

PERFORMANCE DRIVEN, SUSTAINABILITY LED

Severn Trent Plc
Annual Report and Accounts 2023



WHAT DO WE MEAN BY PERFORMANCE DRIVEN, SUSTAINABILITY LED?

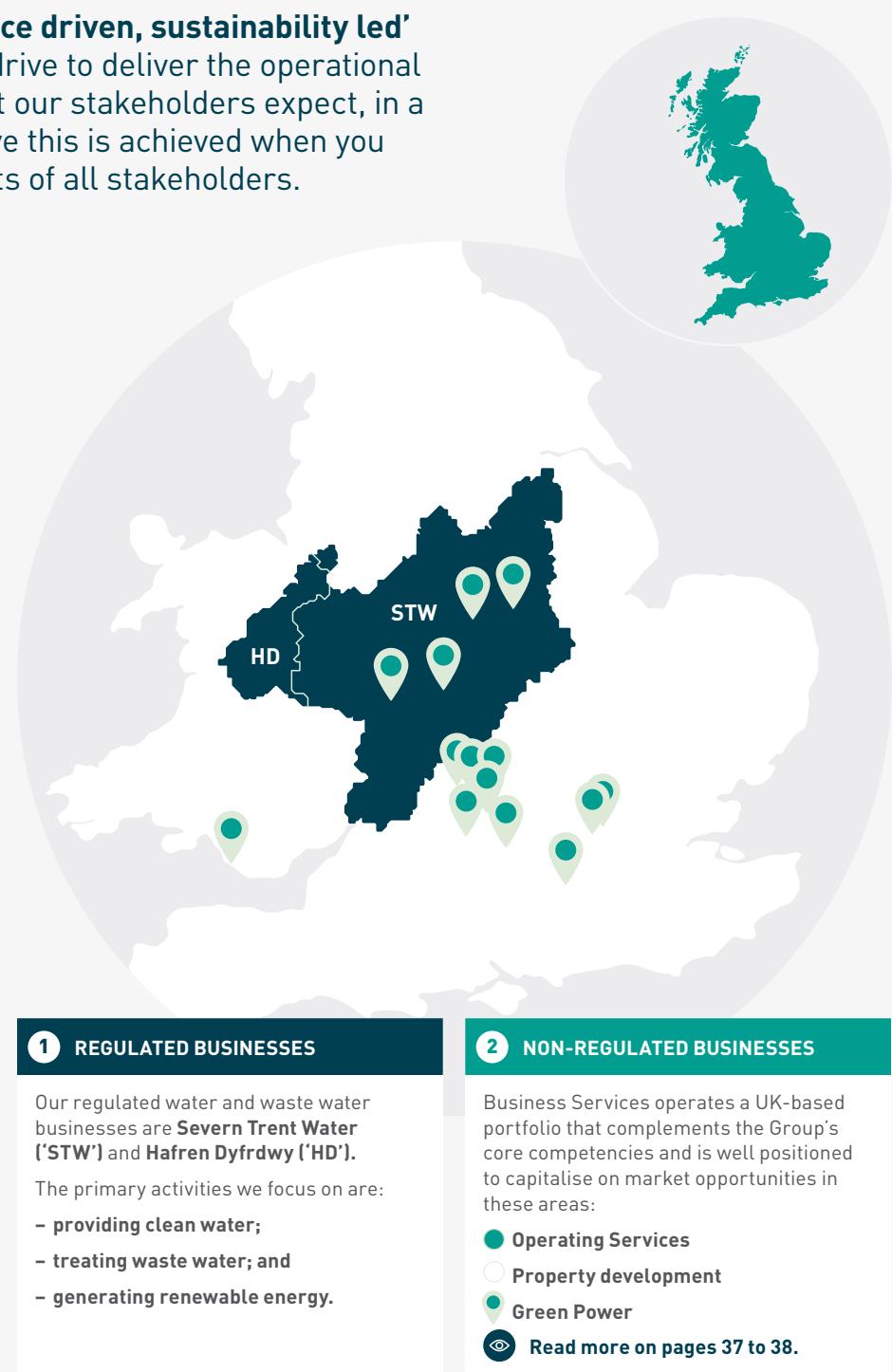
Our Strategy to be '**performance driven, sustainability led**' acknowledges our relentless drive to deliver the operational and financial performance that our stakeholders expect, in a sustainable way, and we believe this is achieved when you balance the long-term interests of all stakeholders.

We provide essential services to over 4.8 million households and businesses in our region. We are two of the eleven regulated water and waste water businesses in England and Wales. Our regulated businesses serve a diverse region stretching across the heart of the UK, from the Bristol Channel to the Humber, and from North and mid-Wales to the East Midlands. Our non-regulated businesses operate across England, Scotland and Wales.

We serve a diverse range of customers with different cultures, interests and experiences. Our region includes some of the most affluent areas of the country as well as some of the most deprived. We have more urban conurbations than any other water company, yet we serve predominantly rural counties and communities. It's a region which is characterised by, and benefits from, its diversity.

In providing our water and waste water services, we always look to contribute social and environmental value for the long-term benefit of our stakeholders.

Through the investment and operational decisions that we have made over time, and those we are making today, we are ensuring that our business is **performance driven** and **sustainability led**, now and in the long term.



GROUP HIGHLIGHTS

Group turnover (£m)

2022/23	£2,165.1m
2021/22	£1,943.3m
2020/21	£1,827.2m

£2,165.1m

▲ 11.4%

Dividend per share (p)

2022/23	106.82p
2021/22	102.14p
2020/21	101.58p

106.82p

▲ 4.6%

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

2022/23	£508.8m
2021/22	£506.2m
2020/21	£470.7m

£508.8m

▲ 0.5%

Shadow regulated capital value ('RCV') gearing (%)¹

2022/23	60.0%
2021/22	59.2%
2020/21	64.5%

60.0%

▲ 1.4%

Adjusted basic EPS (p)

2022/23	58.2p
2021/22	96.1p
2020/21	104.5p

58.2p

▼ 39.4%

1 Shadow regulated capital value ('RCV') gearing is defined in note 32 to the Group financial statements.

2 Earnings and the weighted average number of ordinary shares for the purpose of adjusted earnings per share are defined in note 14 to the Group financial statements.



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For our **Sustainability Report**, please scan or click to see online.



For our **Cautionary Forward-Looking Statement** information, please see the inside back cover.



For our **Glossary**, please see p243.

OUR STRATEGY

INTRODUCTION TO OUR STRATEGY

We are guided by our **Purpose** – ‘*taking care of one of life’s essentials*’ – which forms the foundation on which we can build meaningful and long-standing relationships with our stakeholders. Our **Values** – ‘*Having Courage*’, ‘*Embracing Curiosity*’, ‘*Showing Care*’ and ‘*Taking Pride*’ – underpin our Purpose and reflect the deep connection that we have with the stakeholders we serve. And our **Strategy** – ‘*performance driven, sustainability led*’ drives us in everything we do.

What makes Severn Trent unique is our ability to consistently deliver sector-leading operational performance in a way that has a positive sustainable impact. Our Strategy to be ‘*performance driven, sustainability led*’ acknowledges our relentless drive to deliver the operational and financial performance that our stakeholders expect. We believe this is achieved when we strike the right long-term balance between our customers and communities, the environment we depend on, our workforce and our investors. Success is not about putting any one outcome or stakeholder’s need at the heart of our business; success can be found

through striking the right balance between the four strategic pillars outlined in our Strategy. Our Strategy is an ambitious evolution from an already successful business position, rather than a revolution. From Outcome Delivery Incentives (‘ODIs’) delivery to net zero programmes, catchment management approaches to Get River Positive river pledges and societal ambitions, our Strategy captures and pushes forward our ambitions to date.

 **Read more** about how the Board considered stakeholders when developing our Strategy in our Section 172 Statement on pages 95 to 97.

OUR
PURPOSE

Taking care of one of life's essentials

DRIVEN BY
OUR STRATEGY

Performance driven, sustainability led

UNDERPINNED BY OUR VALUES

Our **courage** drives us to set bold ambitions, our **curiosity** inspires us to try new approaches, our **caring** culture promotes fairness and equality for our people, customers and communities, and our **pride** ensures that we succeed on this journey.



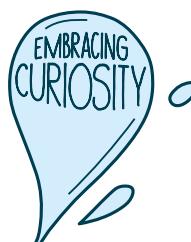
Having Courage

We always do the right thing and have courage to challenge the norm and speak up if things aren’t quite right. We are prepared to step out of our comfort zones and act with both today and the future in mind.



Showing Care

We keep our promises to customers and show care by treating everyone fairly and equally. We try to enhance the environment around us and spend every pound wisely.



Embracing Curiosity

We search out safe, better and faster ways of doing things through innovation and are always curious and willing to learn.



Taking Pride

We make a difference for our customers every day, owning problems and working with others until they are solved. We take pride in what we do and champion our work in the communities we work and live in.

DELIVERING OUTCOMES OUR CUSTOMERS CARE ABOUT



WATER ALWAYS THERE

Our services are an essential part of everyone's lives and we strive to keep water flowing for our customers at all times. Our campaign during the hot weather period in 2022 proved successful in delivering and sustaining demand reduction.

You can read more about our performance on pages 14 to 17.

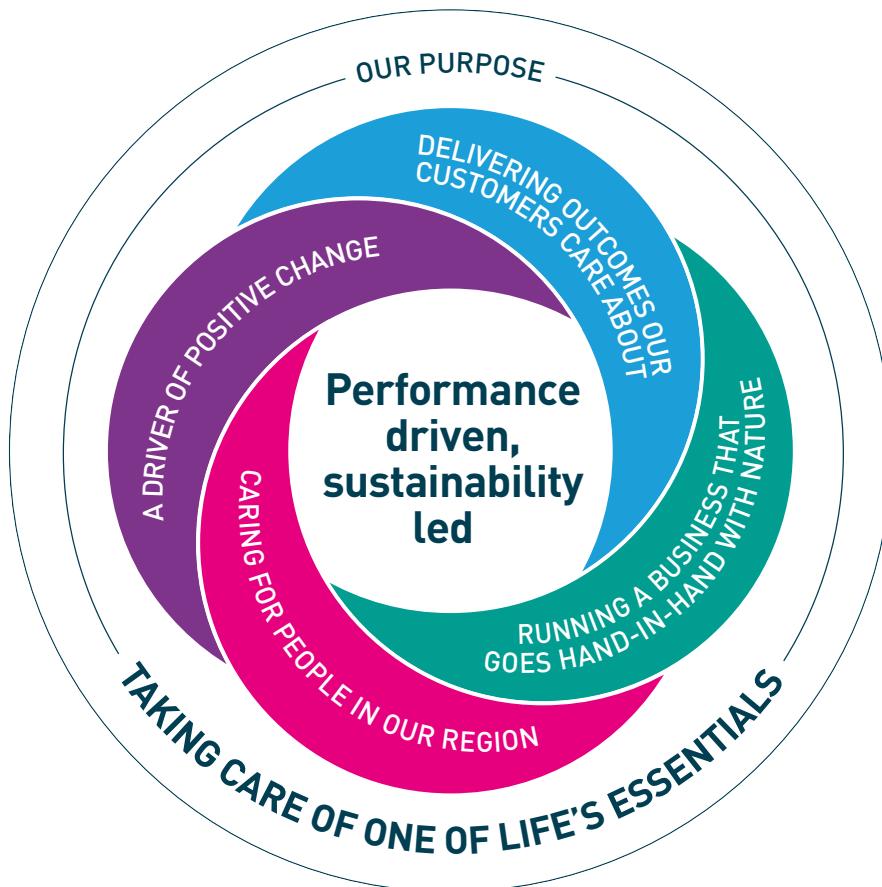
RUNNING A BUSINESS THAT GOES HAND-IN-HAND WITH NATURE



GET RIVER POSITIVE

The health of our rivers is important to all of us. That's why in March 2022 we launched Get River Positive, to help make our region's rivers the healthiest they can be. We have delivered significant improvements this year.

Read more on pages 20 to 21.



CARING FOR PEOPLE IN OUR REGION



OUR SOCIETAL STRATEGY

In November 2022, we announced our ten-year vision to help change the lives of 100,000 people through tackling the underlying causes of poverty and improving the lives of people in our communities.

You can read more about our Societal Strategy and progress on page 32.

A DRIVER OF POSITIVE CHANGE



GREEN RECOVERY

In July 2021, Ofwat approved our proposal to invest £566 million (2017/18 prices) in our ambitious Green Recovery Programme, providing a great opportunity to deliver positive outcomes for our customers, and long-term growth for the Company through these new investments.

Read about our progress on pages 35 to 36.

OUR BUSINESS MODEL

WHAT WE DO

We provide clean water and waste water services and develop renewable energy solutions through our businesses. In the course of providing these services, we create social and environmental value.

1 Collect raw water

We collect water from reservoirs, rivers and underground aquifers across our region.

2 Clean raw water

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

3 Distribute clean water

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



Households and businesses served

4.8m

Total Group employees (average)

7,651

Average during 2022/23.

See Note 8 to The Group Financial Statements

Litres of drinking water supplied each day

2.0bn

Litres of waste water treated each day

2.8bn

HOW WE DO IT

We are a performance driven, sustainability led business.

What makes Severn Trent unique is our consistent delivery of sector-leading performance in a way that has a positive sustainable impact. Success is not about putting any one outcome or stakeholder's need at the heart of our business. Instead success can be found through striking the right balance between multiple objectives, and for us this means:

- delivering outcomes our customers care about;
- running a business that goes hand-in-hand with nature;
- caring for people in our region, and;
- being a driver of positive change



Delivering on these strategic pillars makes us a stronger business for the long term. It unlocks significant additional value creation, whether that be internally through greater cost efficiency, asset growth, risk reduction, talent management, brand reputation and innovation, or externally through increased prosperity, job creation, enriched natural environment and community wellbeing.

Our strategic pillars are designed to reflect all parts of the Severn Trent Group. They resonate with people from all teams across our business and at all levels of seniority. They guide our direction and support us in our decision making.

WHAT SETS US APART

We set bold ambitions backed by a track record of sector-leading performance with a clear roadmap for the future. This builds trust, creates opportunities for innovation and inspires our people and partners to strive to be the best they can be.

WHY WE DO IT

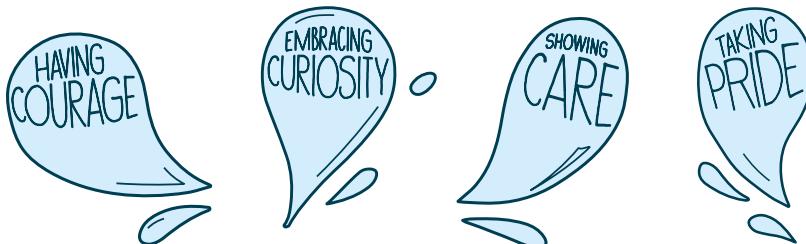
At Severn Trent, we are driven by our Purpose – taking care of one of life's essentials

When we are united by our clear social Purpose, we can drive positive change and deliver positive outcomes for all our stakeholders – our customers, colleagues, investors, the society we live in and the environment we depend on.

Now, more than ever, we know that taking care of one of life's essentials means that what we do really matters to the families, businesses and

communities we serve. This is why our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride are so important to us. Being a company that can be trusted, taking care of the environment, helping people to thrive and providing the best value service means we all need to be focused on living our Values, by doing the right thing, every single day – **the Severn Trent way**.

OUR VALUES



See page 2

OUR ENABLERS

Physical assets

We maintain over 50,500 km of clean water pipes, over 93,000 km of sewer pipes, and 135 water and 1,005 waste treatment works.

Principal Risk links: 2, 3

Strategy links:

Natural resources

We look after some of the UK's most impressive natural resources and make them accessible to support the health and wellbeing of communities.

Principal Risk links: 2, 3, 10, 11

Strategy links:

Financial capital

Our shadow regulatory capital value ('RCV') is in excess of £11.5 billion. Our net debt represents 60.0% of our shadow RCV, broadly in line with the notional capital structure that Ofwat assumed for this AMP. Our strong and prudent financial capital structure is reflected in our credit ratings.

Principal Risk links: 8, 9

Strategy links:

Technology and innovation

As a large organisation, we rely on technology in our business every day to communicate, store and manage data, operate our assets and monitor our operations. We are always exploring innovative technology to deliver efficiencies and continuously improve our processes.

Principal Risk links: 2, 3, 4, 5, 6

Strategy links:

Our people and culture

We look to attract, develop and retain talented people from all backgrounds. We directly employ over 7,600 people.

Principal Risk links: 1, 2, 3, 4, 5

Strategy links:

Suppliers and partnerships

We work with c.2,100 direct suppliers. 100% of contracted suppliers have signed up to our Sustainable Supply Chain Charter.

Principal Risk links: 1, 2, 3, 4, 5, 6, 10, 11

Strategy links:

THE VALUE WE CREATE FOR ALL STAKEHOLDERS



Our Customers

We serve 4.8 million households and businesses. We aim to anticipate and meet changing customer and wider societal needs, as well as improve and protect the natural environment.

How we measure this

ODI performance (% having met or exceeded target)

2022/23	79%
2021/22	88%



Our Colleagues

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

How we measure this

QUEST score (out of 10) (employee engagement survey)

2022/23	8.4
2021/22	8.2



Our Communities

We create value for the communities we operate in by providing direct employment to local people, engaging with local businesses in our supply chain and paying business rates to local Government.

How we measure this

ST Community Fund (£m)

2022/23	2.0
2021/22	1.8



Our Shareholders and Investors

We create value for equity investors through a reliable, index-linked dividend, underpinned by strong operational performance, and a growing RCV, which will lead to higher returns in the future.

How we measure this

Return on Regulated Equity ('RoRE') (%)

2022/23	12.2
2021/22	8.8



Our Suppliers and Contractors

Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders. Strong supplier relationships support our business operations in line with our modern slavery commitments.

How we measure this

Average time to pay (days)

2022/23	31
2021/22	28



Regulators, Government and NGOs

The policy framework for our sector is set by the UK and Welsh governments. Our industry is regulated by Ofwat and others. Our non-regulated businesses drive competition in the market, improving the quality and value in the water sector supply chain.

Ofwat

Leading performer on both financial resilience and performance and expenditure for second year in a row

¹ Environmental Performance Assessment – annual rating by Environment Agency (4* is the highest possible rating)

Environment Agency

Highly confident of receiving EPA¹ 4* for fourth year in a row

THE WATER SECTOR

There are 17 regional businesses supplying water services in England and Wales. These businesses serve over 50 million household and non-household customers. Of these, eleven also provide waste water services, including Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

Working with our regulators and stakeholders

We are subject to regulation of our price and performance by economic, quality and environmental regulators, as outlined below. You can read more about how we engaged with our regulators and other stakeholders this year on pages 84 to 94.

Policy



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

Regulation and representation



The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales.



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



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



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



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



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

We also work with a range of other regulators, including:

- Health and Safety Executive to ensure that the health and safety of our employees, customers and visitors is preserved;
- Ofgem, the economic regulator of gas and electricity markets, whose remit extends to renewable energy generation; and
- Ofsted, the regulator for education, children's services and skills, since our Academy became accredited.

OUR PRICE REVIEW REGULATORY CYCLE

Every five years, our economic regulator, Ofwat, reviews water and waste water companies' business plans. These business plans cover the following five-year period and include the impacts on customer bills.

As part of each price review, companies are asked to submit their business plans, which set out their investment proposals, performance improvement commitments and the potential impacts on customer bills for the coming Asset Management Plan ('AMP'). Later this year, we will submit business plans for Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig for the latest price review ('PR24'), covering the period 2025-30 ('AMP8').

Ofwat's Final Determinations for PR24 will be issued by the regulator next year. The final methodology provided us with the regulator's guidance on expectations for our business plans.



While our PR24 business plans are currently still being developed, they will lay out our ambitions in the following key areas:

CUSTOMERS

In developing our business plans for PR24, we have embarked on our most in-depth customer engagement activity and research programmes to date. As a provider of one of life's essentials, we gain insights from our everyday interactions, which help give us a rich understanding of the issues that are most important to our customers.

For the first time, we have undertaken open challenge 'Your water, your say' sessions on our proposed business plans, which deepened our understanding of the issues most pertinent to our customers and enabled open discussion on our future ambitions.

We know our customers want us to go beyond providing a resilient water supply, balancing supply and demand, providing clean drinking water and taking waste water away. Our customers want us to make a positive impact on their everyday lives and their communities.

AFFORDABILITY

Households are facing the most acute cost of living pressures for decades. This is why ensuring our bills are affordable for all our customers – including the most vulnerable – is central to our plans, as well as ensuring we retain fairness across future generations for some of our longer-term plans.

Struggling to pay a water bill can be an indication of other issues in a customer's life, so we are working with partners in local communities to identify those who may need some extra help.

In November 2022, we launched our Societal Strategy – with the aim of helping change the lives of 100,000 people in our region over the next ten years. This is part of our commitment to help tackle the underlying causes of poverty and improve life chances for people within our region. We also announced in May 2022, as part of our Affordability Strategy, a £30 million package of additional financial support in response to the cost of living challenges.

RESILIENCE

Reliable supplies and services depend on a reliable infrastructure. But to us 'resilience' is a broader issue than just having good-quality pipes, reservoirs and treatment works, which we are committed to investing in already.

It means being operationally resilient, so our people are sufficiently well trained to carry out the tasks we need them to do, both in a steady state and in an emergency. And it means being financially resilient, with a stress-tested capital structure to maintain an investment-grade rating for our regulated business and the appropriate equity strength to effectively manage risks. It also means having corporate resilience, with the right governance processes to ensure that we are fair and transparent at all times and recognised as a responsible and trusted business by society.

We are rightly regarded as a public service company, and we'll do everything in our power to deliver a service that the public and our people can be proud of.

Planning for the long term

Long-term, adaptive planning is an integral part of how our organisation works. We are first and foremost driven by our Purpose – 'taking care of one of life's essentials' – and to continue to deliver outcomes for the benefit of all our customers, wider society and our investors, we need to be able to adapt to a broad range of future trends and challenges.

Demographic, climate, environmental, societal and economic change can be difficult to predict, but understanding the potential impacts of such changes is vital to ensuring we can continue to deliver resilient, affordable water and waste water services for generations to come. We have already issued a consultation on our draft Water Resource Management Plan ('WRMP') and our final Drainage and Wastewater Management Plan ('DWMP') was published in March 2023. These plans set out how we will respond to these trends and challenges.

