applicable in 2017/18 of 150% of salary.



Director	Beneficially owned	Interests in shares as at 31 March 2018 – Outstanding scheme interests: LTIP and Recruitment Awards	Deferred shares under the annual bonus	SAYE options	Total	% Shareholding guideline achieved[i]
Kevin Beeston	2,244	–	–	–	2,244	–
Dominique Reiniche	400	–	–	–	400	–
John Coghlan	2,670	–	–	–	2,670	–
Andrew Duff	8,184	–	–	–	8,184	–
Philip Remnant	1,969	–	–	–	1,969	–
Dame Angela Strank	459	–	–	–	459	–
Liv Garfield	103,274	126,306	38,778	2,225	270,583	163%
James Bowling	23,464	50,447	17,327	1,044	92,282	95%
Emma FitzGerald[ii]	25,941	42,253	14,628	–	82,822	120%

(i) The share price used to calculate the percentage of the shareholding guideline achieved was £18.44 (as at 31 March 2018). The guideline figures include unvested ABS shares (50% deducted to cover statutory deductions).

(ii) As at 31 December 2017.

Shares counting towards 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.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out above and 22 May 2018.

Payments for loss of office and to past Directors (audited)

Emma FitzGerald

Background

In advance of PR19 the Company has reshaped the wholesale business to create three teams: Customer Delivery, Capital Delivery and Commercial, and Production.

The reorganisation has resulted in changes to the role of the Managing Director, Wholesale Operations, held by Emma FitzGerald. As a consequence, following the transition of her responsibilities, Emma stepped down from the Board on 31 December 2017 and will leave the Company on 31 July 2018. During the period between her stepping down as Managing Director, Wholesale Operations and leaving the Company, she is focusing on developing the Company's management and integration of disruptive innovation.

Emma was appointed to the Board on 1 April 2016. During this time, she led the wholesale business and played a key role in helping the Company achieve its success during the first half of the AMP.

On the basis that Emma's role as Managing Director, Wholesale Operations will no longer exist in its current form, the Committee has determined under the loss of office policy under the approved Remuneration Policy to treat her as a good leaver.

Remuneration

As Emma remains an employee of the Company, she will be paid her salary, benefits and pension for the period to 31 July 2018, on a monthly basis. For clarity, no pay in lieu of notice will be paid after she ceases employment with the Company.

Emma was employed for the full financial year and, therefore, will receive an annual bonus of 68.94% of salary in relation to 2017/18, based on performance against the relevant targets (set out on page 113). The Committee has determined to pay the bonus in cash because under the Remuneration Policy and the rules of the deferred annual bonus plan deferred share awards would vest on cessation of employment and, given the short period between the determination of the bonus for the year and her departure, it is administratively simpler. No bonus will be paid to Emma for 2018/19 and Emma will not receive an LTIP award for 2018/19.

All unvested and unexercised awards will be treated in accordance with the applicable plan rules and our loss of office policy.

Unvested shares held under the deferred annual bonus plan will be released on cessation of employment, and remain subject to malus and clawback provisions. The table below sets out details of Emma's unvested deferred annual bonus plan shares.

Award	Date of grant	Vesting date	Number of shares
2016 ABS	28 June 2016	31 July 2018	7,112
2017 ABS	28 June 2017	31 July 2018	7,516

Emma's unvested LTIP awards will vest in line with the ordinary vesting dates, subject to the satisfaction of the relevant performance conditions. Emma's awards will be pro-rated up to the end of her employment on 31 July 2018. These awards will continue to be subject to malus and clawback provisions. The table below sets out details of Emma's unvested LTIP awards.

Award	Date of grant	Vesting date	Maximum number of shares capable of vesting[i]
2016 LTIP	21 June 2016	21 June 2019	11,243
2017 LTIP	21 June 2017	20 June 2020	5,895

(i) Time pro-rating applied in accordance with the LTIP rules from the start of the relevant performance period up to the date of cessation of employment (31 July 2018).