As part of PR24, Ofwat has asked each company to submit a Long-Term Delivery Strategy ('LTDS') – out to 2050. The LTDSs for Severn Trent and Hafren Dyfrdwy will form part of our overall PR24 proposal and will outline the path we plan to take in delivering our long-term strategic aims, while also recognising that we will need to adapt our path to reflect the impact of broader 'macro' challenges on reaching our end destination.

Our plans for AMP8 are a key stepping stone to delivering our longer-term strategic goals and ambitions.

Responding to customer needs today

We are not just waiting for the submission of our business plans to make the tangible changes our customers and stakeholders expect. Last year, we announced our Get River Positive river pledges, Societal Strategy and Affordability Strategy, and have already started to make progress on delivering on our aims. Their continuing delivery will also be a key part of our overall PR24 and longer-term plans.

Through engaging with our stakeholders through the PR24 process, we are ensuring that our plans reflect the needs of today's customers, and generations of customers to come.

What happens next?

Ofwat's timetable for PR24 is as follows:

Date	Milestone
2 October 2023	Submission of business plans to Ofwat
November 2023	Engagement with the EA, NRW, CCW and the DWI on the submitted business plans
May/June 2024	Draft Determinations
December 2024	Final Determinations

CHAIR'S STATEMENT

Dividend per share

106.82p

2022: 102.14p

Group PBIT

£508.8m

2022: £506.2m

Group turnover

£2,165.1m

2022: £1,943.3m

OPTIMISM THROUGH A CHALLENGING YEAR

The last 18 months have been some of the most challenging in our history and many of those challenges are continuing – with high inflation driving increases in energy costs for customers and companies alike, and the continued impact of geopolitical events. Our customers and the communities we serve are not immune from this and, as such, this year's Annual Report will shine a light on the focus we have applied to supporting those affected by affordability pressures both now and in the long term.

Our Strategy, Purpose and Culture
As outlined in my report last year, our Purpose – taking care of one of life's essentials – forms the foundation on which we can build meaningful and long-standing relationships with our stakeholders, to enable us to play our part in society positively and proactively. Our Values – Having Courage, Embracing Curiosity, Showing Care and Taking Pride – underpin our Purpose and reflect the deep connection that we have with the stakeholders we serve.

During the last year, the Board spent time considering the Group's Strategy, to reflect where the business is today while clearly outlining the ambitions we have for the future. We considered long-term value generation for our stakeholders – including our customers and communities, the environment we depend on, our workforce and our investors – with a focus on the long term.

At the heart of our Strategy is a desire to be **performance driven and sustainability led**, reflecting Severn Trent's ability to deliver consistently sector-leading performance in a way that has a positive sustainable impact. Our Strategy acknowledges our relentless drive to continue to deliver the financial and operational performance that our stakeholders expect and we believe is achieved through balancing the long-term interests of all stakeholders. Read more about our Strategy on pages 2 to 3.



Our Strategy to be 'performance driven, sustainability led' drives us to deliver strong performance in balance with the long-term needs of our environment. This isn't only a focus for us because we are a good company, but because we see it as a fundamental opportunity for innovation, growth and long-term value creation. And in doing so, we deliver for our customers, inspire our people, attract and reward investors, and generate a positive impact for our customers, communities and the environment.





Listening to our stakeholders

Listening to our stakeholders this year, it is clear that two main issues remain front of their minds – affordability and river health. We continue to listen carefully to understand their concerns on these two important topics in order to review and refine our approach and deliver maximum benefits to our stakeholders.

We know that an increasing number of households in our region are experiencing affordability pressures, pushing a higher proportion of households into water poverty (customers who spend more than 5% of their income, after housing costs, on water). In last year's report, I wrote about our Affordability Strategy, launched in May 2022, and I have been moved and encouraged by the meaningful support that we have provided to our customers and communities throughout the year. You can read about our progress in Liv's report and on pages 29 to 30.

We know that we need to do more to address the long-term drivers that perpetuate poverty in our society. That's why we launched our ten-year Societal Strategy in November 2022, aimed at helping to change the life chances of 100,000 people in our region. This sector-first initiative will realise a number of important benefits for all stakeholders – and particularly our customers.

Our Societal Strategy was developed with an emphasis on shaping and improving the lives of people in our communities, by focusing on the underlying causes of water poverty. Our ambitious ten-year vision will help tackle poverty throughout our region, working with hundreds of schools to offer 300 annual work experience placements for children, 10,000 hours of free skills and employability training in communities, and 'pop-up' academies that will reach thousands of individuals – all supported by a network of local partnerships. You can read more on page 32.

River health also remains a critical priority for our stakeholders. In last year's report, I wrote about the way in which we responded to the heightened focus on this important issue. Both the Board and Executive Committee remain committed to making a positive impact on the environment and the communities we serve, and recognise that, as a sector, there is more we need to do to help the region's rivers be the healthiest they can be. In March 2022, we announced our commitment to 'Get River Positive'; establishing five river pledges and we continue to oversee progress against each of these pledges at every Board meeting. This year we have delivered significant improvements in river quality – reducing our Reasons for Not Achieving Good Status ('RNAGS') from 24% to 16% and average storm overflow activations to 18 in 2022, ahead of the regulator's 2025 target of 20 activations.

We published our first Get River Positive Annual Report in March 2023 which outlines the good progress we have made since the launch of our five river pledges. You can read more about our progress on pages 20 to 21.

The last year has also seen increased scrutiny of the environmental performance of the sector as a whole, and resultant focus on Executive Director remuneration. We are committed to making a positive impact on the environment and the communities we serve, and recognise that, as a sector leader, we need to take a proactive role in protecting and enhancing our environment. Whilst we have consistently focused on connecting remuneration to environmental outcomes, we recognise the strength of external opinion on the performance of the sector and made further changes to our Annual Bonus Scheme during the year to strengthen the focus on environmental performance – increasing the weighting of environmental measures within our annual bonus plan to 20%. For 2023/24 we are going even further and increasing the weighting to 30%. Three-quarters of our potential Executive pay is variable in nature, based on stretching targets that are reviewed annually by the Remuneration Committee, ensuring that our Executives are only rewarded for strong performance. You can read more in the Directors' Remuneration Report from page 141.

Looking after our people

When meeting our people throughout the year, it is clear that they take the responsibility that comes with providing our essential service seriously. Their passion and commitment is evident, especially when responding to extreme weather events to limit the impacts on our customers and adapting to unforeseeable incidents. I would like to convey my thanks to our people for the passion and dedication they apply to all they do; their commitment is inspiring.

The vast majority of our colleagues, their friends and families, are also our customers and live in the communities we serve. As such, some of the challenges experienced by our customers (such as the effect of increased cost of living from food, fuel and energy bill rises) are also felt by our people. We continue to do everything we can to help support them – and our range of employee benefits has been enhanced during the year – including launching two new benefits to help with childcare costs and advice and support for those taking care of an older dependant. We also offer meaningful contributions to employee healthcare, through financial support for elective treatments, access to a 24/7 GP service and our Employee Assistance Programme. We continue to take pride in being a real Living Wage Employer, as well as welcoming 263 graduates and apprentices during the year. I attended our annual leadership event at Tittesworth Reservoir in September 2022, where the range of benefits available to all employees was discussed with our leaders and team managers to ensure these are being used to the greatest extent possible by our people.



Running a business that goes hand-in-hand with nature

In addition to the significant progress made on our Get River Positive river pledges, we have also made excellent progress on our Great Big Nature Boost programme during the year. In May 2023, we announced that we are extending and accelerating our commitment to improve biodiversity from 5,000 hectares by 2027 to 10,000 hectares by 2025, at which point our work will account for 2% of the nation's 2042 Nature Recovery Network target. You can read more about this exciting work on page 19.

We were proud to be the Official Nature and Carbon Neutral partner of the Birmingham 2022 Commonwealth Games held over the summer – through offering drinking water to spectators, supplying critical infrastructure to the Games, providing 40 water bars, saving almost 500,000 plastic bottles from going to landfill, and continuing to plant our 2,022 acre legacy forest. Our people made a meaningful contribution to the Games and I was humbled to observe their significant contribution during my own shifts at a water bar. Our contribution to the Games is a wonderful example of our community-focused approach to sustainability.



We were also delighted to be placed 58th by Corporate Knights as one of the world's most sustainable companies and in August 2022 we received 'Advancing' tier status from the Carbon Trust. We recognise that we are only partway on our journey. We continue to develop new ways of delivering our essential services and identify innovations that support the delivery of our sustainability ambitions. Read more about our sustainability highlights on pages 137 to 140 and in our Sustainability Report online and the work of the Corporate Sustainability Committee during the year is set out on pages 137 to 140.



A STABLE AND DIVERSE BOARD



Maintaining a strong, diverse and value adding team, with a varied range of professional backgrounds, skills and perspectives, is always an area of focus for me. Succession planning is vital to ensure the Board has the necessary plans in place for orderly succession to both the Board and senior management positions, and can oversee the development of a diverse pipeline for succession. The Nominations Committee and Board have applied particular focus to this important area over the last 18 months and the recent internal Executive Committee appointments announced in February 2023 demonstrate the breadth and depth of the Executive talent pipeline that has been developed within the Group, including the development of senior leaders with potential to be future Executive Committee members. You can read more about the evolution of the Board and Executive Team in my Chair's Introduction to Governance on pages 100 to 101 and the Nominations Committee Report on page 124.

The diversity of our workforce is so important and I am proud of our progress on increasing gender and ethnic diversity on the Board and at senior leadership levels. Above all, we aim to have an inclusive culture – where everyone can be themselves at work, feel valued and contribute their best to make us more successful in all that we do.

In February 2022, the FTSE Women Leaders Review announced two new recommendations for FTSE350 companies to increase representation of women in senior leadership positions by 31 December 2025. We already exceed both of those goals, with a female Chair, Chief Executive and, Chief Finance Officer, following Helen's appointment as Chief Financial Officer Designate, and have at least 40% women at Board and Executive Committee level. The Board also updated its Diversity Policy during the year in consideration of the progress made to date and recommendations of the FTSE Women Leaders Review and Parker Review on Ethnic Diversity. Read more in the Nominations Committee report on page 125.



Resilient performance and sharing the rewards

Against the background of a changing environment, it is more important than ever for us to maintain our sector-leading performance and continue delivering strong service to our customers. In December 2022, Ofwat named Severn Trent in the leading category for both financial resilience and performance and expenditure for the second year running. We have been awarded EPA⁴ for three consecutive years by the EA and are highly confident of achieving it for the fourth consecutive year for 2022. This would be a unique accolade in the sector and something we are incredibly proud of.

Our aim is to deliver exceptional and consistent services to our customers at all times as well as being sector-leading in measures. I am pleased that we have delivered robust operational and resilient financial performance, and this year has been no exception, with around 80% of ODI measures green, including leakage, pollution and water quality complaints, resulting in a net reward¹ of £53 million and Group PBIT for the year of £509 million. Liv and James provide further detail within their respective reviews.

The Board applied particular focus to the proposed dividend during the year, in consideration of our regulated company

performance in the round and over time, service delivery for customers and the environment, the Company's long-term investment needs and financial resilience. In line with our formal dividend policy, the Board determined that the proposed dividend would not impact the financial health of the regulated company, nor its credit ratings. The Board also considered that the proposed dividend was supported by the regulated company performance in the round and over time. The Board is therefore proposing a final dividend of 64.09 pence per share, to be paid on 14 July 2023, taking the total dividend for the year to 106.82 pence per share.

Given that many small retail shareholders and Severn Trent pensioners rely on our dividend payments, we are pleased to be able to sustain our dividend commitments against a backdrop of increased costs, which has resulted in a challenging year for so many shareholders. I had the pleasure of meeting many shareholders again this year to discuss our performance. Our consistent results emphasise that we are well placed to uphold our high standards of service delivery for customers and provide a sustainable platform for investment and growth in areas that are important to our stakeholders.



Focus on the long term

We continue to deliver a strong operational performance for our customers and the Board is focused on the long-term challenges facing the sector, ensuring robust risk management, prioritisation and decision making around the investment needed to make a positive sustainable impact.

The Board spent a significant amount of time considering key long-term programmes that

are inextricably linked to the environment during the year, such as our Drainage and Wastewater Management Plan, Water Resources Management Plan, the Water Industry National Environment Programme, and our PR24 submission – including our Long-Term Delivery Strategy. The Board has placed particular emphasis on ensuring that we have resilient long-term plans in place that consider the impacts of population growth, drought, our environmental obligations and climate change uncertainty so we can continue to deliver our essential services for customers now and in the long term whilst also transitioning to a net zero world.

A key area of focus for the period ahead is positioning the business for success during the next regulatory period. Our draft business plans are well advanced, following widespread customer engagement, rigorous independent challenge and rich discussion in the boardroom. Our PR24 plan will be submitted to Ofwat in October 2023. We are positioned well to implement our plans over AMP8 and beyond, safe in the knowledge that our teams have the talent, skills and, above all, commitment to enable us to deliver for our customers.

Against a backdrop of rising expectations on companies both within and outside the water sector, we are working even harder to drive further performance improvements through the rest of this AMP and into the next and, in doing so, create long-term value for the mutual benefits of our customers and communities, shareholders, the environment and our people.

Christine Hodgson
Chair

CHIEF EXECUTIVE'S REVIEW

Group PBIT

£508.8m

2022: £506.2m

Group turnover

£2,165.1m

2022: £1,943.3m

Net ODI reward

£53m

2022: £79m

**WE ARE
DRIVING OUR
PERFORMANCE
FORWARD AND
LEADING WITH
SUSTAINABILITY
IN ALL THAT
WE DO**

I'm pleased to present my Chief Executive's Review for 2022/23, sharing my personal highlights for the year and providing you with an update on our performance over the last twelve months.

Whether it's the growing impact of climate change, unparalleled energy costs, or broader macroeconomic uncertainty, this year has been a true test of our resilience as a company. I'm incredibly proud of our proven ability to continue delivering on our promises for our customers and the environment, alongside a robust financial performance, in the face of such a challenging year.

Our resilience and performance provide a strong foundation from which we can do even more for the communities we serve and the environment on which we depend. I'm pleased to report strong progress against our commitments in these areas, as well as setting out a new Societal Strategy, which I wholeheartedly believe has the ability to

change the life chances of some of the most vulnerable people in our region.

Our Purpose of 'taking care of one of life's essentials' forms the foundation of our relationships with our stakeholders and is critical to our long-term success. Our people connect with our Purpose, and our outstanding engagement scores demonstrate the strength and depth of this connection. As outlined in Christine's report, a key focus for the Board this year has been reviewing our Strategy and considering the long-term value generation for our stakeholders – including our customers and communities, the environment, our workforce and our investors – each of whom want consistency in delivery of our Strategy, with a focus on the long term.

Our Strategy is to be **performance driven, sustainability led**. Consistently executing this Strategy will deliver outstanding performance in a way that has a positive, sustainable impact. You can read more about the development of our Strategy on pages 2 to 3.



“

Creating job opportunities, continuing significant regional investment, and financially supporting more customers than ever before is made possible by the strong results we have delivered this year.

”



Delivering for customers in a changing climate

Our teams work around the clock delivering a brilliant service for our customers to keep clean water flowing into homes and businesses, and take away and recycle waste water. Quite rightly, our customers expect this service to continue 24/7, and I'm proud of the work we've achieved to minimise the impact of climate change experienced by our customers this year.

We've hit or exceeded our targets on c.80% of our performance commitments, earning an outperformance reward of £53 million, despite the weather challenges faced this year which have impacted a number of measures. As we look ahead to AMP8, when our comparative position will be even more important, our whole business is focused on pushing our performance even further.

Keeping clean water flowing

We have invested a significant amount of time and resource into strengthening the resilience of our water networks over the past few years. We've brought more assets online to strengthen our network, improved flexibility to enable us to get water to the right places at the right time, and created an in-house Network Response Team – 135 people and 42 tankers dedicated to getting our customers back on supply as quickly as possible. All of which really paid off this year.

The summer of 2022 was one of the hottest and driest since records began. At its peak, we were producing an extra 450 million litres of clean water a day. The resilience of our network, combined with the incredible support from our customers in response to our extensive demand management campaigns, meant we were able to keep the water flowing, navigating the summer conditions with no enforced Temporary Usage Bans ('TUBs', also known as hosepipe bans).

In common with many other companies, we're also feeling the effects of climate change in winter. In December 2022, our region experienced a sharp cold snap followed by a rapid thaw. These temperature swings can have a severe impact on our pipes, causing a higher number of bursts. The last time we experienced such an event was the Beast from the East in 2018 and I'm really pleased that the work we've done since then meant that the interruption to our customers' supply was reduced by 93%.

Never has it been clearer that water is a precious resource and one that we all need to take care of, and I'm delighted with the sustained progress on our leakage journey, hitting our target for the eleventh year out of the last twelve, despite the significantly higher number of bursts we've faced following a challenging winter. We're fixing over 3,000 leaks a month and we've reduced the time it takes for us to reach a leak by 30% since 2020.

We've also accelerated our meter roll-out, installing over 100,000 meters this year alone,

taking our metering coverage on household customers to 61%. Alongside reducing bills for many of our customers, this also gives us much greater visibility and insight into our network. This is especially the case for smart meters, which we're rolling out in Coventry and Warwickshire and through which we have already been able to collect valuable data on consumption and other trends. Given the success of our smart meter campaign, I was particularly pleased to receive approval from Ofwat to accelerate the roll-out of an additional 250,000 meters ahead of AMP8.

Our leakage rate is better than the average for Europe, but we know that we can, and must, go further. We have committed to reducing leakage by 50% by 2045 [from a three-year rolling average baseline set in 2019/20] and the work we're doing now places us firmly on track to achieve that goal.

Focused on waste to create a better environment

We have once again met 100% of our environmental measures and are highly confident that we will achieve the highest-possible 4* rating in our annual Environmental Performance Assessment ('EPA') for 2022 by the EA, making it four consecutive years – something no other company has ever achieved.

We are proud of our total pollution performance, which has seen a year-on-year improvement of 5.4%, resulting in our best ever year on serious pollutions. While we're proud of our continued improvements in this space, we recognise that any pollution is unacceptable and we are striving to halve our total pollutions by 2025. As part of this ambition, we are focused on reducing asset failure through a rigorous maintenance programme and improved event response times, supported by the ongoing installation of 40,000 sewer sensors and the establishment of our new in-house Waste Network Response Team, inspired by learnings in our water business.

One cause of pollution is blockages in our network, and we've been successful in driving these down by 20% compared with the end of AMP6 through a relentless focus on data, sewer cleansing and customer education on the causes and impact of sewer misuse.

While we have met a number of our key waste measures, we have incurred a penalty this year on external sewer flooding, where we missed a stretching target that reflects our historical sector-leading performance. The extreme fluctuations in rainfall we've experienced this year have been a key driver of our performance, with our region experiencing only 14% less rainfall than average despite the prolonged dry summer. We have also experienced a deterioration in some of our key performance drivers and are reviewing our delivery model on our waste infrastructure, including the insourcing of critical teams, such as planning and scheduling. We expect to continue to be a strong performer on this measure compared with the sector, but our

customers rightly expect more of us and we are working hard to drive the required improvements to meet our target.

There for our customers when they need us most

We have delivered c.90% of our customer performance commitments, and I am particularly pleased to see a 16% reduction in customer complaints compared with last year as we continue to improve our service offering. We continue to take steps forward in our Customer Measure of Experience ('C-MeX') and Developer Measure of Experience ('D-MeX') journeys to ensure we can answer our customers' queries at point of contact, and keep customers informed.

This year we launched a new 'Intelligent Kickouts' process, which uses customers' historical consumption data to track and identify changes in their water usage and proactively engage with them, before their bill is issued. We have designed 30 different communication journeys to ensure customers receive the right information, at the right time, in the right way. In the six months since we launched our new process, we have proactively engaged with almost 10,000 customers, helping them to manage their consumption, reducing contacts from customers and identifying an additional 14,000 litres of private-side leakage a day, with zero complaints from customers.

Of course, alongside delivering the best service possible, we want to be there for our customers when they need us most, and right now many are struggling with overwhelming pressures associated with the increased cost of living. Last year, we announced a package of financial support worth £30 million to allow us to support 315,000 customers – the biggest support scheme any company in our sector has ever offered.

We're proud to continue to offer one of the lowest bills in the country, at an average of £1.15 per day, and we've committed to growing our bill by less than inflation for 2023/24, as we don't want anybody to fear their water bill. Through our affordability schemes, we can offer any customer who needs it up to 90% discount off their bill, taking the water bill off their worry list. We are financially supporting over 237,000 customers and are on track to help 315,000 customers by 2025. While we don't wish to see anybody in a situation where they need our help, we take comfort in knowing that we still have the capacity to support many more should they need it.

But financial support is a short-term solution, and we want to go much further, to make a genuine difference in the communities we live and work in. That's why we announced our Societal Strategy in November 2022 our commitment to help support 100,000 people out of poverty by 2032. This is a huge commitment and one we don't take lightly, and we have robust plans in place to deliver this support. You can read more about our plans on page 32.



Get River Positive – one year on

Although we have long been a sector leader in environmental performance, as measured by both Ofwat and the EA, when listening to our stakeholders it is clear that river quality remains high on their list of priorities. We fully recognise that there is more we can do when it comes to the health of rivers in our region and I'm delighted to report that, one year on from the launch of our Get River Positive river pledges, we've made a huge amount of progress.

We've already significantly reduced the impact of our operations on the rivers in our region, having reduced our share of the RNAGS in our region by a third, now down to under 16%. We've committed to reducing that number to zero by 2030, and we still have plenty of work to do, but I am pleased to see such a strong start.

The permitted operation of Combined Sewer Overflows ('CSOs') is an essential part of managing our network, and while they contribute only a small proportion of RNAGS (around 3%), we nonetheless recognise the need to reduce the frequency at which they activate. I'm really pleased to see the average annual number of activations has reduced from 25 in 2021 to 18 in 2022.

We've accelerated the rollout of Event Duration Monitors ('EDMs') across our c.2,400 CSOs providing us with 300 million data points a year through which we can better understand our network and drive the right interventions. This includes work to improve weir levels, investment in screens and dedicated teams on specific assets. In addition, our dedicated team of River Rangers has carried out thousands of riverside inspections to provide additional sampling and monitoring data to better inform our plans. Read more about our progress on pages 20 to 21.

Our longer-term projects are also progressing well. Through our £566 million (2017/18 prices) Green Recovery Programme, we are improving 50 km of river to move two stretches of river towards bathing quality by 2025. We have installed 76 monitors, providing data on river health. We have carried out climate change simulations and ground investigations ahead of us installing infrastructure solutions, and we are trialling ozone disinfection technology to treat our waste water to the highest possible standards.

We know that the quality of the land across our catchment can make a real difference to river health, so I am delighted that we have exceeded our target of improving the biodiversity of 5,000 hectares of land four years early, having already delivered over 7,700 hectares. We know we can maintain momentum on this important work, so we have doubled our target, and now expect to deliver improvements to the biodiversity of 10,000 hectares of land over the course of AMP7.

Each and every person in our organisation is playing their part in transforming the rivers in our region, and we're passionate about the work we're doing. Our Get River Positive river pledges are now built into our Annual Bonus Scheme, meaning everybody in the Company is incentivised on achieving these vitally important targets.



Taking care of our people

I truly believe that the things that make Severn Trent special are our culture and our people – they go above and beyond every day, pushing our performance further and doing more for our customers and communities wherever they can.

The strength of our culture is reflected in our engagement scores, which are once again in the top 5% of global utilities, with our overall score of 8.4 out of 10 in our latest survey in November 2022 – our best ever.

Diversity and Inclusion also scored highly at 8.9 out of 10, and we were delighted to be named a top 25 employer by Stonewall this year. Notwithstanding this fantastic progress, we know this is an area where we can do even more, to ensure we create a workplace where everyone can bring their whole selves to work, fulfil their potential and perform at their best. Read more about diversity and inclusion on pages 25 to 27.

Our commitment to internal development and progression was evidenced recently when we announced the planned retirement of James Bowling, our Chief Financial Officer of eight years. While really sad to be losing James, I was incredibly pleased to see that the strength of our succession planning and talent management processes resulted in two of my direct team taking up exciting new roles, plus an internal promotion to the Severn Trent Executive Committee – you can read more on page 124.

Of course, while we're focused on ensuring that Severn Trent is a truly brilliant place to work, with opportunities to develop and succeed, our people also need to feel financially secure and taken care of, particularly in the face of the current economic climate. Our people benefit from a broad and thoughtful package of benefits – from help with childcare costs and advice and support on taking care of an older dependant, to meaningful contributions to elective treatments, and access to a 24/7 GP service and Employee Assistance Programme.

Our people go above and beyond for Severn Trent, and we are absolutely committed to doing the same for them.

Thanks and outlook

I am, as ever, enormously grateful to my c.7,600 wonderful colleagues who work tirelessly to take care of one of life's essentials, living and breathing our Values – Having Courage, Embracing Curiosity, Showing Care and Taking Pride in everything that they do.

My thanks go to my exceptional management team for their continued passion, dedication and leadership, which is absolutely essential to our continued success. And I am grateful, too, for the stewardship, support and challenge from Christine and the Board.

I would like to thank James for everything he's done for Severn Trent and all the support he has given to me personally. His fantastic work ethic, wise counsel and intellect have been invaluable. James has been instrumental in driving the success of Severn Trent since his appointment in 2015 and he leaves us well positioned for the future. I am also delighted that Helen Miles will be his successor. She is a highly experienced and commercial CFO with a detailed understanding of the water sector and a proven track record of exceptional delivery. I look forward to continuing to work with her on the opportunities ahead in her new role.

The past year has once again shown just how resilient we are as a business, whether operationally, financially, or indeed culturally. Through the most challenging times, this stable platform has provided the foundation from which we can identify opportunities to step forward and contribute even more to our society. But we know we can always do more and we will continue to listen to our wide range of stakeholders to understand where we can push further.

In the year ahead, we'll be driving forward the first stage of our ten-year Societal Strategy, making further sizeable steps towards our goal of causing no harm to rivers by 2030 and delivering key milestones towards our net zero by 2030 commitments. You can read more about our exciting plans at Strongford on page 19. We'll be doing all of this while forming our plan for the five years to 2030, ensuring that it enables us to continue to deliver the right outcomes for all of our stakeholders for many years to come.

Liv Garfield

Group Chief Executive

OUR PERFORMANCE AND KEY PERFORMANCE INDICATORS

Outcome Delivery Incentives ('ODIs') provide financial payments to water companies from customers for performing beyond their committed levels of service ('outperformance payments') or from companies to customers for performing below their commitments ('underperformance payments').

In order to aid stakeholders' review of this report, including how our ODIs and other operational Key Performance Indicators ('KPIs') link to our Strategy, key stakeholders and remuneration policies – each KPI has been labelled using the icons below. We hope this addition enhances the transparency of our reporting for stakeholders and we welcome feedback on this new approach.

Both ODIs and KPIs that relate to Severn Trent Water only as it operates today, not including Hafren Dyfrdwy (our Wales only regulated company following the realignment of the England-Wales boundary), are indicated by a 1 footnote.

Consistent with previous reporting, some ODIs do not form part of the suite of KPIs reported in this report. Performance of all our ODIs is reported in our separate Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports published in July, which can be found on the respective companies' website.



Stakeholders

- Our Customers
- Our Colleagues
- Our Communities
- Our Shareholders and Investors
- Our Suppliers and Contractors
- Regulators and Government

Relative performance

- Improvement year-on-year/against target, where provided
- Deterioration year-on-year/against target, where provided
- No change year-on-year/against target, where provided

Remuneration

- Included in all employee Annual Bonus Scheme ('ABS') – read more on page 146

There are additional ODIs that are not KPIs in this report. For more information on the strategic alignment of remuneration, see page 145.



DELIVERING OUTCOMES OUR CUSTOMERS CARE ABOUT

Our services are an essential part of everyone's lives. We take this responsibility seriously and strive to keep water flowing and take waste water away, whilst working with customers to manage demand. This commitment is reflected in the continued positive momentum in our performance.

The significant investment in our network has bolstered our resilience, which is demonstrated by our ability to maintain service delivery for our customers, throughout the challenging conditions observed during the year.

c.50%

Reduction in drinking water complaints since 2016/17

5.65

CRI

WATER ALWAYS THERE

We've nearly halved drinking water quality complaints in six years

Our significant investment over the last few years has driven sustained improvements in our water quality complaints performance. This year marks our sixth year-on-year improvement – a reduction of 8% on the prior year and a 48% reduction in complaints since 2016/17. Looking ahead, further investment is planned for AMP8, including installation of additional water quality monitors, to provide greater insight on our network and, where required, implementation of targeted interventions to drive further performance improvements for customers.

Notwithstanding this excellent progress, our performance on the Compliance Risk Index ('CRI', the DWI's measure of risk to water quality) has deteriorated this year. Our indicative CRI score for 2022 was 5.65 (2021/22: 2.43). Our work to understand bacteria within our processes, using online flow cytometry, which provides live data on water safety, has enabled us to deliver improvements at our distribution service reservoirs. We have implemented a dedicated improvement plan, CRISP ('Compliance Risk Index Sustainability Plan'), with the objective of eradicating high-impacting events in our water network and addressing bacteriological risk at water treatment works. We are confident that we have the right plans in place to improve performance and have already made a positive start to the financial year.

Working hard to reduce supply interruption events

Reducing supply interruptions remains a priority given the direct impact on our customers. We are pleased that our significant investment over the past few years has helped us deliver our best in-AMP performance at 9 minutes and 10 seconds; however, we are disappointed to have missed our stretching target.

The sector was impacted by a freeze thaw event in December 2022. Such events have potential to cause significant customer impact and it was pleasing that learnings from the 2018 freeze thaw event enabled us to improve our performance by 93% this year.

Similarly, the significant investment in our water network and culture of continuous improvement enabled us to navigate the prolonged hot, dry weather conditions in 2022 with no enforced TUBs and improved service delivery for customers compared with similar events of this nature.

The growth of our Network Response Team has been a key driver of our positive performance, with more teams out in the field, minimising the time our customers go without supply. Our Academy facilitates the continual training and upskilling of our colleagues, improving our effectiveness and helping us to learn from each event we resolve. You can read more about our Academy on page 23.

On track to deliver a 15% leakage reduction

Alongside our supply interruptions activity, we have also been working hard on our supply capacity. We are particularly proud of our leakage performance, having achieved our target for eleven out of the last twelve years, putting us on track to reduce leakage by 15% by 2025 and 50% by 2045 (from a three-year rolling average baseline set in 2019/20). We are pleased to have delivered a c.2% reduction this year, and a 9% reduction since 2019/20.

To improve leakage performance, we're fixing over 3,000 leaks a month and bolstering our teams to reduce the time taken to fix leaks by a third. This activity has seen us employ more gangs and distribution service technicians.

Our leakage activity is supported by our smart meter programme. Smart meters enable us to proactively identify potential leaks, mitigating risks to customers' properties and crucially helping customers to save money on their water bills, all whilst reducing our overall level of leakage. We have accelerated our activity this year, with over 293,000 meters installed already this AMP. Our ongoing work with customers to reduce their demand also continues to yield positive results.

Working in partnership with our customers to reduce demand

Good progress has been made to achieve our goal of adding 93 ML/d of additional water supply at peak capacity (as part of our Green Recovery Programme), providing increased resilience to hotter, drier summers and winter freeze thaw events, and driving further performance improvements for customers.

We maintain a positive, continuous dialogue with our customers – directly engaging with them on demand management through our water efficiency programme. With the help of our customers, our aim is to achieve per capita consumption of 122 litres per day by 2038 and 110 litres per day by 2050 against our current performance of 138 litres per person, per day.

Our water efficiency programme has delivered a number of customer benefits this year, including water efficiency advice through over 18,800 home visits; installing 100,108 water meters and offering free and subsidised water-saving devices to customers. Our teams engage with thousands of customers every year to make them aware of how they can save water and reduce their bills, educate them on the sewage treatment process and share the way in which we are reducing our carbon footprint to help protect the environment.

Drinking water quality (number of complaints)¹

2022/23	7,467 ▲
2021/22	8,123
2020/21	9,468

7,467 ▲

(ODI target: 9,600)

Stakeholders:



Remuneration:

Supply interruptions (number of minutes)¹

2022/23	9:10 ▲
2021/22	12:39
2020/21	11:37

9 min 10 sec ▼

(ODI target: 5 min 45 sec)

Stakeholders:



Remuneration:

Leakage (three-year average) (ML/d)¹

2022/23	405 ▲
2021/22	411²
2020/21	430²

405 ML/d ▲

(ODI target: 421 ML/d)

Definition:

The average volume of water that leaks from our water network each day (measured as a three-year rolling average)

Stakeholders:



Remuneration:

¹ See footnote on page 14

² Our baseline has been reset to reflect more up-to-date information and as such our 2021/22 and 2020/21 performance figures will not be comparable to last year's Annual Report.

Alongside this direct customer engagement, our dedicated schools programme helps educate children living in our region. Last year, we continued our programme of school visits, delivering assemblies, workshops and classroom sessions, and utilising our interactive Wonderful Water Tour vehicles. The 'digi-bus' and 'experi-bus' introduce children to everything water and waste water related using virtual reality and hands-on water activities, such as fixing leaks, water quality sampling and sewer misuse exercises. At the end of our sessions, we ask children to pledge their commitments and we collected over 122,000 behavioural commitments this year.

Customer experience

We have significant focus on our customers' experience when dealing with us. Our ambition is to ensure that all customer queries are dealt with in a timely manner and deliver an outstanding experience for all.

C-MeX, Ofwat's measure of customer experience, places the same weighting on the perceptions of all of our customers as on those who contact us. This year, our C-MeX score ranked ninth in the sector. We recognise there is more to do ensuring we can answer our customers' queries at point of contact, and keeping customers informed.

We continue to offer our customers a multi-channel offering and have seen a growth year on year in customers visiting our website for information and paying their bills online. Our digital first strategy focuses on ease, efficiency and experience. This model helps make sure our teams are available for customers when their queries are more complex across other channels. Our 2023/24 priorities focus on continuing to make interactions easy for customers, increasing point of contact resolution and keeping customers informed when this is not possible.

We continue to perform well in developer services, with our D-MeX score ranking third this year.

Customer Measure of Experience ('C-MeX') (index)¹

2022/23	9th ▼
2021/22	8th
2020/21	9th

9th

Definition:
An industry standard view of customers' experience, measured through both quantitative and qualitative metrics

Stakeholders:



Remuneration:

Compliance Risk Index ('CRI') (index)¹

2022/23	5.65 ▼
2021/22	2.43
2020/21	1.53

5.65 ▼

(ODI target: 0.00)



Definition:
A standardised measure of water quality including our response to any issues that arise

Stakeholders:



Remuneration:

Developer Measure of Experience ('D-MeX') (index)¹

2022/23	3rd ▼
2021/22	2nd
2020/21	1st

3rd

Definition:
An industry standard view of developers' experience, measured through both quantitative and qualitative metrics

Stakeholders:



Remuneration:

Education programme (number of commitments)¹

2022/23	122,159 ▲
2021/22	80,656
2020/21	40,728

122,159 ▲

(ODI target: 31,050)



Definition:
The number of commitments made to change our behaviours following our bespoke customer education programme

Stakeholders:



Remuneration:

REDUCING DEMAND

During the 2022 hot weather period, we directly engaged with customers across a range of channels – including text message, email and social media channels. We focused on behavioural change initiatives to deliver and sustain demand reduction. The incredible support from our customers meant that we didn't need to impose a TUB, otherwise known as a hosepipe ban, maintaining service delivery for our customers when they needed it most.



¹ See footnote on page 14

UPPER QUARTILE ON WASTE

Every day, we take almost 3 billion litres of our customers' waste water away, ready to be made safe to return to the natural environment. We have invested significantly in our waste operations over the last 30 years to deliver the services that our customers rightly expect and minimise our impact on the environment. We recognise that there is more we can do and we have a critical role in driving the improvements our customers expect.

Our best ever year on serious pollutions performance

We are proud of our total pollutions performance, which has seen a year-on-year improvement of 5.4%, along with an 8% increase in the proportion of pollutions self-reported this year. We are highly confident in achieving EPA 4* status by the EA for a fourth consecutive year.

Reducing sewer flooding and blockages

We recognise that not all our measures have performed to the level that both we and our customers expect. Sewer flooding remains a key focus, and despite our performance being one of the best in the sector, we have set ourselves some really stretching targets which unfortunately we have not delivered this year.

Early investment in the AMP coupled with our active approach to maintenance has driven year-on-year improvements in our hydraulic flooding performance. However, with the extremes in weather and some areas of performance requiring improvement, we still have room to improve. We are tackling this challenge head on and have increased proactive investment during the year, targeting 'at risk' areas.

We have insourced key functions such as our 'blue light' Network Response Team, giving us more resilience and flexibility in-house, while our work to optimise our planning and scheduling function has helped improve our response times, for example reducing the time taken to fix leaks by a third.

We have also quadrupled the size of our Network Protection Team, which communicates directly with customers to educate on what can and cannot go into sewers, helping to prevent blockages. We are continuing to work in partnership with food service providers in our region to prevent oils, fats and greases from entering the network. We firmly believe that our performance led culture and desire to do the right thing set us up for success to tackle sewer floodings and bolster our sector-leading waste performance.

Internal sewer flooding (number of incidents)¹

2022/23	698	▼
2021/22	677	
2020/21	780	

698 ▲

(ODI target: 666)

Definition:

The number of sewer flooding incidents that occur inside customers properties

Stakeholders:



Remuneration:



Pollutions (number of incidents)¹

2022/23	193	▼
2021/22	204	
2020/21	190	

193 ▼

(ODI target: 215)

Definition:

The number of pollution incidents that occur from our waste water activities

Stakeholders:



Remuneration:



External sewer flooding (number of incidents)¹

2022/23	5,353	▲
2021/22	4,526	
2020/21	3,606	

5,353 ▲

(ODI target: 3,515)

Definition:

The number of sewer flooding incidents that occur in customer gardens, driveways and external buildings

Stakeholders:



Remuneration:



Public sewer flooding (number of incidents)¹

2022/23	1,526	▲
2021/22	1,296	
2020/21	1,050	

1,526 ▲

(ODI target: 1,945)

Definition:

The number of sewer flooding incidents that occur on public open spaces

Stakeholders:



Remuneration:



OUR 'BIN THE WIPE' CAMPAIGN



In April 2023, we announced our 'Bin The Wipe' initiative in support of a new campaign led by Water UK. 22% of people in the UK admit to flushing wet wipes down the toilet. This is the biggest cause of fatbergs that block sewage systems.

By joining us on this campaign, our customers can help us protect the environment and prevent homes and businesses being flooded. This work complements our Get River Positive river pledge to support legislation to ban wet wipes that contain plastic and lobby for a ban on all wet wipes that are not 'Fine to Flush'. You can read more on our website



Scan or click to read more

¹ See footnote on page 14



RUNNING A BUSINESS THAT GOES HAND-IN-HAND WITH NATURE

Our natural environment catches, holds, carries, and helps purify our water. And the climate drives many of our critical functions; from the filling of our reservoirs to the ways in which our customers use water.

We are delighted that our biodiversity approach has been recognised externally, including at the Responsible Business Awards, where we were the winners of the Biodiversity Champion Award. We also won a partnership award at the Chartered Institute of Ecology and Environmental Management Awards.

Our environment cannot be taken for granted and, as such, our Strategy to be 'performance driven, sustainability led' pushes us to deliver strong performance in balance with the long-term needs of our environment – not only because it's the right thing to do, but because we see it as a fundamental opportunity to innovate, grow and create long-term value for our stakeholders.

This section of our report sets out how our positive actions will ensure a sustainable water cycle, enhance the environment, mitigate climate change and ensure we are resilient to its impact – in line with our strategic pillar to run a business that goes hand-in-hand with nature.

Our Net Zero Transition Plan and Task Force on Climate-related Financial Disclosures ('TCFD') can be found on pages 39 to 56 and 58 to 61 respectively – and are clearly labelled to aid readers of this report.

Biodiversity (number of hectares ('ha'))¹

2022/23	7,728	▲
2021/22	4,696	
2020/21	2,632	

7,728 ▲
(ODI target: 583)



Definition:
The number of hectares of land with improved biodiversity since 2020

Stakeholders:



Remuneration:





Great Big Nature Boost

In 2020, we announced our Great Big Nature Boost, one of the biggest nature projects in the UK, to boost nature across 5,000 hectares of land in our region by 2027 and to plant 1.3 million trees. We are proud to have exceeded our biodiversity target four years early, and in May 2023, we announced that we will be extending and accelerating our commitment to improve biodiversity by doubling our target to 10,000 hectares by 2025. This now means our work will account for 2% of the nation's 2042 Nature Recovery Network target.

Working with the Woodland Trust, we have planted almost 230,000 trees this year, taking us over halfway towards our 1.3 million target by 2030. This is a wonderful example of the associated benefits of our biodiversity ambitions, as these trees will also provide natural protection against the worst effects of climate change, as well as enriching the natural environment of the communities we serve.

What is our Great Big Nature Boost?

Scan or click to read more



WORLD'S FIRST NET ZERO WASTE WATER TREATMENT HUB

As part of our investment to develop the world's first net zero waste water treatment hub, working together with international partners, we were pleased to be awarded £10 million from the Ofwat Innovation Fund to deploy innovative new technologies developed in collaboration with our global partners. This innovative and collaborative project will integrate new technologies and innovations to trial at scale, providing a carbon neutral blueprint for all companies within the sector.

Being a net zero sector leader means we will be able to share our learnings globally to benefit our sector and our planet.



A YEAR ON FROM THE COMMONWEALTH GAMES

We were proud to be the Official Nature and Carbon Neutral partner of the Birmingham 2022 Commonwealth Games held in July and August 2022 – by providing critical infrastructure to the Games, with 40 water bar stations, saving almost 500,000 plastic bottles, and continuing to plant our 2,022 acre legacy forest. This activity supported the Games' ambition to be the most sustainable ever.

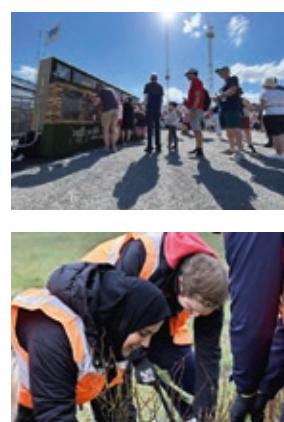
For the Birmingham 2022 Commonwealth Games Sustainability Report online

Scan or click to read more

Alongside these activities, our people, customers and communities worked together to create 72 Tiny Forests, one for each Commonwealth nation, in urban areas across our region, delivering a lasting legacy for the Commonwealth Games and creating inspiring outdoor classrooms for children to learn first hand about nature and the environment for many years to come.

Sustainability Report

Scan or click to read more



GET RIVER POSITIVE

River quality remains a critical priority for our stakeholders. Our region's river health is not just essential to the communities we serve, but also to the success of our business. We are committed to making a positive impact on the environment and recognise that, as a sector, there is more we need to do to help our region's rivers be the healthiest they can be.

In March 2022, we announced our commitment to 'Get River Positive'; establishing five river pledges. We provide an update on each of these pledges on the next page.

Through our significant investment, this year has seen us deliver significant improvements in river quality, reducing our share of RNAGS (Reasons for Not Achieving Good Status) in our region to 16%. We have reduced the number of RNAGS that Severn Trent is responsible for from 960 to 870 this year and we are committed to driving this down to zero by 2030.

We want our stakeholders to hold us to account on issues of importance to them and we published our first Get River Positive Annual Report this year, which outlines the progress we have made since the launch of our river pledges – ensuring that all of our stakeholders have access to the facts so they can form a balanced opinion.