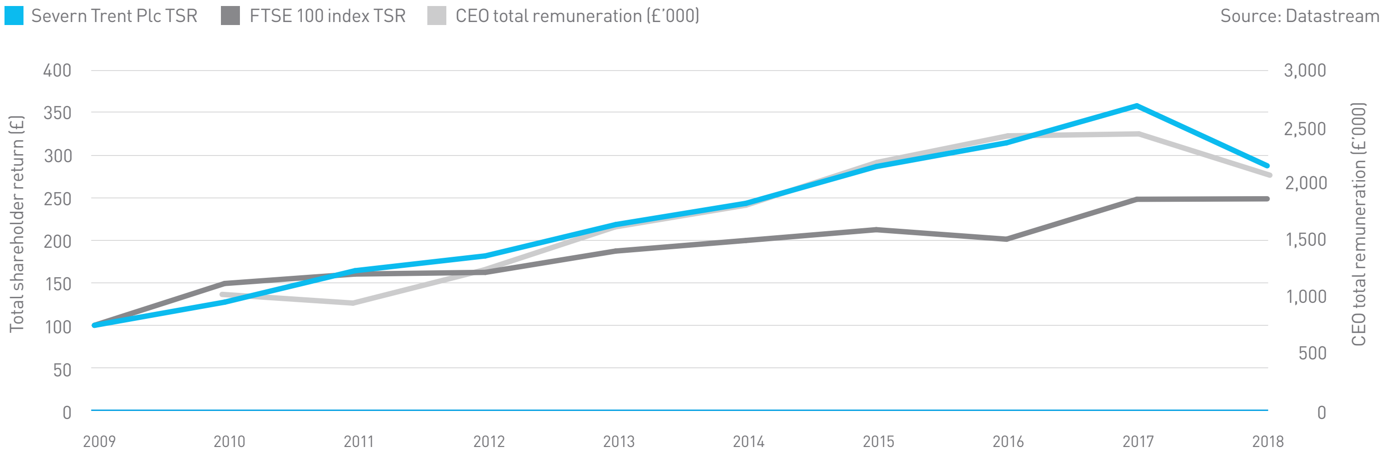
Directors' remuneration report continued
Remuneration

Total shareholder return chart and total remuneration of the CEO

This graph shows the value at 31 March 2018 of £100 invested in Severn Trent Plc on 1 April 2009 compared with the value of £100 invested in the FTSE 100 index. The FTSE 100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value at the intervening financial year ends.

The figure of remuneration for the CEO over the last nine 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.

Total shareholder return and total remuneration



Remuneration of the CEO

									Year ending 31 March
	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CEO	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	**Liv Garfield**
Total remuneration (£'000)	1,027.0	949.8	1,244.1	1,635.3	1,818.4	2,197.6	2,493.6	2,450.7	2,084.3
Annual bonus (% of maximum)	51.5%	43.2%	48.1%	82.4%	78.7%	52.0%	88.2%	75.8%	72.54%
LTIP vesting (% of maximum)	60.3%	0.0%	28.4%	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%
SMP vesting (% of maximum)	N/A	N/A	N/A	78.0%	64.3%	N/A	N/A	N/A	N/A

Relative importance of the spend on pay

The table below shows the expenditure of the Company on staff costs against dividends paid to shareholders for both the current and prior financial periods, and the percentage change between the two periods.

	2018	2017	% Change
Staff costs (£m)[i]	**288.1**	267.1	7.9%
Dividends (£m)	**197.0**	190.4	3.5%

(i) Staff costs from continuing operations.

Statement of implementation of the Policy in 2018/19

See pages 120 to 126.

Membership of the Remuneration Committee and its advisers

The Committee determines, on behalf of the Board, the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chairman of the Board. The Committee determines the total remuneration packages and contractual terms and conditions for these individuals. The Policy framework for remunerating all senior executive managers is consistent with the approach taken for Executive Directors. The Committee also provides oversight of all-employee reward, for example the annual bonus scheme, and reviews cascade and alignment of reward throughout the organisation.

The Remuneration Committee Terms of Reference were updated in March 2018 and can be found at www.severntrent.com

The members of the Committee are listed in the table below. All are independent Non-Executive Directors, as defined under the Code, with the exception of the Company Chairman who was independent on his appointment. During the year ended 31 March 2018, the Committee met seven times to discuss key remuneration issues arising, the review and operation of the Company's Remuneration Policy and market updates by its advisers.