Five industry-leading pledges to make our region's rivers the healthiest they can be, as quickly as possible

We continue to invest **£100 million a year** to improve our waste water infrastructure

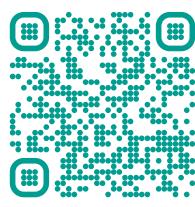
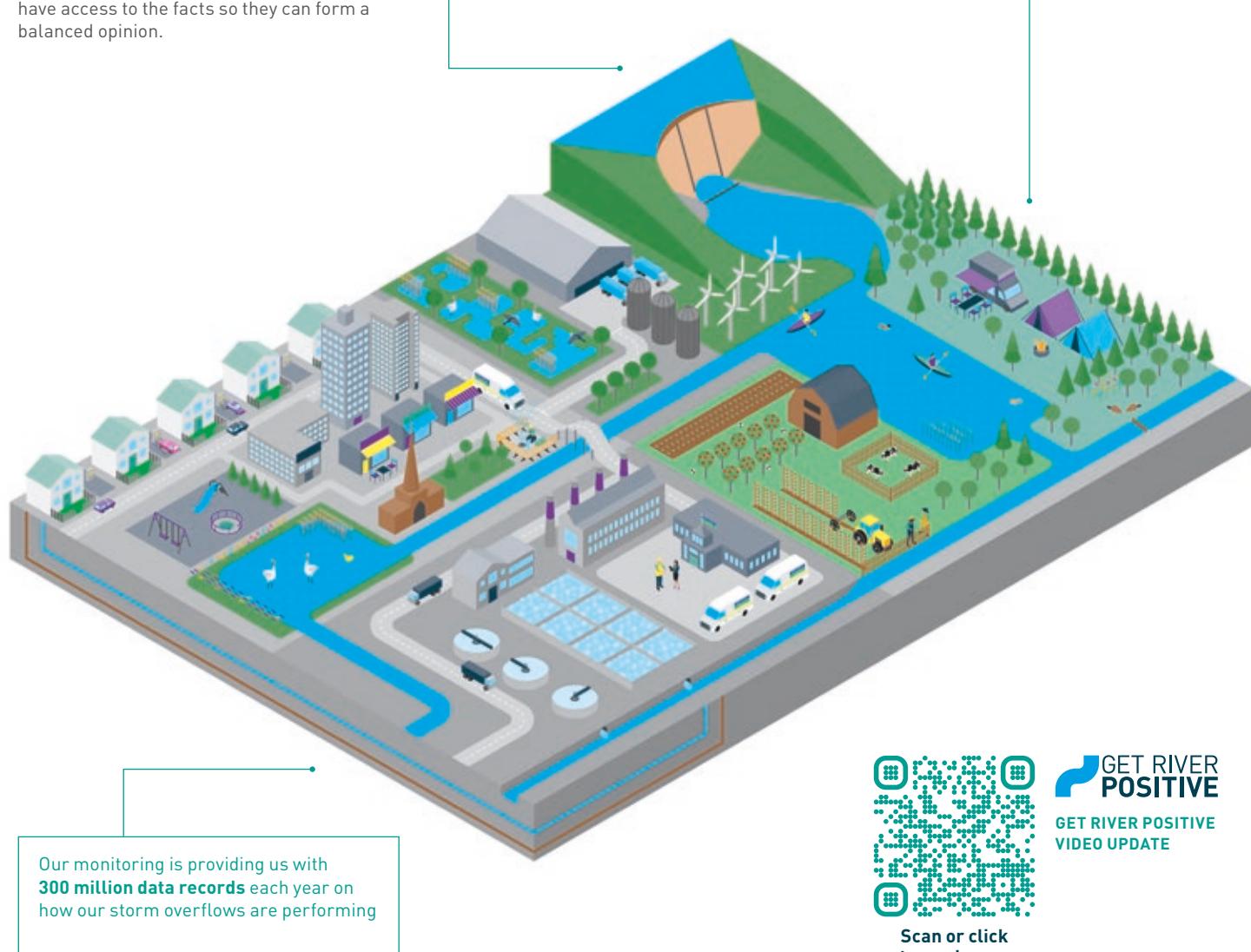
Severn Trent is currently responsible for **16% of RNAGS** in our region and this continues to reduce

Storm overflow performance in 2022 **already at 2025 target**

19 out of a possible 20 EPA stars from the EA over the last five years

Over £278,000 granted to four regional community projects benefiting rivers

Our **ten full-time River Rangers** have attended over **110 meetings**, working with our partners, environment groups and the local communities



**GET RIVER
POSITIVE**
GET RIVER POSITIVE
VIDEO UPDATE

Scan or click
to read more

**PLEDGE ONE****ENSURE STORM OVERFLOWS
AND SEWAGE TREATMENT WORKS
DO NOT HARM RIVERS****Progress in 2022/23**

We have delivered significant progress on our storm overflow performance, reducing storm overflow activations from an average of 25 to 18 per year. Our share of reasons for rivers in our region not achieving good ecological status has fallen from 24% to 16%. While this puts us well ahead of our plan, we are continuing to work hard to improve our region's rivers, both through our own activity and supporting others to improve and care for rivers too.

While some of last year's improvement can be attributed to 2022's dry summer, the majority reflect the significant capital and operational investments we have made. For example, by increasing our investment in waste water treatment screens, which remove debris from flows into our works, we have been able to expand storm tank capacity, increasing the flow through our network. This activity is also being supported by our new training river at our Academy. This new experimental asset will help train more of our teams to respond safely and effectively to potential pollution events.

**PLEDGE THREE****SUPPORT OTHERS TO IMPROVE
AND CARE FOR RIVERS****Progress in 2022/23**

We are committed to taking the lead on many of the issues our region's rivers face and to partner with others to make them the healthiest they can be. Over the last year, we have delivered a series of community roadshows, inviting customers to come along and hear about our Get River Positive plans, our Green Recovery scheme and the work we're doing to create Bathing Rivers in Warwickshire and Shropshire. To date, we have delivered eight events, attended by hundreds of people, with more scheduled in 2023/24.

While we do not own our regions' rivers, we recognise that we have an important role to play in improving river health. Our Community Fund has supported a number of community groups and charities that are as passionate as us about improving our regions' rivers – awarding over £278,000 since 2022 to brilliant projects that will have a positive impact on our regions' rivers.

We also launched our new package to promote regenerative farming practices in May 2022, with farmers in the Severn Trent region being offered matched funding of up to £30,000. To date, the package has supported 84 farmers across our region, encouraging environmentally friendly farming practices and protecting water quality.

**PLEDGE FIVE****OPEN AND TRANSPARENT
ABOUT OUR PERFORMANCE
AND OUR PLANS****Progress in 2022/23**

We have focused on improving the transparency of our reporting this year and continue to look at new ways, such as our Get River Positive Annual Report, to demonstrate our progress in a transparent way. We have Event Duration Monitors ('EDMs') on 100% of our storm overflows. These monitors record data at two or 15 minute intervals, providing us with over 300 million data records annually about how our storm overflows are performing, ensuring we are fulfilling the permit conditions as defined by the EA.

In October 2022, we established our Get River Positive Independent Advisory Panel with the objective of helping to oversee our progress against each commitment and ensure we maximise the benefits our campaigns will deliver. The Panel meets on a quarterly basis to support activity around the pledges, providing advice and recommendations, and bringing new perspectives as well as feeding in relevant national plans, programmes and policies, especially in relation to the wider environmental agenda.

**PLEDGE TWO****CREATE MORE OPPORTUNITIES
FOR EVERYONE TO ENJOY OUR
REGION'S RIVERS****Progress in 2022/23**

We have made significant progress on our £78 million Bathing Rivers Green Recovery Programme over the past twelve months. In 2022, we launched our extensive river monitoring and sampling programmes and installed 76 water quality monitors on the rivers Leam and Teme. These monitors are helping to build the best picture of current river health and provide the data we need to develop our forecasting tool for river users. We have invested in new and upgraded sewer infrastructure as well as trialling ozone disinfection technology to ensure that we continue to clean waste water to the highest possible standard.

We are also working in partnership with other stakeholders who impact river health, such as farmers, through our 'Test, Protect and Improve' programme, with the objective of educating stakeholders on the impact and prevention of faecal diseases.

**PLEDGE FOUR****ENHANCE OUR RIVERS AND CREATE NEW
HABITATS SO WILDLIFE CAN THRIVE****Progress in 2022/23**

Our dedicated River Ranger Team was established in January 2022 and since then has carried out over 3,500 riverside inspections. These additional sampling and monitoring activities provide us with further data so we can better understand the quality of rivers in our regions and inform any further action that may be required. Our River Rangers work closely with local stakeholders to build vital relationships as we all work towards the goal of making our region's rivers the healthiest they can be. Since January 2022, the Team has attended over 110 meetings with partners and environment and community groups on the subject of river health.

As part of our Community Champions scheme, every Severn Trent employee can spend two working days a year doing voluntary work to further support our Get River Positive commitments.



**Scan or click
to read more**

**GET RIVER POSITIVE
ANNUAL REPORT
MARCH 2023**

Our Green Recovery Team has launched an innovative floating wetland near our Church Wilne water treatment works in Derbyshire. This project will help pre-treat the water, whilst also improving the biodiversity of 46 hectares. Each floating wetland naturally improves the surrounding water quality of the site, encourages habitat regeneration and supports numerous birds, mammals, invertebrates and aquatic life. We have created three floating wetlands to date, with a further 27 set to be launched in 2023/24.



CARING FOR **PEOPLE** IN OUR REGION

Showing care is one of our Values and we want that to shine through whenever we meet people in our region. We know that our sector-leading performance is made possible thanks to our dedicated people. The vast majority of our people, and their friends and families, are also our customers, who live in the communities we serve.

This section of our report sets out how we are taking positive action to deliver our strategic pillar to care for people in our region.

Helping our own people to thrive

Our people are fundamental to taking care of one of life's essentials and we believe our culture is what makes us special. Our teams are passionate about the positive role they can play in helping customers and communities thrive and they want an environment where everyone can feel comfortable to bring their whole self to work. You can read more about how we have listened to and engaged with our colleagues on page 89 to 90.

Keeping our people safe and well

We believe passionately that no one should be hurt or made unwell by what we do, and our people have done a great job of keeping themselves, and those around them safe, with a total of 16 Lost Time Incidents ('LTIs') this year (2021/22: 19), our best ever performance.

Though 16 of our colleagues getting hurt while working is still too many, since we refreshed our strategy in 2018/19, we have seen consecutive year-on-year improvements, giving us confidence that our strategy will continue to drive improvements in our future performance.

Employee support

We continue to raise awareness of the different types of support available to employees. Over the last few years, we have trained over 2,570 of our employees in some form of Mental Health First Aid, and 36% of our current workforce have received mental health training. We now have over 390 active Mental Health First Aiders and Champions, who wear a yellow lanyard to be easily identifiable and available to provide in-the-moment support. Our series of mental health podcasts have also kept discussions going and encouraged us all to keep talking.

We recognise that in-house support may not be the right answer for everyone, and as such we continue to promote the support available via our Employee Assistance Programme ('EAP'). This is a service provided by Vita Health, available 24 hours a day for emotional, legal or career support. It is also available to spouses or partners, and any dependants between the ages of 16 and 25.

We are mindful of the effect that the increasing cost of living is having on our employees, and we continue to do everything we can to help support our people. See our graphic on page 24 for more information. At our annual leadership event held at Tittesworth Reservoir

in September, we reminded all of our leaders and team managers of the extensive range of free benefits that are available to all employees. We were delighted to offer two new all-employee benefits during 2022. The first, launched in October, was our partnership with Seniorcare by Lottie, which provides free support in sourcing care for elderly or disabled family members.

The second, launched in November, provides employees with a discount on nursery fees with Busy Bees nurseries, the UK's largest nursery company, where employees can receive a 10% discount on fees, equating to a saving of more than £1,000 a year based on a child in full-time nursery care.



HAWKSLEY PARK – NEW EXPERIENTIAL TRAINING ASSETS

In March 2023, the Academy introduced two new experiential training assets: Hawksley House and the River Bown. These are a 'training house' and 'training river' which represent the assets, customers and environment we interact with and influence every day.

Hawksley House enables us to train our people in a 'real-life' environment. We want learners to increase their curiosity on detecting leaks, show courage and care when interacting with customers and take pride in knowing every potential aspect of leakage has been investigated and resolved for our customers.

Training on the River Bown involves a range of scenarios across water treatment, waste water recycling and water networks. The scenarios are based on a range of real-life experiences with the intention of making sure learners understand the impact of their actions, the importance of following procedures and undertaking problem solving, all while under the pressure of an event. The River Bown facility also deepens employees' personal connections with the rivers we protect.

Listening to our people

Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture, and we are always looking for new and different ways for the Board to engage with employees from across the business. You can read about how we have engaged with our employees throughout the year in our dedicated stakeholder engagement section entitled 'Engagement in Action – Our colleagues', on pages 89 to 90.

Developing our people

Our Academy opened in February 2021, supporting our ambition to be a socially purposeful company in all that we do, giving back to the communities we live and work in, and providing opportunities for people to learn, develop and retrain with us in our industry. During the past year, over 22,700 learners have passed through its doors and we have hosted 765 learning events generating over 56,000 learning hours at our Academy. We have delivered over 71,000 hours against our 100,000 free employability training hours target by face-to-face and virtual delivery and self serve online platforms. We have supported 17,900 people in our community and delivered 583 events.

We recognise that everyone learns in different ways and that is why the Academy goes beyond classroom learning, using a combination of the latest technology, including virtual reality, simulation and online learning.

As part of our Academy offering, we also facilitate mentoring and coaching, helping employees develop or giving them the chance to help develop others. We remain one of only three water companies who are fully accredited as an employer apprenticeship provider, meaning we can deliver our own in-house apprenticeship pathways for waste and water treatment and water networks.

Future Leaders Programme

Our six-month Future Leaders Programme is designed to help those who do not have line management experience develop their skills in a practical way so they can move into their first manager role within twelve months of completing the programme. Since its launch in July 2021, 112 colleagues have completed the programme, 80 of those having done so this year, with 38% having already been promoted to a line management position.

New Manager Induction Pathway

Throughout the year, our wonderful team at the Academy developed a digital pathway for new managers, helping to guide them through their first 100 days. It breaks down all they need to know into five headings: team; health safety and wellbeing; systems; performance; and process. The pathways link together learning content from across the business so that new managers have a single point of reference. The pathway is automatically assigned to new managers when they start and is available to all managers regardless of their tenure with the Company.

Senior Management Development

Having assessed the collective strengths and development areas of our Senior Management Team ('SMT'), we have been hosting a series of masterclasses as part of our SMT Development Pathway. These sessions focus on a range of areas including: regulation; sustainability; financial management; coaching; and personal growth and development. The masterclass approach, run by SMT members for their peers, has received positive feedback.

Employee engagement (QUEST) (score out of 10)

2022/23	8.4	
2021/22	8.2	
2020/21	8.3	

8.4

Top 5% of energy and utility companies globally

Definition:

Our internal staff survey

Stakeholders:



Remuneration:

N/A

Lost Time Incidents ('LTIs') (per 100,000 hours worked)

2022/23	0.11	
2021/22	0.14	
2020/21	0.16	

0.11

(ABS target: 0.15)

Definition:

The number of employees unable to work due to injury or illness from their job

Stakeholders:



Remuneration:





Elective Treatment Fund

"I am currently recovering from an operation where my right hip and part of my femur were replaced. After years of hospital visits and osteopath treatment to address the rotation problems associated with the misalignment, I was advised that a hip replacement and realignment would be required due to a rapid deterioration of the joint. The route for treatment involved a four-year waiting list. I applied for the elective treatment fund for private treatment and was supported by Severn Trent through a 50% contribution to my overall cost of treatment. Everyone involved was so supportive throughout, which was a huge help. I am now pain free and recovering, so to get this done so quickly is life changing and will improve my quality of life and that of my family no end."



Elephant Talk Podcasts

Our Elephant Talk Podcasts have covered a variety of topics associated with mental wellbeing, including recovery, living with someone with mental ill health and the link between physical and mental health. Colleagues have told us how useful and informative they find these episodes.

"As an avid podcast listener, this was brilliant, with fantastic personal contributions from senior management. It's great to know you're not alone; there is help and support available."

"A really honest and helpful podcast to help understand signs of mental ill health and some of the proactive things we can do to keep well. Thank you."



Eldercare Support

My mum had recently been in hospital after a suspected mini stroke. Mum lives alone and is assisted with the support of home adaptations. Mum had been offered a re-enablement package, for a set amount of time; however, I wanted to consider the possibility of home care support and care home support after the re-enablement package had expired. A big thank you to the team for the support they have given me and the speedy advice whenever it was needed. Without this, I would have been lost. Many thanks."



YuLife Wellbeing App

YuLife is a great way of driving wellbeing behaviours while earning rewards. Whether it's via steps or meditation, it's good for you and you get rewarded for doing it!

"I've really loved the meditation sessions on YuLife. It's become part of my daily routine to the extent that I actually feel myself relaxing just opening the app".

"The other brilliant part of the app is that I have managed to get three vouchers to spend on myself by earning YuCoins for completing daily challenges, which is a massive benefit with the current cost of living."

"I've been using the app since it was launched. I love all the challenges and, as a keen runner training for the marathon I use the walking challenges a lot. I also try to meditate daily and love how easy it is to access meditation in the app. My kids often join me in the morning, and we do a short meditation which is a nice way to start the day."

Wonderfully You – providing a diverse and inclusive place to work

At Severn Trent, we celebrate diversity and inclusion, and embrace individuals' contributions, no matter what their age, gender, race, ethnicity, disability, sexual orientation, social background, religion or belief. Having a culture that enables individuals to truly be themselves is a vital part of our future success.

Our Diversity and Inclusion ('D&I') strategy is included within our Sustainability Framework under the 'Helping people to thrive' pillar. In September 2021, we launched 'Wonderfully You', our D&I ambition to ensure we continue to reflect the communities we serve.

Success means we can feel comfortable that we are tapping into every available talent pool in our community, and that we can best serve our customers because we understand their needs. Our plans to achieve that include widening our outreach programmes so that we attract more applications from under-represented groups, breaking down some of the historical stereotypes that might prevent people from considering certain career paths, and making sure that we have a level playing field at the selection stage.

Our ambition for inclusion is to develop and maintain a fair working environment where everyone can succeed. We measure our progress through our annual engagement survey and monitor the parity or disparity between different ethnicities and genders. Reverse mentoring and our Employee Advisory Groups have also helped to give our employees a voice across the organisation so that we can educate each other about our differences and have a say in our company policies and procedures.

Over the last year, we have continued to champion the voices of colleagues from diverse backgrounds, in part through our four Employee Advisory Groups for LGBTQ+, Ethnicity, Disability, and Women in STEM and Operations. You can read more about their achievements throughout the year on pages 26 to 27.

We are proud of our track record on gender diversity, and we were delighted that Severn Trent was recognised as a Top 3 FTSE100 company for representation of women on the Board in the FTSE Women Leaders Review 2023. Following our announcement that Helen Miles would succeed James Bowling as CFO effective 6 July 2023, Severn Trent will become the first company in the FTSE100 to have a female Chair, CEO and CFO.

As at 31 March 2023, our Executive Team comprised three female and six male members (33% and 67% respectively). 19 members (39%) of our senior leaders were female and 30 were male (61%). Female representation in the Group was 29% (2,290 women), with male representation at 71% (5,649 men). Five members of our Board were female (56%) and four were male (44%). The table below sets out a gender breakdown of Directors, senior managers (as defined in the 2018 UK Corporate Governance Code and Companies Act 2006) and employees of the Company as at 31 March 2023.

Our November 2022 employee engagement survey results (8.4) showed that we are still well ahead of benchmark on both engagement (+1.0 on global benchmark – putting us in the top 5% of energy and utilities companies) and our equality score (9.0) (+1.0 on global benchmark – putting us in the top 10% of energy and utilities companies). Females now score higher than males, at 8.5 compared to 8.4, but we have work to do on minority ethnic inclusion parity where there is still a gap.



'WONDERFULLY YOU' OUR DIVERSITY AND INCLUSION STRATEGY

[Scan or click to read more](#)



GENDER AND ETHNICITY PAY GAP REPORT

[Scan or click to read more](#)

Gender representation as at 31 March 2023

	Directors	Senior Leaders	Graduates and Apprentices	All Employees
	Number	%	Number	%
Male	4	44	30	61
Female	5	56	19	39

Ethnicity representation as at 31 March 2023

	Directors	Senior Leaders	Graduates and Apprentices	All Employees
	Number	%	Number	%
White British or other White (including minority-white groups)	7	78	44	90
Mixed/Multiple Ethnic Groups	1	11	-	-
Asian/Asian British	1	11	3	6
Black/African/Caribbean/ Black British	-	-	-	-
Other ethnic group	-	-	-	-
Not specified/prefer not to say	-	-	2	4



DISABILITY

2022/23 Highlights

- Quiet spaces introduced across many of our most populated sites to benefit neurodiverse colleagues.
- Neurodiversity Networking Event Hosted (see case study on the right).
- Neurodiversity Training Course.
- Pan Disability Job Fair with Sense.
- Introduced recruitment 'super-users' to ensure candidates who flag that they have a disability are given appropriate adjustments through the recruitment process, producing supportive guides on a range of topics, including Neurodiversity, Workplace Adjustment Passports, Being a Carer and much more.
- Achieved Disability Confident Level Two in April 2022 and are building a plan to reach Level Three 'Disability Leader' status in 2023.
- Partnership with the Business Disability Forum, which advises on best practice and provides an external lens to what we do.

“ ”

The Disability Advisory Group has a critical role to play within Severn Trent. It's estimated that 20% of people in the UK have a disability and many are unemployed. We're looking to build a truly inclusive culture towards disability and other health conditions, **removing barriers to allow every colleague to fulfil their potential and be their true, authentic self at Severn Trent.**

” ”

Shane Anderson
Director of Strategy and Regulation



NEURODIVERSITY NETWORKING EVENT

As more and more people become aware of neurodivergent traits in themselves, their family, and friends, it's increasingly important that we improve our understanding of neurodiversity, too. It's thought that at least 15% of the UK's population are neurodivergent.

In 2022, we hosted our first ever Neurodiversity Networking Event to help increase the visibility of neurodiversity in our business and promote a better understanding of different neurodiverse conditions. The event was open to all colleagues as we want everyone to feel positive, empowered and able to bring their whole selves to work.

Following the huge success of the event, led by the Disability Advisory Group, a neurodiversity training programme was launched in March 2023, in partnership with our Academy, and so far over 350 colleagues have attended these sessions.



WOMEN IN STEM AND OPERATIONS

2022/23 Highlights

- Continued to improve our Personal Protective Equipment offer for women in the business.
- Supported Career Discovery Days for women to enhance their skills and 'Mentor Me' to utilise the benefits of mentoring to support technical development and career growth of women in STEM roles.
- Highlighted topics like menopause, cervical cancer and endometriosis through awareness sessions and educational comms.



WOMEN IN WATER TREATMENT –
SCAN OR CLICK TO READ MORE

- Engagement with colleagues to seek feedback on our maternity, paternity and flexible working policies. Shared outcomes with our HR policy colleagues to identify opportunities for improvement, including introducing new family friendly policies such as fertility treatment and IVF support, neonatal care, and emergency grandparental leave.
- Hosting informative events for International Women's Day and International Women in Engineering Day.
- Introduced 'The Pathway Podcast' shining a light on some of our women colleagues' career pathways.
- In the FTSE Women Leaders Review, we ranked 3rd for Women on Boards and 21st for Senior Leadership.

” ”

At Severn Trent, we are passionate about everybody bringing their whole selves to work and particularly diversity in gender. Through our Women in STEM and Ops Advisory Group, we are absolutely committed to working together to open up opportunities and support our colleagues. **We all have a role to play in encouraging diversity across our whole workplace.**

Helen Miles
Chief Financial Officer Designate



ETHNICITY

2022/23 Highlights

- New Chair appointed, setting out the ongoing strategy for the Group.
- Redefined mission statement.
- Focus on Black History Month in October 2022, including interviews with colleagues across the Group talking all about what Black History Month means to them and the business.
- All employees were invited to attend a Lunch and Learn with the Ethnicity Advisory Group, discussing 'Positive Discrimination'.
- Interviews made available to all employees on the importance of Black History Month.
- Broadening our employees' experience of different cultures through initiatives such as expanding the menu choices available at our canteens.
- Signed Severn Trent up to Race Equality Matters Race.
- Participated in Race Equality Week.

“

We are determined to create a culture where every colleague trusts they are equal, respected and included at Severn Trent regardless of their cultural heritage, social background and beliefs; and where we don't get it right, we are willing to learn, grow and be accepting of individual differences.

”

James Jesic
Capital and Commercial Services Director

We are pleased to have been recognised externally in several indices for the progress that we have made:



2023 BLOOMBERG GENDER-EQUALITY INDEX

74%

Tortoise[®]

Ranked 14th on Equality in the Tortoise Responsibility100 Index



STONEWALL WORKPLACE EQUALITY INDEX

23rd

(up from 40th in 2022) – highest ranking water company and utility company

2022/23

23rd

2021/22

40th

2020/21

175th



SOCIAL MOBILITY EMPLOYER INDEX

5th

Ranked 5th in the Social Mobility Employer Index

2022/23

5th

2021/22

5th

2020/21

8th



LGBTQ+

2022/23 Highlights

- Focus on representing Birmingham Pride and supporting Pride Month across our sites with activities held at Raynesway, Pride Park, Shelton, Wrexham and STC.
- We have seen solid and sustainable progress in our Stonewall ranking, from 414th in 2018 to 23rd this year, which is an

amazing result and means we are now a top 25 employer.

- Continuation of work with Stonewall to help Severn Trent become a truly LGBTQ+ inclusive place to work.

“

We're here to let all our LGBTQ+ colleagues and communities know they're not alone. We believe we're stronger united and want to create real change for the better. **We want to be the most LGBTQ+ diverse and inclusive business, and create a proud and inclusive culture for our employees, customers and community.**

”

James Bowling
Chief Financial Officer



Attracting and retaining diverse talent

An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Our successful in-house recruitment model has proven beneficial, enabling us to continue to attract and retain quality talent. Our team of in-house recruiters is able to work directly with candidates, demonstrating our Purpose and culture first hand and attracting individuals who embody our Values. It has also ensured that our D&I ambitions remain a priority.

Long term, one of our greatest opportunities to improve diversity is through our New Talent Programmes. While not all of our graduates and apprentices come straight from school, our work in schools and colleges is helping to improve the diversity of our intakes. 24.5% of our apprenticeship intake for 2022 were individuals from an ethnic minority background, almost double that of our last intake.



APPRENTICESHIPS

Scan or click to read more

Applications opened in 2023 for our biggest ever intake of 210 apprentices, with roles available right across our region, ranging from level two (equivalent to GCSEs) to level seven (equivalent to a degree) apprenticeships available in Operations, Commercial, HR, Customer Service, Business Administration and Engineering.

Once our apprentices have successfully passed the programme, they're guaranteed a permanent role with us. Jade Pearson, our New Talent Lead, said: "We're really proud of the continual growth of our apprenticeship programme, creating opportunities for people in our communities to gain the skills and knowledge that will lead them into a meaningful career and helping us deliver the best service and outcome for our customers and the environment".

Since 2014, over 590 apprentices have joined us at Severn Trent and 82% of these individuals are still with us.

Our #10000BlackInterns programme was a huge success last year, with 61 placements and 44% of those gaining employment following their placement with us.

In 2021, we announced that we had embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16-to-24 year-olds into employment with paid work experience and skills development. We are delighted that over 340 individuals chose to join us, 106 of which went on to gain full time employment with us. Of those 106 individuals, 69% are still with us at Severn Trent.

Fairly rewarding our people

We have been working hard to create a consistent framework which includes transparent pay ranges to support us in measuring our fair pay processes.

In November 2022, we published our Gender and Ethnicity Pay Gap Report, highlighting a slight increase in the median gender pay gap between women and men, the first increase since we began publishing our report. The report shows a median pay gap of 9.4%, up from 9.1% in 2021/22, as it continues to be positively impacted by a high proportion of women within our management and senior management roles.

At the same time, there has been a decrease in the mean gender pay gap from 3.8% to 2.9%, mainly due to small changes within our executive population. Severn Trent is proud to have such strong female representation throughout our Senior Management Team. We believe we have created an environment where women can thrive, develop their careers and act as role models to others looking to join the industry.

Our total number of employees grew by 3.6%, with the number of women growing by 3.7%, and men by 3.5%. As the fastest growing quartiles were upper quartile for women, and the upper middle quartile for men; this also contributed to the lower mean gender pay gap this year.

After five years of publishing our gender pay gap data, we are delighted to have published our very first combined Gender and Ethnicity Pay Gap Report in November 2022. Our ethnicity pay gap information sets out that our median gap is 4.1% and our mean gap is 5.7%. Around 94% of our employees have shared their ethnicity information and we continue to actively encourage all employees to share their data.

The full Gender and Ethnicity Pay Gap Report can be found on the Severn Trent Plc website and further information regarding employee pay can be found in our Directors' Remuneration Report on pages 141 to 163.

All of our employees have the opportunity to become part-owners of the Company through our popular Sharesave Scheme and an amazing 73.4% (5,710 employees) participate across all schemes, with 26.1% of participants saving the maximum of £500 per month across all schemes.



Remuneration: The Company Remuneration section, in the Directors' Remuneration Report, sets out the steps we take to make sure that our pay and reward framework, below Executive and senior management, is transparent in a way that is meaningful and useful for stakeholders. You can read more on pages 141 to 163.



WELCOME TO OUR 2022 EMPLOYABILITY INTERNS!

We are thrilled to have welcomed five new interns in September from Hereward College and Derwen College, to gain work experience and help develop their employability skills, whilst they complete their studies at college. These important partnerships enable us to support students with Special Educational Needs and Disabilities, and make a huge difference to students' futures. Around 16% of the working age population have a disability and the proportion of adults with a learning disability in paid employment has decreased over time, from 6.0% in 2014/15 to a low of 5.1% in 2020/21.



CIPD AWARDS

We are proud to have been recognised for our work by winning last year's CIPD People Management Awards for 'Best Employee Experience', which included entrants from a range of high-profile organisations in the UK. We are also pleased to benchmark highly in the Tortoise Responsibility100 Index across a range of employee-focused measures, ranking first in the 'Good Business' measures.

A FORCE FOR GOOD FOR CUSTOMERS

To be truly impactful in our communities, we need to help more of our customers who need support today.

Our average combined bill for the year – around £1 a day – remains one of the lowest in the country, and we will continue to offer one of the lowest bills in AMP7. Even though our bills are low, some customers have difficulty paying and we make it clear to our customers that we don't want anyone to struggle to pay.

In May 2022, we announced a new £30 million affordability package allowing us to help a further 100,000 people to reduce their water bill by up to 90% through our social tariff. In August 2022 we simplified the qualifying criteria and raised the household income threshold from £16,480 to £18,278. By 2025, our financial support schemes will be supporting about 315,000 or 6% of our customers, in line with the number of customers assessed as living in water poverty in our region. We are on track to support an additional 315,000 customers with 237,069 customers benefiting from support on their bills already.

The graphic on page 30 brings to life the many support initiatives we have in place for our customers and wider communities.



2022 ESG INITIATIVE OF THE YEAR – CHARTERED GOVERNANCE INSTITUTE



SUPPORTING VULNERABLE CUSTOMERS

We now have more than 7.7% of our customers signed up to our Priority Services Register ('PSR'), an increase of 35% on the prior year. Our PSR ensures those who need additional support are prioritised during an incident so we can provide them with bespoke communication and a personalised service.

Engaging hard-to-reach, vulnerable customers

We continue to use innovation to support our customers who are struggling. We have been working with the Consumer Council for Water and three other companies on the Ofwat Innovation Fund project 'Supporting customers in vulnerable circumstances'. The pilot used behavioural science to improve engagement and, in December 2022, we launched the 'Engaging hard-to-reach, vulnerable customers' playbook to the sector, setting out our learnings. This is aimed at those who might not have the language or capabilities to contact us in a time of crisis when they need support.



[Scan or click to read more](#)

Help to Pay When You Need It (% of customers)¹

2022/23	52	▲
---------	----	---

2021/22	48	
---------	----	--

2020/21	35	
---------	----	--

52% ▲

(ODI target: 42%)



Definition:

Percentage of our customers who need our support that are part of one of our affordability schemes

Stakeholders:



Remuneration: N/A

We are improving accessibility

We are focused on being there for our customers – 24 hours a day, seven days a week – through whatever channel they choose. Throughout the year, we have continued to improve our online platform to ensure our digital offer continues to meet our customers' changing needs and provide the best experience possible for them. Earlier in the year, we introduced the capability to allow our customers to switch to a meter via our website and, since October 2022, over 10,000 customers have used this service.

We have continued our focus on improving the content and the design of our website to make the customer journey smoother.



[Read more: How we engage with our customers on page 88.](#)

Value for money (% score)¹

2022/23	64	▼
---------	----	---

2021/22	65	
---------	----	--

2020/21	67	
---------	----	--

64% ▲

(ODI target: 63.5%)



Definition:

Our customers' view of value for money, measured by a quarterly survey

Stakeholders:



Remuneration: N/A

Priority Services Register ('PSR') (% of customers)¹

2022/23	7.7	▲
---------	-----	---

2021/22	5.7	
---------	-----	--

2020/21	2.6	
---------	-----	--

7.7% ▲

(ODI target: 7.3%)



Definition:

Percentage of our customers that require bespoke support during incidents that are signed up to our PSR

Stakeholders:



Remuneration: N/A

SUPPORT FOR OUR CUSTOMERS AND COMMUNITIES



Scan or click to read more

INVESTMENT AND JOB CREATION

- Real Living Wage for Severn Trent and supply chain staff
- Green Recovery targeted on deprived areas
- Over 3,000 Green Recovery jobs



SUPPORTING OUR COMMUNITIES

- Over £2 million donated through our Community Fund this year

116

projects supported through our Community Fund this year



SOCIETAL STRATEGY, TRAINING AND EDUCATION

- 340 Kickstarters since launch
- Pop-up hubs
- Hawksley Park Academy
- Work experience in socially-deprived areas
- 263 apprentices and graduates this year
- 61 #10000BlackInterns placements over the summer
- Lessons in 140 schools



NATIONAL SUPPORT SCHEMES

- WaterDirect
- WaterSure
- Free meter switching
- Auto-enrolment during COVID-19
- Water efficiency checks
- Priority Services Register

DIRECT SUPPORT FOR CUSTOMERS

- Big Difference Scheme
- Free repairs of burst private pipes for vulnerable customers
- Payment plan concessions
- Payment breaks
- Matching plus arrears support
- New customer journeys for late payers
- Care Leavers Scheme

132,296
customers

helped this year through our
Big Difference Scheme

WORKING WITH PARTNERS

- Proactively identifying customers in need with local authorities
- Proactively identifying customers in need with the Department for Work and Pensions
- Visiting foodbanks, community centres and outreach centres
- Bringing together agencies
- Working with Kidney Care UK
- Household Support Fund

CREATING OPPORTUNITIES IN OUR COMMUNITIES

Improving employability

We care deeply about our communities and as a large employer we have a key role to play in skills regeneration in our region. We are now just over a year into our two-year commitment of offering 100,000 hours of free employability support in our communities.

Providing a variety of entry routes into our organisation is an important part of our employability strategy. For example, our New Talent Programmes provide an opportunity and structure for individuals at the start of their career or who wish to change career to gain skills for life that will lead them into a highly skilled, well-paid career. This year we have created our largest and most diverse range of programmes, including 210 apprenticeships and 53 graduate roles. This is reflected in the range of individuals that apply for our programmes, including our highest number of under 18s, a broader range of mature apprentices, and internal colleagues who wish to pursue a different career.

We recognise the importance of reflecting the communities we serve and we are really encouraged to see that 33% of our new talent has joined us from social mobility cold spots this year.

We know the main causes of water poverty are unemployment and low-paid work, both of which can be prevented through meaningful work experience. Equipping young people with work experience reduces the likelihood of a young person becoming NEET ('Not in Education, Employment, or Training') from 26.1% to 4.3%. This is why it is important for us, as a large socially purposeful employer, to continue to create and broaden the types of work experience placements we offer. We have revamped our employability offer from school age through to university. Our overarching ambition is that as students get closer to the job market, we transition them through from inspiration to attraction onto one of our new talent programmes, building a pipeline of diverse talent now and for the future.



A YEAR OF RIVER RANGERS

Our team of River Rangers celebrated their first anniversary in their role, dedicated to protecting rivers in Coventry and Warwickshire.

The team of ten rangers covers the Severn Trent region and works closely with partners to focus on improving river health and boosting biodiversity along stretches of the Midlands' rivers.

As well as educating customers to prevent wipes and sanitary products from reaching rivers, the team carries out vital operational, monitoring and sampling activities that inform our understanding of the contributors to river quality and what's needed to protect and improve them.

In addition to our River Ranger Team, we launched our Get River Positive river pledges in March 2022 to provide a clear and actionable response to calls for a revival of rivers in England.

We have committed that, by 2030, our operations will not be the reason for any stretch of river in our region to be classified as unhealthy. Severn Trent is currently responsible for 16% of reasons for rivers in our region not achieving good ecological status. We are working in partnership with the other parties contributing to the 84% to address this important issue.

To date we have delivered just over:

40,000 hours
of training and
20,000 hours
of employment experience.



OUR SOCIETAL STRATEGY

On 22 November 2022, we launched our Societal Strategy, with the objective of helping **up to 100,000 people in our region, giving them improved chances in life and tackling the underlying causes of poverty**. Our ten-year plan is a huge undertaking, and we are passionate about helping households across our region and will achieve this by working closely with communities and partner organisations.

SOCIETAL STRATEGY AMBITION:

By 2032, we want to give 100,000 people in, or at risk of, poverty the tools to improve their life chances, through access to high-quality employment-related training and career opportunities.



Our Societal Strategy will see us: working with schools to provide 300 work experience placements for children and delivering 10,000 hours of free skills training and employability training in the first year in communities and schools to support individuals into their first job, or back in to work; and embedding ourselves directly within communities through pop-up learning and support hubs, which will take over unused retail spaces and community hubs. Our Societal Strategy is supported by a network of local partnerships in areas with high deprivation.



MEANINGFUL WORK EXPERIENCE

We increased the number of placements to 300 and developed new work experience opportunities. Young people can choose between a traditional work experience week or to join a Discovery Day. Run at our Academy or Head Office, Discovery Days allow school groups to come and meet a range of departments and take part in workshops and group projects. Working with new partner schools in East Birmingham and Derby, meaningful work experience further consolidates and brings to life the employability skills training that the pupils receive in schools as part of our new schools offer.



EMPLOYABILITY TRAINING IN SCHOOLS

We developed a new bespoke schools offer and set up new partnerships with eight secondary schools in East Birmingham and three in Derby.

We go into large, inner city schools and take over a year group for a day to deliver employability skills and training sessions to hundreds of young people. The multi-year partnerships mean we will be able to interact with pupils at different stages of their school career.



ACADEMY POP-UPS

We are working with community groups in East Birmingham and Derby to 'pop-up' with our free employability skills training.

We run training sessions for people out of work or looking for a change; supporting people to grow their confidence and explore career opportunities.

We link the training sessions with access to advice on available affordability support and, in Derby, current open roles at Severn Trent.

MENTORING YOUNG PEOPLE IN PRISON

In parallel with our place-based approach in East Birmingham and Derby, we are working with a specific group of young people not in NEET.

In partnership with charity Trailblazers, Severn Trent staff will mentor young people weekly for their last six months in prison and up to twelve months post-release in the community. This work complements our existing work with NEETs, such as our apprentice and internship offer.



COMMUNITY FUND

In our 2020-25 business plan, we pledged to create a new Severn Trent Community Fund that donates 1% of Severn Trent Water's annual profits after tax (more than £10 million over five years) to good causes in our region.

£2m

1m

In 2022/23, the Fund has awarded over £2 million, benefitting over 1 million Severn Trent customers.

682

£7.6m

Since the Fund's inception, a total of 682 organisations have received over £7.6 million



Scan or click to read more

SUPPORTING OUR SUPPLIERS TO BE THE BEST THEY CAN BE

We believe that businesses with a strong social purpose can deliver better and more sustainable outcomes for all stakeholders over the long term. Valued partnerships and collaboration with our supply chain are an essential part of this, and we want everyone to support us in taking care of our customers, communities, colleagues and the environment around us.

Fair pay and working conditions

We are proud to be an accredited Living Wage Employer. We also contractually require suppliers to sign up to the real Living Wage.

We are signatories of the Prompt Payment Code and are committed to paying suppliers on time and giving clear guidance on payment terms. We aim to pay 95% of our small suppliers within 30 days, in line with the Prompt Payment Code. For the payment practices reporting period ended 31 March 2023, the average time to pay for Severn Trent Water Limited was 31 days.

 **Suppliers:** Read more about our engagement with our suppliers on page 93



OUR COMMITMENT TO SUSTAINABLE PROCUREMENT

In May 2023, we published our first Sustainable Procurement Statement setting out our formal commitment to embedding sustainability through procurement and supplier management, outlining our commitments, priorities, drivers and enablers, and our ambitions for the year ahead.



Scan or click to read more



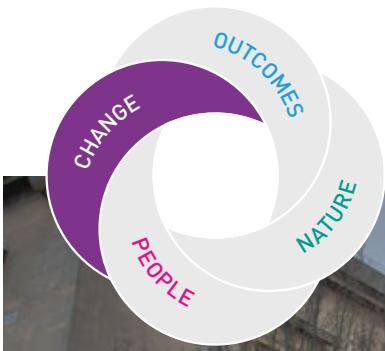
Chartered Institute of
Procurement & Supply

The first English (Severn Trent Water) and Welsh (Hafren Dyfrdwy) regulated water companies to be awarded the

CIPS Procurement Excellence Standard Accreditation

CDP

Supplier Engagement Leader for 2022



A DRIVER OF POSITIVE CHANGE

The world we operate in and the needs of our customers and society continuously change. **We seek to embrace the challenges and opportunities this presents, not only driving change in what we do, but also acting as a catalyst in our sector, our region and within the homes of the people we serve.**

This section of our report sets out how we are taking action to deliver our strategic pillar to be a driver of positive change, setting out our progress against our Green Recovery Programme.

HOW WE ARE DRIVING POSITIVE CHANGE:



CUSTOMER DEMAND

– Page 16



GET RIVER POSITIVE

– Pages 20 to 21



NET ZERO HUB CASE STUDY

– Page 19



SOCIETAL STRATEGY

– Page 32



DIVERSITY AND INCLUSION

– Page 10



BIN THE WIPE CAMPAIGN

– Page 17

GREEN RECOVERY PROGRAMME

PROGRESS UPDATE

In July 2021, Ofwat approved our proposal to invest £566 million (2017/18 prices) in our ambitious Green Recovery programme, providing a great opportunity to support our sustainability ambitions. Two years on, our Green Recovery projects are progressing well. As well as delivering fantastic benefits for customers and the environment, this activity is also informing our future plans – particularly on scale deployment of innovative schemes, which are being shared with the wider sector.



GREEN RECOVERY REPORT

Our dedicated Green Recovery Report will be available on our website stwater.co.uk/regulatory-library in July 2023.

Scan or click to read more



1. BATHING RIVERS

Our Goal

Install ozone effluent disinfection at three sewage treatment works, and build new storage and sewer capacity to reduce the environmental impact of around 25 storm overflows in order to:

- improve the water quality on stretches of the River Leam and River Teme;
- pass on what we learn to other organisations as part of our efforts to understand what it takes to achieve, and to ensure the UK's rivers can achieve, 'good ecological status'; and
- create more leisure opportunities and improve wellbeing, and deliver environmental benefits, which includes enhanced biodiversity and healthier aquatic life.

We will also develop new ways of communicating with river users so that they understand river water quality in real time.

Our progress

We have installed 76 monitors along the River Leam and Teme, providing an accurate and detailed picture of wider river health. Alongside this activity, we have engaged with more than 180 community stakeholders, held four focus groups, delivered two roadshows and published two bathing rivers newsletters.

We're working on establishing our UK-first ozone treatment processes at three of our waste water treatment works. Ozone is a proven technology in drinking water treatment, helping remove micro-pollutants; pesticides, and breaking down heavy metals such as iron.

To understand the best mix of solutions, we've also revived the drainage catchments. This helps us identify what combination of sewer separation, sustainable draining, network capacity and tank storage will give the best outcome in the round for river health.

Bathing Rivers Virtual Room

We launched our Bathing Rivers Virtual Room. This is a page for the public to get project information and activity updates. Since launch, it has had over 1,200 views.

<https://creatingbathingrivers.co.uk/>



2. SECURING OUR WATER

Our Goal

Increase water supplies by up to 93 Ml/d – enough to serve a city the size of Derby. We'll do this with a reduced carbon impact, and let other companies know how we're doing it, supporting the water sector's aim to be net zero by 2030.