Remuneration Committee member	Attendance in 2017/18
Philip Remnant (Chairman)	7/7
Andrew Duff	7/7
Kevin Beeston	7/7
Dame Angela Strank	7/7

The Committee members have no personal financial interest, other than as shareholders, in the matters to be decided. The CEO, Director of Human Resources and by invitation the Head of Economic Regulation and Reward & Pensions Manager also attended the Committee meetings to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

To ensure that the Company's remuneration practices are in line with best practice, the Committee has access to advice from advisers. PricewaterhouseCoopers ('PwC') are independent advisers to the Committee. Fees for advice provided to the Committee during the year were £170,500 excluding VAT to PwC (2016/17: £68,000 paid to PwC and £24,676 paid to NBS). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. 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.

Statement of shareholder voting at the 2017 AGM

At last year's AGM, the Directors' remuneration report received the following votes from shareholders:

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' remuneration report	142,422,030	3,948,356	1,351,934
	(97.30%)	(2.70%)	

The Committee has taken into account the strong support from shareholders for the current Remuneration Policy and its implementation in proposing the new Remuneration Policy; which is an evolution of the current policy.

Remuneration Policy

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.

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. In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions to ensure that they are aligned on an ongoing basis. We believe that employees throughout the Company should be able to share in the success of the Company. 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 (see page 108) which sets out more information on our wider workforce pay conditions, our Gender Pay statistics and our diversity initiatives. Whilst we recognise there is always an opportunity to improve in relation to these issues, we believe that transparency is an important first step.

Shareholder views

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.

Salary

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

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 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 110. • 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 2015 AGM and rationale
• A car allowance, 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 is 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 2015 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 up to a maximum of 25% of salary. • For any new recruit, the contribution will be up to a maximum of 15% of salary.	• No change for current Executive Directors. New appointments will have a maximum pension contribution of 15% of salary (25% of salary currently). • This change aligns pension contribution quantum for new Executive Directors with pension contribution for the wider workforce.

Directors' remuneration report continued
Remuneration

Annual bonus

Purpose and link to strategy: To encourage improved financial and operational performance and 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 2015 AGM and rationale
• Bonuses are based on financial, operational, customer and personal performance over a performance period of one financial year. No more than 20% of the bonus will relate to personal contribution for any Executive Director. • 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. 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, error in the calculation or gross misconduct. • 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. On 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.

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 2015 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. • Currently, LTIP awards require the Company's RoRE to outperform the target set out in Ofwat's Final Determination. A sliding scale of targets is set. Different targets and/or performance measures may be set for future LTIP awards to reflect the business strategy and regulatory framework operating at that time. • Using RoRE to assess long term performance reflects the focus of Ofwat in AMP6 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. • No material change will be made to the type of performance conditions without prior shareholder consultation. • The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting. The award may be structured as a conditional share award (awards may also be settled in cash in certain circumstances). • Malus and clawback mechanisms apply to allow the recoupment of incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross negligence, fraud or gross misconduct. • Cessation of employment and change of control provisions apply as set out in the notes to the Policy table.	• Maximum limit is 200% of salary. Up to 25% of an award may vest for threshold performance. • The Committee will review the targets before each grant to ensure they remain appropriate. The Committee may change the balance 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%).	Increase in maximum LTIP opportunity: • CEO – 200% of salary (currently 150%) • CFO – 150% of salary (currently 100%) The Committee will ensure that the increased opportunity is reflected in the level of challenge in the LTIP targets and has introduced a stretch target based on UQ performance. The Committee's rationale for increasing the maximum LTIP opportunity is as follows: • The Executive Directors were inexperienced at the time the current Policy was introduced and incentive levels reflected this. The Committee believes that the Executive Directors are now fully embedded in the business and over the past three years they have performed successfully in their roles, demonstrating an exceptional level of commitment in executing the business strategy for the benefit of our shareholders, customers and the wider community. The Committee wants to provide an appropriate level of incentive opportunity to deliver a competitive total remuneration package that retains and motivates a truly exceptional management team for the rest of this AMP and into the next. • The Committee is keen to ensure that there is an appropriate level of incentive opportunity in the remuneration to reflect the greater focus of Ofwat on the relative performance of water companies and the tougher regulatory context during AMP7. • Introduction of a two year holding period which will continue to operate post cessation of employment to enhance long term alignment between shareholders, customers and executive's interests.

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 2015 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.

Directors' remuneration report continued

Remuneration

Shareholding requirements

Purpose and link to strategy: To encourage strong shareholder alignment.

Operation (including performance metrics)	Maximum opportunity	Substantive changes from Policy agreed at 2015 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 shareholdings requirements as appropriate.	n/a	Increase in minimum shareholding requirement: • CEO – 300% of salary (currently 200%) • CFO – 200% of salary (currently 150%) The Committee considers that higher shareholder requirements will ensure greater long term alignment between the shareholders and Executive Directors in the light of the higher quantum of LTIP awards.

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 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.
'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.

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 127.

Service contracts for Executive Directors

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

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

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 2015 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	Good Leaver Reason[i]	Other Reason
Cash Awards	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 is a good leaver. 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 to 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; and • 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	Good Leaver Reason[i]	Other Reason
Deferred Share Awards	All subsisting deferred share awards will vest on the dealing day after such termination.	All subsisting deferred share awards will vest on the dealing day after such termination 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 that an Executive Director is a good leaver. 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 vest deferred shares at the end of the original deferral period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to pro-rate the maximum number of shares to the 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 or not to pro-rate 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.	

(i) Good leavers are defined under the Annual Bonus Scheme Rules and the LTIP Rules as an "individual whose employment is terminated by the Company as a result of injury, ill-health or disability, redundancy or retirement (in each case, as determined by the Committee) or whose employment terminates automatically by reason of their death". As stated above, the Committee also retains an overall discretion to determine that an individual is a good leaver.

Directors' remuneration report continued
Remuneration

Element	Treatment on Cessation of Employment	
LTIP	Good Leaver Reason[i]	Other Reason
	Pro-rated to time and performance in respect of each subsisting LTIP award.	Lapse of any unvested LTIP awards.
	Discretion	
	The Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. 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 to pay cash in lieu of shares; • To measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; • To determine whether to vest shares at the end of the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation; and • To determine whether to pro-rate the maximum number of shares to the time from the start of the performance period to the date of cessation. The Committee's normal policy is to pro-rate awards for time. 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 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	There are no other historical contractual provisions other than those set out above.	

(i) Good leavers are defined under the Annual Bonus Scheme Rules and the LTIP Rules as an "individual whose employment is terminated by the Company as a result of injury, ill-health or disability, redundancy or retirement (in each case, as determined by the Committee) or whose employment terminates automatically by reason of their death". As stated above, the Committee also retains an overall discretion to determine that an individual is 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.

Change of control

The change of control policy for the new Remuneration Policy is set out below. No changes to 2015 Policy are proposed.

Element	Purpose and link to strategy	Operation
Annual Bonus Cash Awards the Year of the Change of Control	Pro-rated to time and performance to the date of the change of control (formula included in rules).	The Committee has discretion regarding whether to pro-rate the bonus to 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 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 to 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	The number of shares subject to subsisting LTIP awards will vest on a change of control, pro-rated to 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 to 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. Shares subject to a holding period will vest on change of control.

Chairman and Non-Executive Directors

The Remuneration Policy for Non-Executive Directors, other than the Chairman, is determined by the Chairman and Executive Directors. The fee for the Chairman is determined by the Remuneration Committee (without the Chairman present). No changes to the 2015 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 chairmanship of the Board Committees. The Chairman receives a total fee in respect of his 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 Chairman 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 April. 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 Directors are set out in the Annual Report on Remuneration on page 110. 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. All Directors are subject to annual appointment or reappointment at the AGM.