All this extra water supply will increase our resilience to hotter, drier summers and wetter winters, securing water resources for future generations. Plus, our work will increase the biodiversity of 46 hectares of habitat at our Witches Oak site.

Our progress

We have made brilliant progress on several key elements linked to securing water supplies for our customers in a carbon efficient way.

Floating wetlands

The floating wetlands are a series of structures that are pre-assembled on the shoreline and floated out onto specific positions within each lake. These are planted with specialised media and high root density plants, designed to capture and biologically remove key pollutants found within the river. They have strong yet dynamic anchoring systems, allowing them to have long life spans while withstanding the rigours of a high water table site.

The first three of our floating wetlands were installed and floated in December 2022. We have been using these as a trial before launching the remaining 27 structures during 2023.

Pilot plant

During the year we have constructed our pilot plant using innovative ceramic membrane. One of the key purposes of the pilot plant is to optimise the operation of the works in real time, including chemical optimisation so that we can operate the new Witches Oak site in the most low-carbon way. This will also enable us to test the limits of the system prior to the mains works putting water into supply from the new treatment works.

Witches Oak water treatment works

Our construction of the new Witches Oak water treatment works is well underway. Planning permission has been granted, and the site has been set up. The piling and pouring of concrete for the ceramic membrane has started and is progressing well.

Ceramic membranes have a smaller construction footprint than using multiple stages of conventional treatment. The pore size means that they are a crypto barrier and enable ultraviolet technology to be used for disinfection rather than conventional contact tanks. They are more robust and therefore have a longer asset life than conventional polymeric membranes, which reduces the long-term carbon impact.

Non-household audits

We are carrying out audits of 3,000 of our non-household customers to help business users understand how and where they are using water and make changes to improve water efficiency. This should reduce the amount of additional water that needs to be put into the network. We have completed 522 audits with an estimated saving of 0.137 Ml/d.



3. OUR GREENER, CLEANER FUTURE FOR MANSFIELD

Our Goal

Create the UK's first catchment-scale flood-resilient community, using an innovative nature-based approach to reduce surface flooding risk. The trial is centred around the Mansfield district of Nottinghamshire, where we aim to store the equivalent of 58,000m³ of surface water in 'blue-green' infrastructure – a range of natural surface-flood defences, such as rain gardens, detention basins, grassed bioswales and permeable paving. This also reduces the broader harm flooding brings to communities and creates a more pleasant natural environment for local communities to enjoy. The project will provide the additional benefit of reducing the volume and frequency of activations from the storm overflows within the town's sewerage network.

Our progress

SuDS are Sustainable Drainage Systems, and we're putting thousands of them across Mansfield. They work like giant sponges, providing additional storage capacity and slowing surface water down – helping our drains and sewers to cope.

SuDS combine some of the latest water drainage technology with mother nature, helping to reduce flood risk, cutting pollution and bringing more plant and animal species into the places where we live.

Working with Mansfield District Council and Nottinghamshire County Council, this is the largest project of its kind ever to be attempted in the country.

Rain gardens

The first verge rain gardens have been completed at Court House and Patterson Place. These capture rainwater to support plant life and give an estimated 34m³ of 'storage' which prevents rain water from entering the sewers.

Permeable paving

Permeable paving allows rainwater to soak through to the water table rather than running into sewers. The first sites have been installed in Ravensdale Avenue, Patterson Place and Sandy Lane, delivering an estimated 203m³ of 'storage'.

These interventions are the first of many. We've developed a digital site selection tool to ensure the areas we've identified are suitable for the solutions we're proposing. We've already been through desktop concept work and have started the design of solutions for over 50% of the volume we're aiming to deliver.

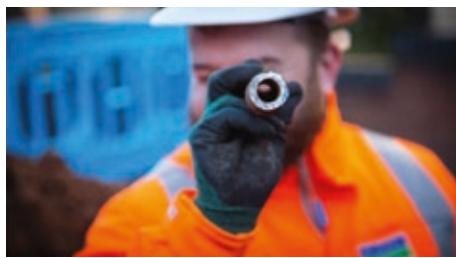
Basins, planters and swales

We have identified locations of open public space that could be suitable for detention basins, to deliver an anticipated 20% of the required volumes on individual large sites. Detention basins are constructed planted depressions that can receive a large volume of surface water and store it in a natural way that complements the landscape. We are maximising the opportunity to use detention basins and bioswales, to provide the most cost-effective interventions and also transform existing underused green space to deliver community and biodiversity benefits.

Collaborative working

We are collaborating with the University of Sheffield to provide independent monitoring and evaluation of the programme. Our partnership will help monitor each scheme, and develop testing processes to assess future SuDS projects across the UK and globally.

A DRIVER OF POSITIVE CHANGE CONTINUED



4. PROTECTING CUSTOMER SUPPLY PIPES

Our Goal

Replace up to a maximum of 26,000 customer supply pipes that are made of lead or leaking in Coventry and Bomere Heath, reducing leaks by around a million litres a day, as around 25% of leaks come from customer-owned pipes.

Customer-owned supply pipes are a hidden financial and health liability for many people. Over 40% of households don't have the savings to fix a burst pipe, and up to half of all pipes could contain lead.

Bomere Heath is an area where removing the lead pipes also means that we can eliminate the need to chemically dose the water, reducing the carbon impact of mining and transporting those chemicals.

Our progress

We want to maximise coverage and at the same time bring wider economic benefits to local businesses through this programme, and are therefore working in partnership with other companies to help deliver installations. We are focused on finding companies with the right mix of skills to complete highways, external and internal plumbing work. To meet this challenge, we designed multiple delivery models so contractors could sign up in the way that suited their capabilities. This also gives customers the opportunity to choose between getting a grant for their own plumber to do the work or having us (or our contractors) complete the job for them.

This innovative approach to working with third parties, instead of a traditional framework contract, means we can be more flexible in getting more resource working on the scheme to deliver positive customer outcomes.

Our programme has made good progress since last year and has delivered 1,522 supply pipe replacements to date.

Our Bomere Heath programme is now underway, and we have issued tenders for contractors to support us with this roll-out. We aim to begin phosphate disengagement trial works here in April 2023. We have had a fantastic response from the customers in the area, with more than 380 signed up by 31 March 2023.

Technology

We have also been trialling and researching some fantastic new technology, including sounding technology which is allowing us to accurately identify the material and location of supply pipes without digging. We are very excited about the opportunities these bring for future asset programmes.

Our Goal

Roll out over 157,000 smart water meters to individual household properties and give customers instant access to their usage information to:

- raise awareness of water efficiency, making customers more conscious of the environmental impact of their usage and of unchecked leaks;
- help customers save water and also save money on their water bills;
- target high users during periods of high demand, reducing interruptions for all customers;
- improve our data capture, giving us a better understanding of our water balance; and
- reduce the need for future investment in water resources – a UK Government objective.

Our progress

We have accelerated our meter installation programme to contract early and obtain meters at a lower cost. We're on track to complete our meter deployment ahead of schedule. Working with our Network partner Connex in phase one of the communication network roll-out focused on Coventry. During phase one we've installed 270 gateways. The network now covers over 55% of household properties within our smart metering trial areas. So far, we've installed 71,089 smart meters in Coventry and have 32% of meters online transmitting data every day.

The data this metering is providing is proving hugely valuable. Being able to understand usage across the time of day can influence our resilience planning for extreme weather events, such as hot weather and potential freeze thaw events.

Leakage savings

Our leakage and per capita consumption ('PCC') savings have been in excess of what we predicted at the start of the programme. Savings are mainly gained by identifying the waste of water more than three times quicker than it would with a non-smart meter.

We have also had great success identifying voids, with 32% of properties with a meter brought back into charge. This is also supporting our leakage activity.

My Smart Tracker

In September, we launched our 'My Smart Tracker' online service. Since then, we've enrolled 20,540 customers onto the platform and this continues to grow as we bring more meters online. We've been pleased with the uptake and over 4,400 unique customers have interacted with this new journey online. As well as giving customers views of their hourly usage, it provides comparisons with neighbours' usage, graphics to show average use of appliances and water saving tips.



6. IMPROVING OUR REGION'S RIVERS

Our Goal

Support environmental improvements to 500 km of rivers, by fulfilling our Water Framework Directive statutory obligations more quickly and accelerating improvements to storm overflows. We'll do this by taking the rivers to improved quality status in collaboration with the EA by lowering the amount of phosphorus in the rivers. In particular, we'll see aquatic wildlife thrive.

Undertake Storm Overflow Assessments ('SOAFs') to prioritise investment solutions in the future.

Our progress

We are progressing ahead of schedule and aim to have more sites completed this AMP than originally forecast, which means earlier delivery of the Water Framework Directive obligations.

In order to remove phosphorus from the discharges, we are creating more chemical dosing systems and reedbeds, and installing mechanical filters to remove solids at the front end of the treatment process.

The first seven projects are in construction phase with the remainder of the programme on track. This will deliver the majority of our 2025 obligations and will have a significant benefit on the watercourse which those works discharge into.

We have also completed 130 Stage 1 SOAFs to inform our AMP8 investment planning.

Improving CSOs

We've already assessed and identified opportunities for improvement at more than 100 CSOs. Our aim is to find those locations, where we can, through tactical asset improvements, rapidly lower the number of storm overflow activations. We already have 18 projects underway as a result and hope these will be in place as soon as summer 2023. Concurrently, we are developing a bespoke delivery model, utilising internal teams to give us a fast, nimble, flexible approach.

We are building a storm event generator at our Sternal test facility so we can trial different CSO treatment technologies. These allow us to treat storm overflow activations to reduce the impact on rivers. So in an emergency, if we can't stop the activation, we can treat it.

Reactive reedbeds

The ARMPHOS reactive media reedbed we are installing at two sites in this programme is a chemical-free, nature-based solution. It passively removes phosphorus, by absorbing it on to its media with no need for coagulant dosing. As it is gravity-fed, there are very few moving parts, and it blends in with natural surroundings while providing a habitat for wild species. We have run small-scale benchtop trials in the lab and at our testbed in Sternal to inform full-scale build and installation. Our first full project is beginning construction later this year and will go into operation at Dalbury Lees. Our second project – at Hungerton – is already in design.

Looking ahead, we are working with our core business programmes to find new sites for ARMPHOS across AMP7 and AMP8 and it will form a key part of our rural waste water treatment strategy moving forwards.

BUSINESS SERVICES PERFORMANCE REVIEW

Business Services operates a UK-based portfolio that complements the Group's core competencies and is well positioned to capitalise on market opportunities in three areas: Operating Services, Property Development and Green Power.

Operating Services EBITDA

2022/23	£28.1m
2021/22	£22.5m
2020/21	£22.9m

Property Development EBITDA

2022/23	£2.0m
2021/22	£13.2m
2020/21	£2.3m

Green Power EBITDA

2022/23	£35.7m
2021/22	£17.5m
2020/21	£14.1m

£98.5m

revenue (12% year-on-year improvement) and £25.9m PBIT, (23% improvement) in Operating Services

Operating Services

Operating Services provides a variety of operational water and waste water services to private clients across the UK. The main customers are the Ministry of Defence ('MoD'), The Coal Authority ('TCA'), a variety of clients requiring legionella monitoring and internal water treatment services (including several large facilities-management companies, universities and government departments), regulated water companies and New Appointments and Variations ('NAV'). We also have a reports-based service which produces water and drainage search reports for conveyancing solicitors with clients that are buying both domestic and commercial properties.

This year, Operating Services' businesses generated £98.5 million revenue (12% year on year improvement) and £25.9 million PBIT (23% year-on-year improvement), despite the property search business being impacted by a slow down in the property market.

In addition, all businesses produced year-on-year improvements in their key operational metrics.

The MoD contract achieved its best ever Net Promoter Score (a top quartile score in the UK), the lowest ever number of blockages and flooding, leakage and its lowest ever number of water supply interruptions.

Additionally, TCA achieved its best ever customer services scores, with KPIs scoring above 99% during the year.

We were delighted that Aqualytix, the Legionella monitoring and water treatment business within the Group, delivered £1 million PBIT per annum for the first time, reflecting its fourth successive year of growth.

The newly created Oren Environmental, our rebed refurbishment and natural capital solution business, continues to win work and is on track to make a profit in 2023/24.

Severn Trent Searches maintained its world-class Net Promoter Scores of +90, despite the challenging financial environment.



Property Development

Innovation has enabled us to reduce our operational footprint, freeing up land that we no longer need for new homes and businesses in our region. In 2017 we announced a ten-year, £100 million property PBIT target and, following our strong performance to date, in November 2022 we announced the increase of our property PBIT guidance by a further £50 million, with planned PBIT from sales of surplus land now £150 million between 2017 and 2032.

Currently, we are actively promoting over 1,282 acres of land for redevelopment, having previously enabled the creation of 1,650 new homes and over 2,000 new jobs over the past six years. For example, our planning application submitted last year at Hayden seeks to deliver 1,100 new homes on a site to the west of Cheltenham, delivering a mix of high-quality, well-designed sustainable housing to meet local and regional needs. Alongside this, the application includes affordable housing as well as a flexible mixed-use area with a community hub, a primary school and green recreational space for community engagement. Our application at Longbridge in Warwick will deliver a further 344,000 ft² of sustainable industrial space that could generate up to 1,100 jobs for the community.

Plant efficiency

96%

across our Green Power portfolio

Recycle over

400,000

tonnes of food waste and over

120,000

tonnes of green waste every year

Generated

272 GWh

of green energy, a 0.5% year-on-year growth from the same operating assets

Green Power

As the UK's largest producer of renewable energy from food waste in the UK, we provide cost-effective and sustainable recycling solutions through our award winning network of facilities across the Midlands, South Wales, and London. We then turn that waste into renewable energy to power UK homes and businesses and produce a nutrient-rich liquid bio-fertiliser for farmland to help grow new crops. The green energy produced from food waste contributes to meeting our net zero targets and keeping our energy costs down.

We operate a high-quality portfolio of assets including nine Anaerobic Digestion facilities and five composting sites that recycle over 400,000 tonnes of food waste and more than 120,000 tonnes of green waste every year. In addition, we operate a diverse portfolio of renewable energy production facilities, including 33 solar parks, six wind turbines, and three hydro-electric turbines.

In 2022/23, we generated 272 GWh of green energy, a 0.5% year-on-year growth from the same operating assets. This has been achieved by delivering an average 96% plant efficiency across our portfolio, commissioning our plant expansion at Stoke Bardolph, recycling 400,000 tonnes of food waste during the year

[enough to power 80,000 homes] and winning more local authority contracts totalling 28,000 tonnes of additional secured feedstock.

Looking forward, our refurbished Anaerobic Digestion site in Derby will be re-commissioned during the autumn, bringing an additional 30 GWh of energy generation.

In February 2023, we also announced the acquisition of Andigestion, subject to approval by the Competition and Markets Authority, which will bring an additional 45 GWh of energy generation output every year and will give Green Power new reach into South West England, covering cities like Bristol, Gloucester and Exeter, helping more businesses to process and recycle their food waste into renewable energy. In addition, the acquisition will help bolster the energy resilience of Severn Trent and will play a key role in delivering its Triple Carbon Pledge by 2030.

NET ZERO RECOGNITION

We were delighted to win the Net Zero Award at the 2022 Anaerobic Digestion & Biogas Industry Awards for our Biochar initiative, a joint venture with Nottingham University and CPL Industries. The award recognises success in innovation across all sectors of the Anaerobic Digestion and Biogas industries, and we are proud to be recognised for our commitment in innovation and sustainability.

This innovative project utilises new technologies to tackle carbon emissions in Anaerobic Digestion operations, so we can continue to grow our business in a sustainable way. You can read more about the project on our website at stgreenpower.co.uk.



The Net Zero Award

Winner:
Severn Trent Green Power



OUR APPROACH TO CLIMATE CHANGE

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. This is our fifth TCFD disclosure, and provides an update on what we have published previously.

This section of the report sets out our climate-related financial disclosures consistent with all of the TCFD recommendations, in compliance with the requirement of LR 9.8.6R. By this, we mean the four TCFD recommendations and the eleven recommended disclosures set out in Figure 4 of Section C of the report entitled 'Recommendations of the Task Force on Climate-related Financial Disclosures' published in June 2017 by the TCFD and the supplementary guidance entitled 'Implementing the Recommendations of the TCFD' published in October 2021. In preparing our TCFD disclosure, we also take into account the wider guidance issued by TCFD, and the work of the International Sustainability Standards Board ('ISSB').

It continues to evolve, providing greater granularity where possible, supported by

financial information to give greater insight into how we identify, assess and manage our climate-related risks and opportunities, and embed them into our strategy. This report also sets out the metrics and targets we have set ourselves over the next several years. A summary of progress and relevant information presented elsewhere in this Annual Report is cross referenced within each section, and we welcome feedback on our approach.

Our TCFD disclosure is supported by our separate Sustainability Report (to be published in June), which includes wider detail on the progress we are making on our journey. Our Sustainability Framework (see page 140) is fully embedded into our overall strategy and draws together our Environmental, Social and Governance ('ESG') ambitions which are delivered as part of our business plan and strategy.



Biomethane Upgrading Plant at Minworth

When we launched our Sustainability Framework in March 2020, we committed to invest £1.2 billion in sustainability and report on our progress in a transparent and genuine way. The table below provides further detail on where we have invested and outlines our future investment plans to 2025.

Our ambitions	Our priorities	Where to find more on our progress	Investment to date
Carbon and Climate Change	Triple Carbon Pledge Science-Based Targets Climate adaptation	Page 57 in the Annual Report See our Sustainability Report	£164m
Enhancing Nature	Biodiversity Pollution reductions River water improvements Catchment management	Pages 20 to 21 in the Annual Report See our Sustainability Report	£231m
Water Resources for the Future	Leakage reduction Per capita consumption reduction Meter installations Interconnector investment	Pages 15 and 16 in the Annual Report See our Sustainability Report	£432m
Affordability and Accessibility	Reducing water poverty Building our Academy Creating a Community Fund Increasing conservation	Pages 31 and 35 in the Annual Report See our Sustainability Report	£96m

CLIMATE CHANGE GOVERNANCE

Governance

Robust governance underpins everything we do. Climate change and its associated risks, opportunities and organisational implications are overseen by the Severn Trent Plc, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig Boards, Board Committees, Executive Committee, Senior Management Team and Group Subsidiary Company Boards.

Sustainability Governance Framework

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

The Board delegates certain sustainability and climate-related risk oversight activity to its Committees to support the continued delivery of the Group's Sustainability Framework. The Sustainability Governance Framework is also subject to periodic review to ensure that it remains appropriate.

The Chief Executive and the Severn Trent Executive Committee ('STEC') have day-to-day responsibility for climate change and

environmental matters and are responsible for the development of the Group's Strategy, including in relation to sustainability-related matters, as demonstrated in the Sustainability Governance Framework on the next page.

STEC delegates certain climate-related risk and opportunity oversight matters to its approach to Committees. To facilitate effective delegation, the Group Authorisation Arrangements ('GAA') are the mechanism by which the Severn Trent Plc Board delegates its financial authority, which authorises our people to be involved in the decision-making processes that commit the Company to financial obligations, rather than every decision having to be approved by the Board. The GAA are reviewed annually to ensure that limits remain appropriate.

Governance	
TCFD recommendation	Progress this year
Disclose the organisation's governance around climate-related risks and opportunities. Severn Trent has reported against the Governance TCFD recommendations in full within the 2022/23 Annual Report. Full biography and skills of Board members – pages 104 and 105. Board and Senior Management Team succession planning – pages 123 to 124.	Board composition The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. Our succession planning complements the composition of the Board, with an emphasis on sustainability and climate-related topics to ensure that we continue to build upon the excellent progress we have made in this regard. On 1 November 2022, the Board announced the appointment of Sarah Legg as an Independent Non-Executive Director both to the Board and as a member of the Corporate Sustainability Committee. She brings extensive corporate finance and significant audit and risk experience to the Company and offers financial expertise to enhance the Committee's already effective oversight of ESG-related risks and opportunities.
Board effectiveness and Board evaluation – pages 118 to 119	Board evaluation Our annual Board evaluation provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance. As part of this evaluation, knowledge and experience with regard to sustainability and climate-related matters are considered, and in 2023 the evaluation process was revised to include sustainability-specific elements for discussion.
Sustainability and climate-related Board CPD sessions held during the year – pages 112 to 113	Board meetings and effective reporting from management The Board has oversight of all ESG responsibilities and performance as well as approval of ESG strategies and investment decisions relating to climate change. Sustainability matters are included as a standing agenda item at regular Board meetings and during the year the Board held 17 sessions dedicated to climate-related risks and opportunities, monitoring of progress against goals and targets and sustainability-related topics. The Board receives detailed management reports on ESG matters at each Board meeting, and senior leaders within the Group and external guest speakers are regularly invited to offer independent expertise and insight at Board and Committee meetings.
Performance targets/milestones for the 2023 award in the Directors' Remuneration Report – pages 141 to 163.	Remuneration Our transparent remuneration framework aligns reward and incentive structures throughout our business from our frontline operatives through to our Executive Team, ensuring that every employee is incentivised and rewarded to deliver the same objectives. This is in addition to ESG measures which already form part of the Annual Bonus Scheme metrics. In 2021, the Remuneration Committee agreed the inclusion of a sustainability performance measure in the Long-Term Incentive Plan ('LTIP') with a weighting of 20%. In March 2022, we announced our commitment to Get River Positive and directly linked our river pledges to our remuneration structures through including them as measures in our annual bonus plan for 2022/23. This year, the Board approved four new equally-weighted carbon measures for the 2023-26 LTIP aligning more closely to internationally recognised mechanisms such as the Science-Based Targets initiative ('SBTi') for Scope 1, 2 and 3. The two new measures are 'Direct Contributors to Carbon Reduction' and 'Innovation and Engagement for Carbon Reduction'.
Strategic Report on pages 1 to 99. Board Strategy Day – page 111.	Strategy Our approach to sustainability is being increasingly integrated into our operational and commercial strategies, whilst ensuring best value for customers and wider socio-environmental benefits. In October 2022, the Board held its annual Board Strategy Day, with time spent exploring opportunities relating to ESG matters and the future resilience of the business in this regard. Our Strategic Direction Statement published in 2022 sets out a clear line of sight between the Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig business plans and the longer-term priorities of the Company. Climate change commitments The Board put its long-term approach to climate change before shareholders at the Company's Annual General Meeting ('AGM') on 8 July 2021 which received over 99% approval.

Our Climate Change Governance Framework

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

THE BOARD

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our Strategy through which value can be created and preserved for the mutual benefit of our shareholders, customers, employees and the communities we serve.

Our Board, led by Chair Christine Hodgson, has ultimate responsibility for sustainability. Oversight of the Group's sustainability strategy is a matter reserved for the Board. The Chief Financial Officer is responsible for how market risks connected to our investments (including climate-related risks) are identified, considered and managed.

The Board's responsibilities include:

- overseeing the Group's sustainability strategy;
- providing rigorous challenge to management on progress against goals and targets;
- ensuring the maintenance of an effective risk management and internal control system, review of six monthly Enterprise Risk Management ('ERM') updates and annual approval of the Principal Risks;
- approval of the Board's risk appetite and Policy;
- inclusion of sustainability-related discussion at each Board meeting through a standing agenda item as tabled by the Chair of the Corporate Sustainability Committee; and
- maintaining a high level of sustainability expertise on the Board as a whole (see Board skills matrix on page 106).

Informing

Reporting

THE BOARD DELEGATES CERTAIN SUSTAINABILITY OVERSIGHT MATTERS TO ITS PRINCIPAL COMMITTEES. ALL COMMITTEES MEET AT LEAST FOUR TIMES PER YEAR.

Audit and Risk Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Ensures that risks and opportunities, including sustainability and climate-related risks and opportunities, are effectively managed across the Group. The Committee is also responsible for overseeing the production of Group's financial statements, including the TCFD disclosure.	Scrutinises and provides guidance and direction on the Sustainability Framework. Reviews sustainability and climate-related risks and opportunities. Four Directors of the Board sit on the Committee, including the Chair, and the CEO has a standing invitation to attend meetings.	Monitors the Board's overall size, composition and balance of skills, and ensures sustainability expertise is given sufficient prominence in Board and Executive succession and recruitment activity.	Ensures alignment of the Group's remuneration policies and procedures to achievement of sustainability aims by incorporating ESG measures into bonus scheme requirements and carbon reduction measures within the LTIP.	Ensures incorporation of sustainability into the Group's financing strategy, with a key area of focus on introduction and monitoring of the Sustainable Finance Framework under which the Group can raise debt to support the financing or refinancing of sustainable projects.
Further detail of the work of the Committee can be found from page 127	Further detail of the work of the Committee can be found from page 137	Further detail of the work of the Committee can be found from page 121	Further detail of the work of the Committee can be found from page 141	Further detail of the work of the Committee can be found from page 135

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

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

[Sustainability Framework – page 140](#)

[STEC Members – page 107](#)

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

Sustainability Steering Committee	Carbon and Energy Steering Committee	Strategic Risk Forum ('SRF')	Disclosure Committee	TCFD Working Group
Executive and senior management oversee performance and progress against our Sustainability Framework. The Committee is responsible for identifying and reviewing climate-related risks and opportunities.	Sets the Group's overall carbon and energy strategy and targets, ensuring that robust plans are in place to deliver them. Monitors progress and performance against plans.	A cross business group which takes a holistic view of ERM risks and focuses on horizon scanning to identify new and Emerging Risks, including climate-related risks.	An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received. The Committee is also responsible for overseeing the Group's financial statements and non-financial disclosures, including climate-related financial disclosures.	The TCFD Working Group was established in 2020 to provide oversight and drive implementation of the TCFD recommendations and the Group's wider climate change strategy. The Group reports to the Disclosure Committee and the Corporate Sustainability Committee. It includes representatives from business areas including strategy, risk, finance, treasury and compliance.

OUR APPROACH TO CLIMATE CHANGE CONTINUED

Strategy and Risk Management – climate-related considerations

Strategy and Risk Management	
TCFD recommendation	Progress this year
How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management See pages 44 to 46	This year, we have made improvements linking our Principal Risks and ERM risks into our business model and our value chain by linking climate drivers with risk causes, enabling greater reporting options and better risk coverage. We have also linked the risks we have published in our Climate Change Adaptation Report to our ERM risks within our risk management system. We consider both existing and emerging regulatory requirements on climate change.
The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. See the following reports on our website, severntrent.com: <ul style="list-style-type: none">– Strategic Direction Statement ('SDS')– Draft Water Resources Management Plan ('WRMP')– Drainage and Wastewater Management Plan ('DWMP')– Drought Management Plan– Climate Change Adaptation Report	In May 2022, we published our Strategic Direction Statement ('SDS') which sets out our thinking around key trends and the resultant challenges that will shape the next 30 years and how we, as a leading water and waste water company, might look to respond. The SDS has informed our strategy and investment choices in the plans we have published this year. We published the draft version of our next WRMP for consultation in November 2022 and the final version of our DWMP in March 2023. The impacts from climate change are a key part of the underlying analysis behind these documents, which are used to set and evidence our five-year regulatory business plans. We are developing our next price review plan (PR24) to consider all recommended warming scenarios, from 1.5°C to 4°C, to provide flexibility for later business cycle AMPs in line with requirements and circumstances at that time. To develop our plans, we have utilised the best available data to model the most optimal investment pathways, taking into account required outcomes, cost and delivery lead times. Modelling is underway using eight future scenarios (as set out by Ofwat), which include assumptions for climate change to build evidence and inform our long-term evidence plans. The outputs will be used to develop our Long-Term Delivery Strategy and business plans for the regulatory period 2025-30, AMP8. The Met Office undertook a review of these methods to ensure they are robust and align with the Ofwat PR24 guidance. The draft WRMP and final DWMP incorporated the latest climate projection datasets (UKCP18) into scenario modelling to build our view of climate-related risks and opportunities for these key documents.
Vocal advocacy for action on climate change and collaboration with peers and other stakeholders to achieve change. See our Sustainability Report online.	We continue to be involved with many sector and cross sector working groups, such as the Water UK Net Zero Carbon Technical Group. In September 2022, we announced our tri-party collaboration with Aarhus Vand and Melbourne Water to share knowledge and expertise and to develop solutions to reduce the carbon footprint of waste water treatment sites. In May 2023, we announced our intention to build the world's first Net Zero hub at one of our waste water treatment works, supported by partial funding through Ofwat's Innovation Fund. More information can be found in the case study on page 139. The results of the project will be shared across the industry.

OUR CLIMATE CHANGE STRATEGY

Mitigating and adapting to climate change remains a critical priority for us and, as such, forms a common theme through all of our strategic documents and plans, from our Corporate Strategy downwards. This ensures that every part of our organisation is focused on reducing our environmental impact and improving the sustainability and underlying resilience of our business.

Given the complexity of our business and the requirements of our regulators, there are multiple documents which describe the risks we face. These detail the outputs from the risks we have assessed, the potential responses to those risks, the investment options available, and the wider considerations that need to be taken into account when making decisions. These include affordability, nature and climate, and alignment to our strategic objectives, customer outcomes and statutory obligations.

Ultimately, which investments are progressed is decided through the industry price review process. The water industry operates to five-year business planning cycles, as part of a framework for economic regulation overseen by Ofwat. As part of these five-year periodic (or price) reviews, Ofwat reviews company investment proposals and sets revenue allowances sufficient to finance them. This statutory process therefore has an important bearing on companies' investment plans, with many elements contingent on a successful submission to Ofwat.

Throughout this disclosure, we signpost key documents that set out our plans on how we manage key areas that will be affected by climate change, and will affect our mitigation strategy. The following are of particular note:

- **Net Zero Transition Plan ('NZTP')** – which considers and plans our approach to delivering against our reduction targets (from page 58).
- **Our Water Resources Management Plan ('WRMP') and Drainage and Wastewater Management Plan ('DWMP')** – which set out how we intend to provide supplies of water to our customers over the next 25 years and how we plan to deal with the associated waste water and surface drainage respectively.
- **Our Strategic Direction Statement ('SDS')** – which identifies the key future priorities for our business to 2050.
- **Our Climate Change Adaptation Report** – which provides a summary overview of risks arising from climate change.

We do not reference our land and property strategy in this disclosure as it is not a public document, but it provides a forward-looking view of how we intend to use our land portfolio most effectively, be that for operational purposes, renewable energy deployment, biodiversity and habitat enhancement, carbon sequestration or supporting local housing or economic development. Our land and property strategy is not prescriptive, but provides a framework for assessing the best use of any individual piece of land. It also considers how we can work with partners to improve biodiversity across our region to both benefit nature and access carbon credits.

We have been investing significantly in both saving energy and generating our own renewable energy, which is more important than ever and bolsters our resilience to increasing energy prices. For example, we

generate over half of the electricity we use from our renewables, with the remainder purchased from renewable backed sources, and this year we delivered record levels of generation — 548 GWh of renewable energy from nine anaerobic digestion sites as well as our wind, solar and hydro plants. Our Severn Trent Green Power business recycles over 500,000 tonnes of green and mixed food waste each year. The green energy produced from food waste helps to meet our net zero targets and keep our energy costs down. In addition, our non-regulated businesses, principally Severn Trent Green Power and Severn Trent Operating Services, contribute towards the Group's net zero journey. You can read more about their performance over the year on pages 37 to 38.



HOW WE IDENTIFY AND UNDERSTAND RISKS OF CLIMATE CHANGE

As a company that depends on supporting, and interacting with, the natural capital within our region, we have an important role to understand, prepare for and respond to a changing climate. We know that climate change, along with other factors such as population growth and urban creep, will increase the pressure on delivering our essential services.

Our approach to managing climate-related risks is outlined in the table below, highlighting how we consider climate-related risks over different time horizons (i.e. the short, medium and long term). The method by which we assess, monitor and manage risks and opportunities differs depending on the size and type of risk. Alongside likelihood and impact, we

use financial thresholds defined within our ERM policies and systems. These thresholds are used to measure the materiality of each risk to our business and the level to which the risks are reported within our organisation. For example, we operate levels of reporting for all risks valued at over £10 million, they are captured within our ERM system and rigorous management processes put in place. We have four further levels of risk above this, with the highest being valued at over £75 million, and the risks in this bracket are required to be reported at Board level. Risks valued at below £10 million are managed by the business. All climate-related risks are assessed in the same way and have been concluded to be below this £10 million threshold this year. We have a dedicated risk network made up of risk coordinators and risk champions who are coached and supported by our central ERM

Team, to support the ongoing risk assessment process throughout the year. Our ERM level risks are managed through our 'Our Approach to Risk' section on pages 73 to 74 for more information. We recognise the rising pressure that climate change will place on our existing risks, such as an increase in storm frequency and severity that will challenge our ability to deliver water and wastewater services to our customers. Climate risks are assessed through key documents like the DWMP, WRMP, and Drought Management Plan (see table below). We dynamically assess potential changes in the risk environment through our investment plans, which means we plan for and invest based on the climate we expect Severn Trent to be operating in over the next 25 years. These plans form the key basis for our five-year investment plans that we submit to Ofwat.

Time horizons	0 – 2 years Short term	Up to 5 years Medium term	Up to 25 years Long term
Summary	<ul style="list-style-type: none"> – Implementing tactical response plans for delivery of our annual performance targets in the face of acute physical risks – Evaluate and make recommendations for future improvement 	<ul style="list-style-type: none"> – Our business plan describes the improvements that we will commit to deliver in the next AMP cycle 	<ul style="list-style-type: none"> – Long-term plans exploring and accounting for future potential risks we may face, including climate change uncertainty – How we will meet future challenges, and the steps that need to be considered
Approach to management	<ul style="list-style-type: none"> – Incident management plans and process-driven response plans – Drought Management Plan – Root cause analysis outputs – Localised response strategies – ERM framework uses tools, practices and methodologies to ensure consistency across the Severn Trent Group, and embedding of climate-related risks in our business as usual processes 	<ul style="list-style-type: none"> – Regulator-approved AMP investment approach – Rolling five-year business planning approach – ERM framework 	<ul style="list-style-type: none"> – WRMP produced every five years and the draft version of our next WRMP published November 2022 – The first full publication of our DWMP was on 31 March 2023 – Our SDS published in May 2022 – ERM framework – Our LTDS will be submitted to Ofwat later this year, and uses adaptive planning approaches to test future scenarios
Key documents	<ul style="list-style-type: none"> – Our Drought Management Plan (2022–2027) sets out how we will manage our resources and supply system during dry and drought years. It sets out the demand and supply actions we will take, triggered by drought conditions of 2–3 months 	<ul style="list-style-type: none"> – Adaptation Report (summary of overview of risks) – The WRMP sets out our strategy to address risks relating to water availability and security of supply, taking into account a changing climate and population demands – The DWMP sets out our approach to ensuring an effective waste water network which treats and removes waste from properties, the risk levels for sewer flood risk, storm overflow performance and waste water treatment works capacity – The WRMP and DWMP inform PR24 investment plans – Drought Management Plan 	<ul style="list-style-type: none"> – Our SDS outlines the key trends and challenges that we believe will be important in shaping the next 30 years and is used to inform and guide our future strategy and long-term investment plans – Adaptation Report (summary of overview of risks) – The WRMP sets out our long-term strategy for the next 25 years and looks ahead to 2085 to help us understand and prepare for the future. Our plan considers potential risks to our supply due to extreme drought, climate change and changes in population and industry – The DWMP sets out our long-term strategy for waste water and the impacts of severe weather modelled over the next 25 years to help us prepare for the future – The WRMP and DWMP inform our PR24 investment plans and our LTDS, which we submit to Ofwat later this year – Biodiversity Strategy and Action Plan sets out how we protect habitats and species and drive nature recovery – Protecting and Enhancing Site of Special Scientific Interest ('SSSIs') document sets out our approach for protecting and enhancing SSSIs that we own, or which might otherwise be impacted by our work

Time horizons	0 – 2 years Short term	Up to 5 years Medium term	Up to 25 years Long term
Key elements	<ul style="list-style-type: none"> - Undertake a granular and dynamic appraisal of the health of our assets - Data collection to drive longer-term approach - Assess operational tasks/ operation and maintenance of assets - Localised delivery of improvement plans - Small-scale opex and capex spending - Asset Health Dashboard 	<ul style="list-style-type: none"> - Engagement with key stakeholders to agree response plans including the EA, Ofwat, DWI, Natural England, NRW and local communities - Modelling of scenarios to determine response strategies - Capital investment and promotions for delivery of large-scale capital upgrades 	<ul style="list-style-type: none"> - Considers the potential long-term impacts of climate change on our essential services - Identifies and assesses the most significant and influential trends and the biggest challenges that we will face based on the trajectory of those trends - Analysis of longer-term trends utilising UKCP18 datasets combined with internal modelling - Data-focused review through technical assessments and modelling - Risk strategies

Risk Management via our ERM

We operate a well-established ERM framework, underpinned by standardised tools, practices and risk management methodologies to ensure consistency across the Severn Trent Group. Our ERM framework is embedded throughout the business, with different groups exploring and examining risks through different lenses, as described throughout the section.

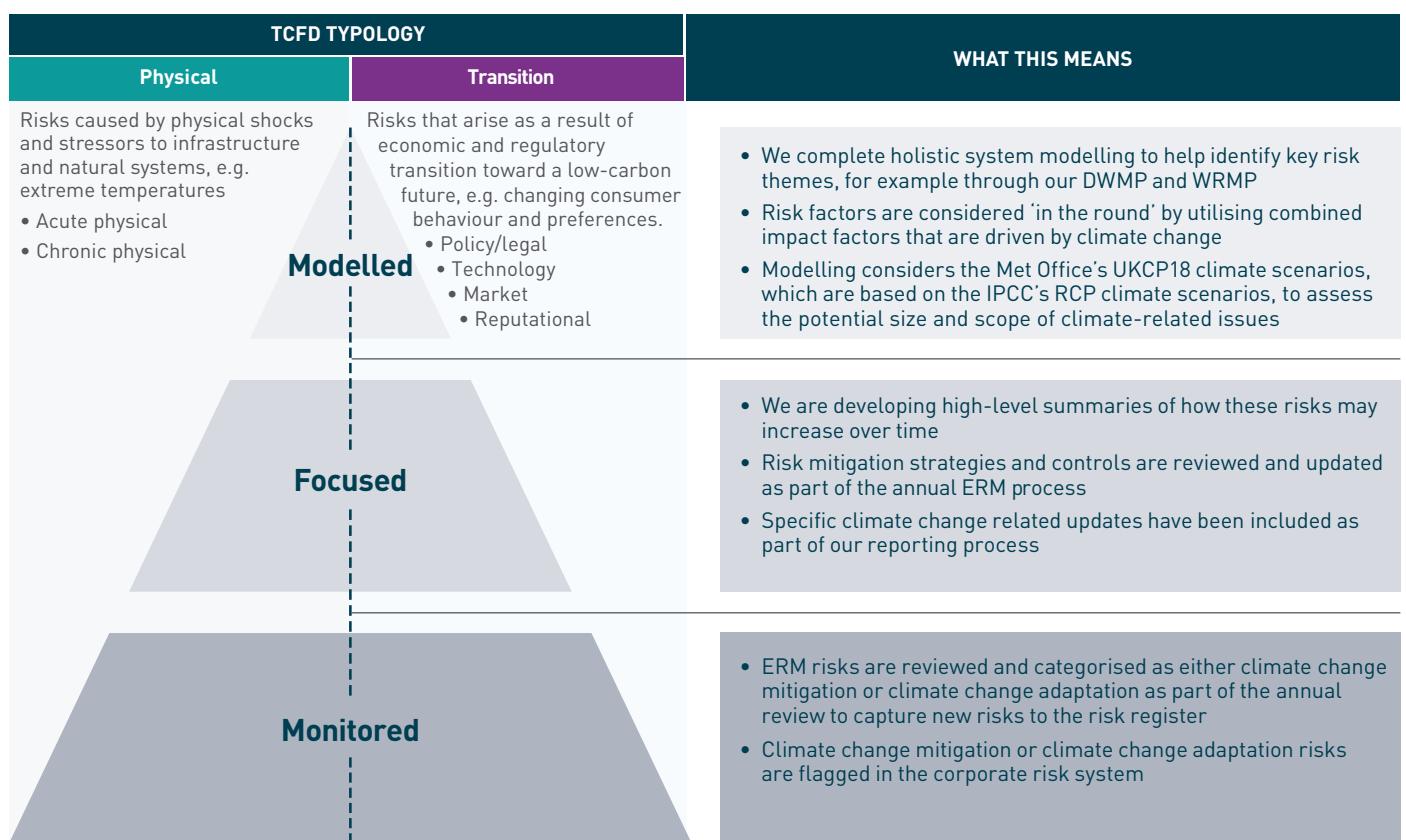
Our risk management system incorporates important climate-related risks identified through business as usual processes. We have built additional capabilities within our corporate risk system enabling climate drivers

to be linked with risk causes where the likelihood could be exacerbated by climate change drivers. We have also assigned TCFD typology to our ERM risks.

The Board has overall responsibility for ensuring that risk is managed effectively across the Group and that there is an effective risk management framework in place (see page 74 for more information). The Executive Committee has specific responsibilities and accountabilities for topics connected to climate considerations, including our strategy, operations and regulatory requirements. See the Internal Controls and Risk Management disclosure in the Audit and Risk Committee Report from page 127 for more information.

The risks we have already recognised inform and help mitigate against the predicted impacts caused by 2°C of warming. Our risk response plans are based on a risk bow tie analysis whereby 'risk causes' are considered in relation to 'climate drivers' to help quantify the controls that we should consider and execute.

Our three-tiered system shown below helps ensure appropriate actions given the relative risk to the organisation and we provide an update on our modelled risks from page 46.



OUR APPROACH TO CLIMATE CHANGE CONTINUED

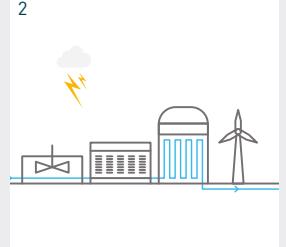
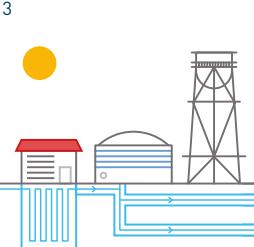
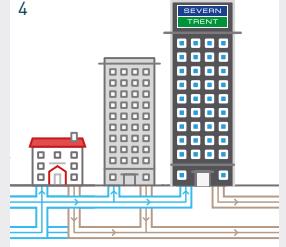
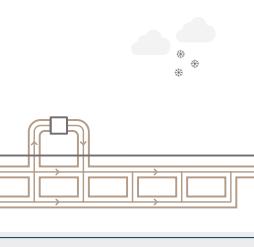
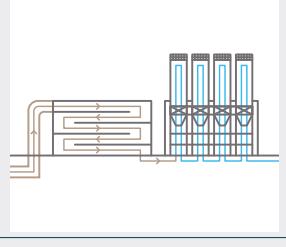
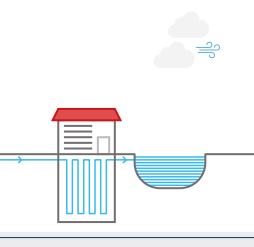
What are our key climate-related risks and opportunities?

The key risks and opportunities we have identified are summarised below and relate to our value chain.

● Transition risk ● Physical risk * Denotes a Principal Risk

REGULATION/POLICY	AFFORDABILITY	CLIMATE CHANGE STRATEGY
Key Risk*: Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.	Key Risk: The investment required to improve resilience and meet long-term targets will impact customer bills and affect affordability for some.	Key Risk: Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services.
SAFE AND SECURE SUPPLY OF DRINKING WATER	TRANSPORT AND TREATMENT OF WASTE WATER	NATURAL CAPITAL
Key Risks*: We do not provide a safe and secure supply of drinking water to our customers. Demand for water will increase as a result of population growth and changing weather conditions.	Key Risk*: We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.	Key Risk*: We fail to positively influence natural capital in our region.

 For more information on our Principal Risks see 'Our Approach To Risk' section starting on page 73

CLIMATE RISKS ALONG OUR VALUE CHAIN			
COLLECT RAW WATER	CLEAN RAW WATER	DISTRIBUTE CLEAN WATER	CUSTOMERS ENJOY OUR SERVICE
			
CLIMATE DRIVERS ALONG OUR VALUE CHAIN			
Hotter, drier summers impact our reservoir supplies	Hotter, drier summers and rainfall impact the quantity and quality of water available to abstract from the environment	Performance of pipes is threatened by extreme weather	Customer demand for water increases on hotter days, putting our supply under stress
CLIMATE RISKS ALONG OUR VALUE CHAIN			
COLLECT WASTE WATER	CLEAN WASTE WATER	RECYCLE WATER TO THE ENVIRONMENT	Increased storminess and extreme weather events cause power failures, impacting on our ability to deliver our essential services.
			