Directors' remuneration report continued

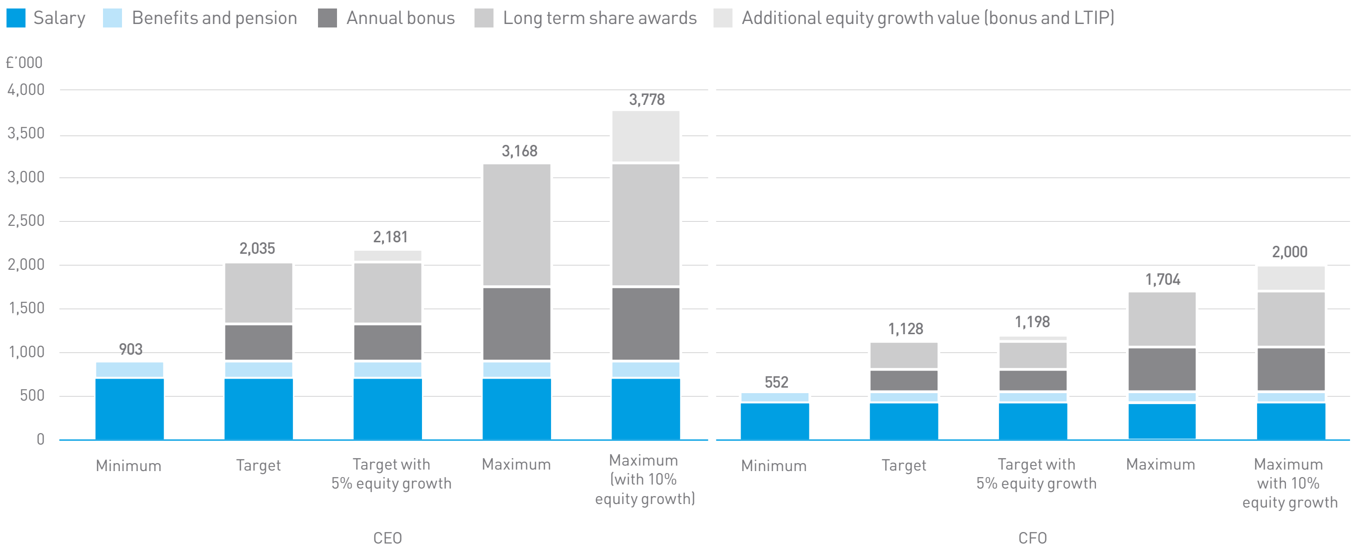
Remuneration

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 2018/19. These charts are illustrative as the actual value will depend on business performance in the year 2018/19 (for the annual bonus) and in the three year period to 2020/2021 (for the LTIP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Plan and LTIP awards in 2021.

The on-target and maximum scenarios include an additional bar which shows the impact of share price growth over the relevant performance period to show how the package value is aligned to shareholders. We have used share price growth of 5% p.a. for on target performance and 10% p.a. for maximum performance. 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. All amounts have been rounded to the nearest £1,000. Salary levels (which are the base on which other elements of the package are calculated) are based on those applying at 1 July 2018. The value of taxable benefits is the cost of providing those benefits in the year ended 31 March 2018. 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
22 May 2018

Directors' report

The Directors present their report and the audited Group financial statements, for the year ended 31 March 2018.
The performance review of the Company can be found within the Strategic report from the inside cover to page 65. 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 2018. The Governance Report set out on pages 66 to 128 is incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the risk management section on pages 57 to 65.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK and Ireland.

Details of the principal joint ventures, associated and subsidiary undertakings of the Group as at 31 March 2018 are shown in note 19 and 47 to the financial statements on pages 168 and 195 respectively.

Areas of operation

During the course of 2017/18, the Group had activities and operations in the UK and Ireland. On 3 July 2017, the Group announced the sale of its operations in the United States.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 68 and 69.

All of the Directors, with the exception of Emma FitzGerald, will be offering themselves for appointment or reappointment at the Annual General Meeting ('AGM'), as set out in the Governance Report on page 78.

Details of Directors' service contracts are set out in the Directors' remuneration report on page 125. The interests of the Directors in the shares of the Company are shown on page 116 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, the Company indemnifies each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force.

Severn Trent Plc does not have in place any indemnities for the benefit of the External Auditor.

Employees

The average number of employees within the Group is shown in note 9 to the financial statements on page 157.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our Diversity and Equal Opportunities Policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring we don't discriminate in any way – we want to create and maintain a culture open to a diverse population.

We are an equal opportunities employer and welcome applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons, and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, race, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well, including an employee assistance programme.

Employee engagement

We continuously engage with our employees in a number of ways to accommodate different working patterns. This includes:

- all people briefings, 'Team Talk';
- corporate communications events and roadshows held by functions across the Company;
- a dedicated intranet, 'Streamline';
- online news portal and weekly roundup, 'Pipeline News';
- an active employee social media presence, 'Yammer';
- conference calls and email;
- leadership engagement channels – Chief Executive's weekly blog, senior management monthly visibility programme and quarterly events;
- Company forum; and
- regular meetings with Unions.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings and annual employee satisfaction surveys.

Directors' report continued
Other disclosures

The Company is keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all-employee plan, the Severn Trent Sharesave Scheme ('Sharesave'), which is offered to UK employees on an annual basis.

Over 70% of Severn Trent's UK employees participate in the Sharesave scheme, with the average participant contributing £142 each month.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plan.

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and processes for the Group and our products must continue to deliver value for customers.

Expenditure on research and development is set out in note 7 to the financial statements on page 156.

Internal controls

Further details of our internal control framework can be found in the Audit Committee report on page 86.

Treasury management

The disclosures required under the European Union ('EU') Fair Value Directive in relation to the use of financial instruments by the Company are set out in note 34 to the financial statements on pages 176 to 177. Further details on our Treasury Policy and management are set out in the Chief Financial Officer's review on page 55.

Post balance sheet events

Details of post balance sheet events are set out in note 44 to the Group financial statements on page 191.

Dividends

An interim dividend of 34.63 pence per Ordinary Share was paid on 5 January 2018. The Directors recommend a final dividend of 51.92 pence per Ordinary Share to be paid on 20 July 2018 to shareholders on the register on 15 June 2018. This would bring the total dividend for 2017/18 to 86.55 pence per Ordinary Share (2016/17: 81.50 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend Policy

We have enhanced our Dividend Policy for the period 2015-2020, with effect from 2017/18, and will now increase the dividend by growth of at least RPI +4% each year. This replaced the previous Dividend Policy of annual growth of the dividend at no less than RPI until March 2020.

The Dividend Policy reflects our strong operational delivery and financial performance, while ensuring that our bills are affordable for all our customers. When determining the policy the Board considered various scenarios and sensitivities, and reviewed the impact of adverse changes in inflation and interest rates on key metrics. The Board believes that the Dividend Policy is commensurate with a sustainable investment grade credit rating.

Capital structure

Details of the Company's issued share capital and of the movements during the year are shown in note 10 to the Company financial statements on page 202. The Company has one class of Ordinary Shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the Ordinary Shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 37 to the financial statements on pages 184 to 186. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Board Governance document which can be found on our website, the Articles and the Governance report on page 73.

Under the Articles, the Directors have authority to allot Ordinary Shares, subject to the aggregate nominal amount limit set at the 2017 AGM.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. There are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment because of a takeover bid.

Substantial shareholdings

As at 31 March 2018, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of holder	No. of Ordinary Shares of $97^{17}/_{19}$p each	Percentage of voting rights and issued share capital
BlackRock, Inc	18,425,671	7.8%
Rreef Real Estate	10,248,946	4.34%
Aberdeen Standard Investments	9,308,469	3.94%
Legal & General Investment Management	8,226,287	3.48%
Maple-Brown Abbott	7,835,714	3.32%
Lazard Asset Management	7,335,575	3.10%

As at 22 May 2018, the Company had been notified of the following holdings of voting rights in the Ordinary Share capital of the Company: BlackRock, Inc 18,297,775 shares (7.74%); Rreef Real Estate 9,988,240 shares (4.23%); Aberdeen Standard Investments 8,964,476 shares (3.79%); Legal & General Investment Management 8,533,601 shares (3.61%); Maple-Brown Abbott 8,054,760 shares (3.41)%; Lazard Asset Management 10,424,261 shares (4.41%).

The percentage of voting rights detailed above was calculated at the time of the relevant disclosures were made in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules.

Authority to purchase shares

The Company was given authority at its AGM in 2017 to make market purchases of Ordinary Shares up to a maximum number of 23,603,888 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 23,677,393 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 £81,947 (2017: £312,588). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU political expenditure. Accordingly, neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the Company or any of its subsidiaries in the EU and disclosure of any such payment must be made in the Annual Report and Accounts. The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The Company has therefore obtained limited authority from shareholders as a precautionary measure to allow the Company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2017 AGM, shareholders gave the Company authority to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £150,000 for the Company and its subsidiaries. Pursuant to those authorities, during the year ended 31 March 2018 the Group incurred costs of £nil (2017: £nil). Those authorities will expire at the 2018 AGM and, in line with market practice to renew the authorities on an annual basis, the Board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum aggregate of £150,000 p.a. As permitted under the Companies Act 2006, this resolution also covers any political donations made or political expenditure incurred by any subsidiaries of the Company.

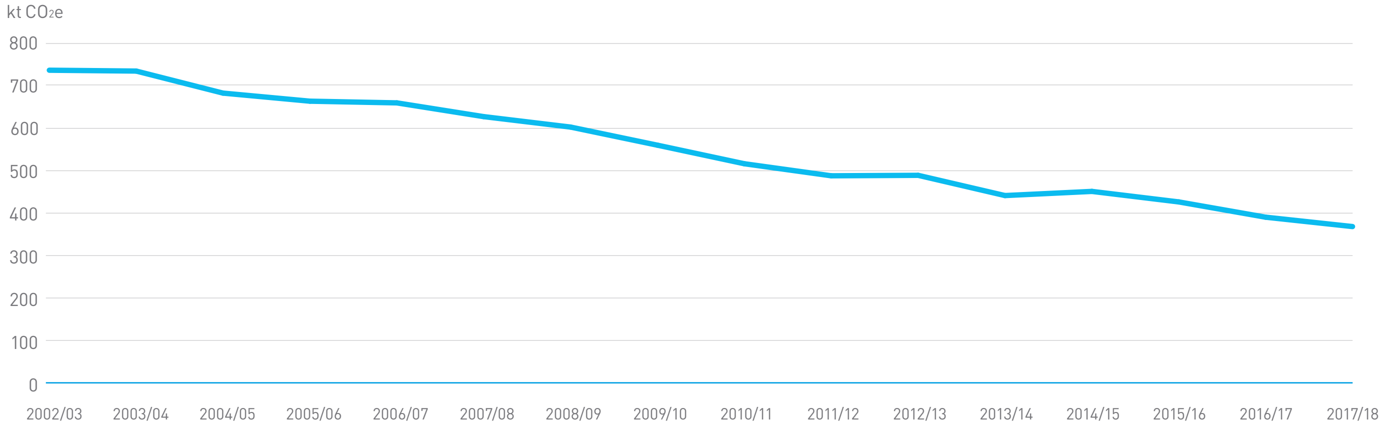
Directors' report continued
Other disclosures

We reduce our carbon footprint

The UK is playing a leading part in reducing carbon emissions. We want to play our part in reducing our impact by reducing our carbon emissions. As the majority of our carbon emissions are driven by our use of energy, managing carbon means managing costs. We therefore aim to reduce carbon emissions and increase our generation of renewable energy.

We are achieving both of these aims, and this year we have seen another reduction in overall carbon emissions. We've seen a consistent reduction since 2002 when we began publicly reporting on our greenhouse gas emissions. We have held the Carbon Trust Standard since 2009 in recognition of this achievement and we've been recertified to 2019.

Severn Trent Carbon Footprint



The Carbon Trust Standard recognises our consistent emissions reductions and effective carbon management processes and we scored in the top quartile of companies. We continue to report to the Carbon Disclosure Project ('CDP') each year which means our climate change information is publicly accessible. CDP request information about climate change from companies on behalf of investors and score each company on the quality and completeness of their responses.

During this year, we again increased renewable energy generation and across Severn Trent we now generate an equivalent of 38% of Severn Trent Water Limited's electricity needs. We continue to lead the UK water industry, with an aim of building on this position by generating the equivalent of 50% of our electricity needs by 2020.

We plan to continue to reduce our operational emissions by reducing our energy use and increase our renewable energy generation, mainly within Business Services. Pursuing these measures will continue to reduce our key sources of emissions, reduce our reliance on the electricity grid and bring financial benefits for our customers and investors.

Report on greenhouse gas emissions

This is the fifth year Severn Trent has been required to report greenhouse gas ('GHG') emissions in the Directors' report.

Severn Trent is committed to reducing its GHG emissions. For Severn Trent Water Limited, which accounts for 99% of our total Group emissions, we have been publicly reporting on our emissions since 2002. In that time we have reduced our emissions by being more energy efficient and generating more renewable energy.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent ('tCO_2e'), for the period 1 April 2017 to 31 March 2018.

Our total net emissions have fallen again this year, due to our increased generation of renewable energy, a reduction in the emissions-intensity of UK grid electricity and reduced fuel and process emissions. The sale of our US business has reduced our emissions outside the UK.

The GHG data we report is reported internally during the year to the Corporate Responsibility Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs.

Severn Trent Plc Direct Operational Greenhouse Gas Emissions (tCO_2e)	2013/14	2014/15	2015/16	2016/17	2017/18
Emissions from combustion of fuel and operation of facilities (Scope 1)	132,535	132,406	134,584	138,131	134,307
Emissions from electricity purchased for own use (Scope 2)	330,679	357,756	337,028	294,426	279,393
Total Annual Gross Operational Emissions	463,214	490,163	471,612	432,557	413,700
Emissions benefit of the renewable energy we export (including biomethane exported for which we hold green gas certificates)	21,672	38,878	45,085	42,069	45,333
Total Annual Net Operational Emissions	441,542	451,285	426,527	390,488	368,367

Annual GHG intensity ratio (tCO_2/unit)	2013/14	2014/15	2015/16	2016/17	2017/18
Operational GHG emissions of Severn Trent per £m turnover	248.6	255.2	234.7	214.0	217.4

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. In accordance with the reporting regulations, we have not reported on emissions we can influence, but which we are not responsible for, referred to as indirect emissions. We have used the 'location based' methodology rather than the more recently-introduced 'market-based' method to account for use of grid electricity in order to ensure consistency with previous years.

For the appointed UK Water businesses Severn Trent Water Limited and Dee Valley Water Limited, we have calculated our emissions using the 'Carbon accounting in the UK Water Industry: methodology for estimating operational emissions, Version 12' (released April 2018). This is a peer-reviewed calculation tool developed and used by all the major water companies in the UK. It is updated each year to include the latest available emissions factors. For Severn Trent Services, we have used the latest Defra emissions factors which include the relevant conversion factors for overseas electricity.

SEVERN TRENT WATER ONLY – Operational Greenhouse Gas Emissions (tCO_2e)	2013/14	2014/15	2015/16	2016/17	2017/18
Scope 1 Emissions (Combustion of fuel and operation of facilities)	123,940	122,282	126,009	128,584	130,662
Scope 2 Emissions (Electricity purchased for own use)	333,721	357,701	340,484	298,872	264,290
Total Annual Gross Operational Emissions	457,661	479,983	466,493	427,456	394,951
Emissions benefit of the renewable energy we export (including biogas for which we hold green gas certificates)	18,638	24,247	24,887	22,790	27,476
Total Annual Net Operational Emissions	439,023	455,735	441,606	404,666	367,475

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC'). The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Relevant audit information

The Directors confirm that:

- so far as each of them is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of them has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External Auditor

Having carried out a review of their effectiveness during the year, details of which can be found in the Audit Committee report on page 87, the Audit Committee has recommended to the Board the reappointment of Deloitte LLP. The reappointment and a resolution to that effect will be on the agenda at the AGM. Deloitte LLP indicated their willingness to continue as Auditor. The Audit Committee will also be responsible for determining the audit fee on behalf of the Board.

Directors' report continued
Other disclosures

Disclosures required under Listing Rule 9.8.4R
The information required to be disclosed by Listing Rule 9.8.4R can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	Page 158
(4)	Details of long term incentive schemes	Page 123
(8)	Section 7 in relation to subsidiary undertakings	Pages 195 to 196
(2), (5), (6), (7), (9)–(14)		Not applicable

Greenhouse gas emissions
The disclosures required by law relating to the Group's greenhouse gas emissions are included in the Directors' report on pages 132 and 133.

Accounts of Severn Trent Water Limited and Dee Valley Water Limited
Separate Annual Performance Reports for each of Severn Trent Water Limited and Dee Valley Water Limited are prepared and provided to Ofwat. Copies will be available on our website or on request to the Company Secretary. There is no charge for these publications.

Annual General Meeting
The AGM of the Company will be held at the Ricoh Arena, Phoenix Way, Coventry, CV6 6GE at 11am on Wednesday 18 July 2018. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on our website.

By order of the Board

Bronagh Kennedy
Group General Counsel and Company Secretary
22 May 2018

Directors' Responsibilities Statement
Other disclosures

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the Going Concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a Going Concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement

Each of the Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 22 May 2018 and is signed on its behalf by:

Andrew Duff
Chairman

James Bowling
Chief Financial Officer

22 May 2018