CLIMATE DRIVERS ALONG OUR VALUE CHAIN			
Capacity of our sewers is impacted by both extended dry periods and extreme rainfall events	Wetter winters and increased storminess can overwhelm waste treatment works	Increased rainfall reduces the effectiveness of our biosolids storage and disposal operation	

The following table details the drivers, impacts and mitigation methods associated with each risk and opportunity. In identifying the significant climate-related risks and opportunities outlined below, we note the disclosure topics noted in the ISSB's draft Climate Disclosure requirements [industry-based disclosure requirements for the water utilities and services sector, as outlined here: Volume B39—Water Utilities & Services (ifrs.org)], see page 63 for more detail on how we report against the standards.

● Principal risk

Drivers and causes	Impact on business (risk consequences)	Mitigations and opportunities
TRANSITION RISKS AND OPPORTUNITIES		
● Key Risk 1: Changing societal expectations, resulting in stricter legal and environmental obligations, commitments, and/or enforcements, increase the risk of non-compliance		
Short, medium and long term (focused)		
<ul style="list-style-type: none"> - Increased activism and media coverage around climate change and the level of environmental pollution may raise public awareness and strengthen calls for policy makers to act - Increased focus on environmental protection and achievement of mitigation targets could change Government policy and regulators' target-setting approach - National regulatory changes may implement costs of carbon (our operations are energy intensive and the waste we deal with has a high greenhouse gas ('GHG') impact) - Increased regulatory scrutiny and accelerated regulatory change will drive behaviour from businesses to protect the environment 	<ul style="list-style-type: none"> - More will be demanded of businesses: to be more sustainable in their operations, to pay for the damage they cause, and with greater scrutiny over environmental performance - Our ODI penalty/reward position could change - Operational costs associated with taxes on carbon emissions could increase 	<ul style="list-style-type: none"> - We have strong engagement with our supply chain to drive environmental leadership - Regular engagement with the UK Government, the Welsh Government, regulators and other stakeholders helps us to shape the direction of the water sector and address the impacts of climate change - Opportunities exist to fast track positive changes, alongside regulatory change, for our communities and the environment - Our established governance framework, policies and training ensure our ongoing compliance with all applicable laws and regulations - We use external legal advisers to complete detailed reviews in respect of upcoming legislation that may affect the Group
Key Risk 2: The investment required will impact customer bills and affect affordability for some		
Short, medium and long term (modelled)		
<ul style="list-style-type: none"> - High levels of investment will be required to meet more stringent environmental standards, improve our resilience, adapt to climate change, and meet long-term targets - Our regulatory model means that such investments are ultimately funded through customer bills 	<ul style="list-style-type: none"> - Higher levels of investment will result in higher bills for our customers and will affect affordability for those who are struggling financially - Analysis published in March 2021 by Water UK showed that water poverty in the Severn Trent Water region was 6.1% based on 2019/20 data 	<ul style="list-style-type: none"> - We talk to our customers and take customer affordability into account as part of our planning and investment processes - Targeted investment allows us to continue to deliver essential services for our customers, even under more challenging circumstances - Impacts to customer bills are modelled and tested with customers ahead of submission - To mitigate the impact for the most vulnerable, we also offer a range of affordability packages
● Key Risk 3: Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain essential services		
Mitigating climate change will require rapid decarbonisation		
Short, medium and long term (focused)		
<ul style="list-style-type: none"> - Through to 2050, we anticipate that Government will need to assume a larger role to overcome barriers that are hindering consumers, business, and wider societal change - Potential Government policy interventions are likely to be focused on speeding up decarbonisation efforts but currently are not always co-ordinated - Existing technologies won't be capable of delivering the improvements required - More stringent standards may be enforced alongside increased expectations for reporting requirements 	<ul style="list-style-type: none"> - As the water sector contributes 1% of UK emissions, we will be required to reduce emissions in line with the Government interim targets of 78% reduction (since 1990) by 2035, reducing our Scope 1, 2 and then Scope 3 emissions - The need for greater understanding, visibility and transparency increases the need for more granular data collection and reporting 	<ul style="list-style-type: none"> - We use scenario modelling to understand the impacts of climate change and identify opportunities for investment through resilience planning - Our Innovation Team actively seeks investment in new technologies to improve performance - We regularly analyse our performance to understand opportunities for improvements to operational effectiveness - New opportunities may emerge to participate in new markets, such as green hydrogen or ammonia - Better data will lead to improved understanding of performance - We target a reduction in water usage alongside a reduction in leakage to improve our ability to manage demand in a resource-stretched world

OUR APPROACH TO CLIMATE CHANGE CONTINUED

Drivers and causes	Impact on business (risk consequences)	Mitigations and opportunities
PHYSICAL RISKS AND OPPORTUNITIES		
<p>Key Risk 4: We do not provide a safe and secure supply of drinking water to our customers</p> <p>Demand for water will increase as a result of population growth and changing weather conditions</p> <p>Short, medium and long term (focused)</p>	<ul style="list-style-type: none"> - Hotter, drier summers will reduce water availability and increase demand - Acute physical risks such as storms and floods may impact upon our infrastructure, or increase the risk of water contamination - A reduction in the water available in the environment, caused by increasing temperatures, will restrict the amount we can abstract and supply - Performance of pipes is threatened by extreme weather <p>- Hot weather causes an increase in short-term peak demand and impacts our ability to supply enough water</p> <ul style="list-style-type: none"> - Additional operational costs could be required to ensure delivery - Additional infrastructure investment could be required to adapt to a changing climate and to secure supply 	<ul style="list-style-type: none"> - We use strategic modelling to assess potential changes to supply and demand on our water network and to model the known impacts of climate change - Comprehensive resilience plans that consider climate change in scenario modelling, such as our WRMP and DWMP, feed into our capital investment programme and business plan - Investment in early leak detection technologies and effective response processes will reduce leakage levels - Increased investment to increase headroom will help us meet increased water demand - By increasing resilience and flexibility of our supply network and better preparing for incidents, we are constantly working to ensure continuous supply to our customers - Increased awareness of the value of water in an increasingly resource-stretched world may improve the effectiveness of customer engagement programmes to reduce water usage
<p>Key Risk 5: We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment</p> <p>Short, medium and long term (modelled)</p>		
<ul style="list-style-type: none"> - Extreme rainfall and wetter weather will increase the risk of flooding - Increased population and land cover will increase run-off - Extended dry periods and extreme rainfall events affect the capacity of our sewers – for example, more intense bursts of heavy rainfall increase the volumes of water entering our waste water systems 	<ul style="list-style-type: none"> - Damage could be caused to infrastructure, increasing the risk of flooding to our waste water treatment works - Alternative reactive steps will be required to ensure the safety of waste water removal - Additional infrastructure investment will be required to ensure adequate systems and resilience - Environmental penalties could increase - Failure to safely treat waste water impacts our financial penalty/reward position 	<ul style="list-style-type: none"> - Comprehensive resilience plans, such as our DWMP, feed into our capital investment programme and business plan. Targeted investment will increase waste water network resilience - We use strategic modelling to assess potential changes to population and climate change on our waste water network - We have a strong compliance culture and effective management systems - Increased awareness of the value of water in an increasingly resource-stretched world may improve the effectiveness of customer engagement programmes to promote the safe use of the waste water system, including reduced use of wet wipes and non-flushables - The implementation of new technologies and innovation to improve our waste water treatment processes and network operations will enable us to meet or exceed targets - Increasing the use of nature-based solutions to build resilience provides the advantage of additional co-benefits - Wider surface water management options such as SuDS have associated co-benefits and increase future flexibility for capacity
<p>Key Risk 6: We fail to positively influence natural capital in our region</p> <p>Medium and long term (focused)</p>		
<ul style="list-style-type: none"> - Hotter, drier summers cause changes to habitat composition and distribution, along with biodiversity loss on land and in rivers - Increased urbanisation, which extends hard impermeable surfaces against the backdrop of increasing rainfall, increases the risk and speed of urban run-off and sewer overflows, leading to pollution of waterways - A growing population and per capita consumption, and increased pressure on natural resources, negatively impact upon biodiversity and our ability to manage natural resources effectively 	<ul style="list-style-type: none"> - Resilience to climate change and extreme weather events decreases - Raw water quality deteriorates - Failure to manage pollution impacts our financial penalty/reward position - Changes to the valuation of natural capital may have financial impacts in future - Delaying the investment required for climate resilient or adaptation solutions may increase future costs 	<ul style="list-style-type: none"> - We have made public commitments to protect our local environment – for example, targeting 15% biodiversity net gain for our capital projects - We use modelling to estimate the impact of increasing pressures on nature, such as water abstraction and environmental pollution, as part of our WRMP and DWMP - We are investing in habitat restoration which can help reduce pressure on our assets and lower asset failure rates - Management plans and controls mitigate damage to SSSIs and enhance them through our operations - Our Green Recovery Programme consists of six schemes that will deliver a host of benefits for customers, communities and the environment - Adopting a catchment management approach in partnership with landowners in our region will mitigate the effect of pesticides, fertilisers and organic nutrients, will be more inclusive, will reduce costs, and will reduce the need for additional investment - We have strong engagement from both our supply chain and our customers to promote biodiversity via our Commonwealth Games targets (72 Tiny Forests and Legacy Forest), our Great Big Nature Boost for Biodiversity (enhancing it on 5,000 ha of land) and by restoring 2,000 acres of peatland in England and Wales. This will enhance ecosystems, improving resilience through decreased flood risk and improving water quality - Our reputation will benefit from acting as a steward of natural capital and taking this responsibility seriously

CLIMATE-RELATED SCENARIO ANALYSIS

The impact of climate variations is critical to the way Severn Trent operates. As such, we have an advanced and nuanced approach to the way we integrate climate into our business processes and risk management approach. As a business, we look at a wide range of temperature and climate forcing alignments, from a 1.5°C Paris-aligned scenario, to a 4°C ‘business as usual’ scenario to inform our strategy for investment in future resilience. The specific assumptions, parameters and scenarios applicable are set out below, and more information can be found in the corresponding reports.

Our approach to scenario analysis

Scenario analysis is a key component of assessing both the likelihood and consequence of our major climate-related risks. Stress testing our ability to deliver customer outcomes against a range of variables highlights our resilience and informs our long-term strategy and investment plans. These are outlined through our PR24 plan, and also in our WRMP, DWMP and SDS.

Key documents that utilise the modelling work

WRMP AND DWMP

Our WRMP and DWMP will focus on Ofwat's base scenarios for AMP8, which include changes to demand forecasts arising from building regulations and water device labelling, varying the data inputs for abstraction regulations and population growth, and including changes to assumptions made around technology.



DRAFT WATER RESOURCES MANAGEMENT PLAN ('WRMP')



DRAINAGE AND WASTEWATER MANAGEMENT PLAN ('DWMP')

For more details see page 51 for key examples and case studies or scan or click the QR codes to read more

STRATEGIC DIRECTION STATEMENT

Our SDS provides context for our PR24 submissions and shows how our AMP8 plans fit into our longer-term goals.



STRATEGIC DIRECTION STATEMENT ('SDS')

LTDS

As part of our submission to Ofwat later this year, we are documenting our Long Term Delivery Strategy which sets out the long-term risks, ambitions and investments beyond PR24 and into the future. It uses adaptive planning alongside the findings of the WRMP and DWMP to test demand and climate-change scenarios that may occur.

PR24 INVESTMENT PLANS

For the upcoming price review process ('PR24'), Ofwat has set out guidelines for how water companies should develop and present their long-term delivery strategies, including a requirement to use an adaptive planning approach. Following these guidelines, we are using a scenario-based methodology, considering climate change, technology, water demand, and environmental ambition. For each parameter, Ofwat have prescribed assumptions for low and high risk scenarios.

The underlying analysis behind these documents is used to set and evidence our five-year regulatory business plans. PR24 covers our financial investment needs from 2025-30 and will be submitted to Ofwat in October 2023, with the Final Determination expected in December 2024. A key role of PR24 is for us to balance long-term financial investment needs for a resilient and sustainable business, with ensuring customers' bills are affordable.

The Met Office undertook a review of the methods, datasets and scenarios used to ensure these are robust given the latest climate science, and that they align with the requirements stipulated in the Ofwat PR24 guidance. We are using the findings and recommendations to inform the next phase of our investment plans for PR24.

The key risks we model



We do not provide a safe and secure supply of drinking water to our customers



We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment

OUR APPROACH TO CLIMATE CHANGE CONTINUED

 Water always there  Good to drink		
	Risk	Opportunity
Climate driver	Hotter, drier summers and changes to precipitation will reduce water resources availability, which drives future supply/demand balance deficit challenges	Regulatory commitments and funding to reduce leakage and reduce demand from a 2019/20 baseline
Climate model	<p>Use UKCP18 RCP2.6, RCP6.0 and RCP8.5 in our scenario analysis</p> <p>Twelve Regional Climate Model ('RCM') scenarios and 20 probabilistic datasets are included in our water resource systems climate change analysis</p> <p>RCMs provide comparable outputs across regions due to their better representation of spatial coherence of climate change</p>	We have made a commitment to reduce household demand by 15% by 2050 and to reduce leakage by 50% by 2045. In addition, we have a number of water use minimisation programmes which are incorporated into our future modelling, to ensure we understand how the benefits of these programmes may protect us against climate-related risks
Timeframe assessed	Current modelling is to the 2070s and then extrapolated to 2085 to cover the WRMP24 planning period	Current modelling is to the 2070s and then extrapolated to 2100
Key outputs from modelling work	<p>Modelling indicates a reduction in the amount of water available for distribution (Deployable Output, 'DO'). In 2050, the expected reduction of DO is:</p> <ul style="list-style-type: none"> – 4% in a RCP6.0 climate scenario; and – 9% in a RCP8.5 climate scenario 	<p>Our water demand mitigation proposals will help reduce the total amount of water we abstract. Our two key programmes (customer demand and leakage reduction) are expected, by 2050, to:</p> <ul style="list-style-type: none"> – Reduce demand by 6%; and – Reduce leakage by 50% by 2045
Key impacts	Key financial impacts include increased remediation and investment needs, and enhanced capital spend, which will be outlined in detail in our WRMP	Key financial impacts include an increased overhead in the water available for distribution, reducing the amount of investment and capital required to ensure a consistent supply of water
Key inputs and assumptions (in combination with the climate change scenarios)	Population growth, environmental sustainability reduction on our abstraction licences, land use change, property occupancy	Deployable Output, regulatory requirements, customer intervention expectations

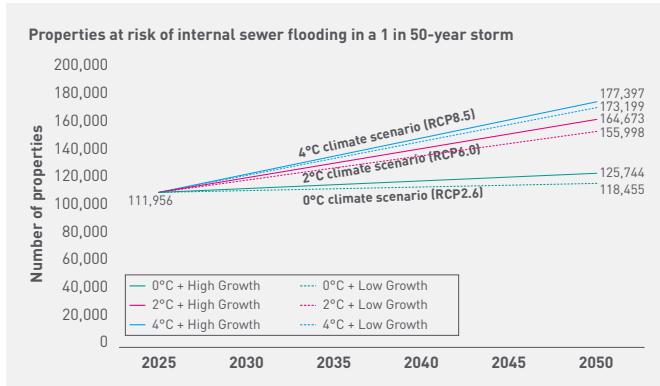
 Waste water safely taken away		
	Risk	Opportunity
Climate driver	Increased frequency and intensity of rainfall may increase risk of sewer flooding, impact the performance of storm overflows and affect the amount of waste water needing treatment	Increased investment in our commitments to reduce public and external flooding and the activation of CSOs
Climate model	<p>RCP2.6, RCP6.0 and RCP8.5, including industry derived rainfall uplifts for 2050</p> <p>Within our DWMP we have modelled present day flood risk during a 1 in 50-year rainfall event (i.e. a rainfall event with a 2% probability of occurring in a year). We then use rainfall uplifts derived from climate change projections to understand how the future climate is likely to affect rainfall intensities</p>	The SDS used climate model assumptions from the WRMP and DWMP, where relevant. No specific quantitative modelling was carried out for the SDS
Timeframe assessed	Current modelling is to 2050. The below impact looks at a 2050 snapshot	The SDS covers the period out to 2050
Key outputs from modelling work	Modelling indicates that, by 2050, increased frequency and intensity of rainfall events would result in 61% more flood water escaping from the sewer network in a 1 in 50-year rainfall event. This will result in 44,000 properties being affected by internal sewer flooding and a 14% increase in storm overflow activations by 2050	<p>Eight future priority areas which we feel are critical in addressing the challenges we have highlighted</p> <ul style="list-style-type: none"> – Increase our abilities to source and deliver water to guarantee future water supplies – Help our customers to be more water conscious to ensure the waste water system is used wisely – Leverage data and technology to deliver a high-quality, affordable service – Improve the resilience of our network to lower the risk of flooding and pollution – Adopt more sustainable practices to protect and enhance our environment – Harness the value in our waste to support a more circular economy – Work with our communities to make a positive social difference – Invest in our high-performing culture to maintain a safe, inclusive and fair workplace
Key impacts	Key financial impacts include increased remediation and investment needs, and enhanced capital spend, which are outlined in detail in our DWMP	The outputs of the SDS guided internal thinking and informed our strategy and investment planning
Key inputs and assumptions (in combination with the climate change scenarios)	Low and high demand projections assume future growth remains in line with population projections indicated by the Office of National Statistics (low demand), with higher forecasts assuming all Local Plan development allocations are built	A mix of internal and external sources were used to inform analysis and conclusions

CASE STUDY

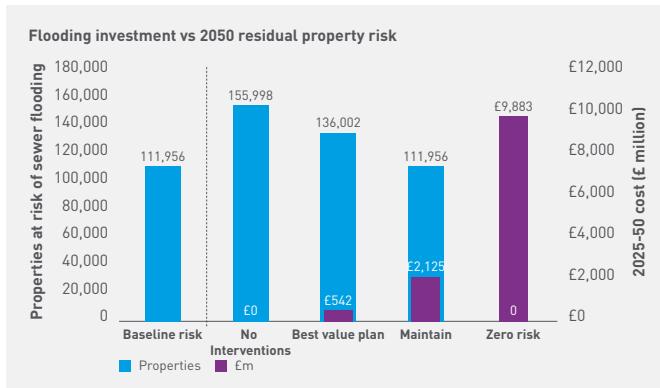
OVERVIEW OF SCENARIO ANALYSIS OUTPUTS

Our Drainage and Wastewater Management Plan

The graph below summarises the number of properties at risk from internal flooding in a 1 in 50-year storm (i.e. a rainfall event with a 2% probability of occurring in a year).



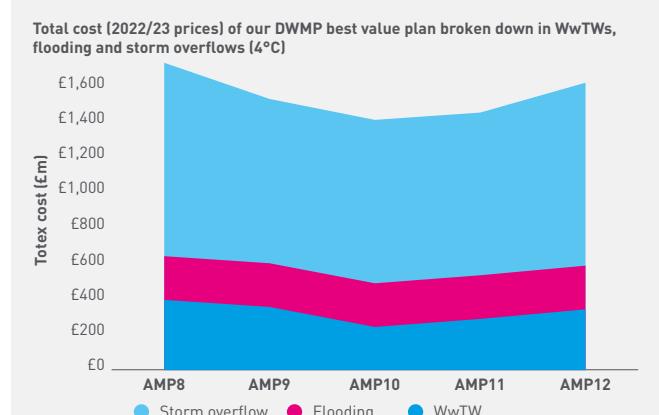
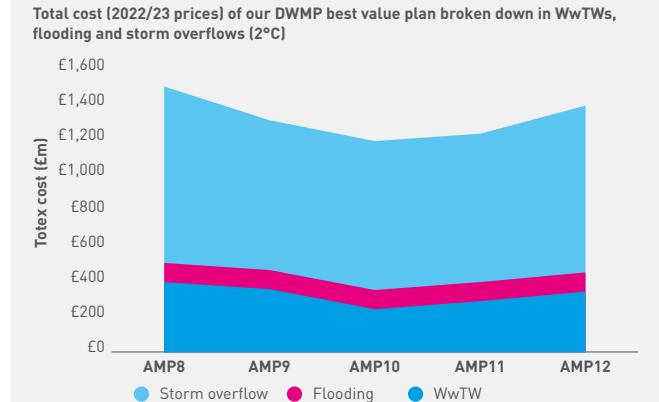
Across the Severn Trent region, our modelling indicates that around 112,000 properties could currently be at risk of sewer flooding from a 1 in 50-year storm. By 2050, assuming no upgrades were undertaken, this would increase by 39% to around 156,000 properties. At present, there are no governmental targets relating to what is an acceptable level of sewer flood risk. In our DWMP, our core best value plan is informed by customer choices in line with Ofwat requirements, but we have also set out investment scenarios to maintain current risk levels and to meet our long-term aspiration to get to zero flood risk. The level of investment set out in our DWMP (aligned to Ofwat best value principles) will not be sufficient to mitigate the future risk from internal flooding from the waste water network. The graph below summarises the different investment scenarios and the residual property risk associated with each.



Within our best value plan analysis, we have included optimisation of traditional 'grey' interventions compared with blue/green nature-based solutions that can support delivery of wider benefits. Subsequently, our DWMP indicates that, based on our best value plan, the percentage of properties at risk would reduce from 2.58% to 2.52% by 2050 (under a 2°C and low-demand scenario). However, the underlying number of properties at risk is expected to increase from around 112,000 to around 136,000 properties, despite investment to alleviate risk to 20,000 over 25 years.

The challenge associated with managing sewer flood risk is balancing affordability of customers' bills in light of other statutory obligations within the Government's Storm Overflows Discharge Reduction Plan ('SODRP') and ensuring permit compliance at our waste water treatment works ('WwTWs'). In terms of overall investment levels set

out in our final DWMP, the figures below summarise our best value 2°C core pathway and 4°C alternative pathway scenarios, across the 25-year planning horizon.



PR24 aims to balance the wide variety of other priorities, whilst ensuring sewer flooding investment plans are supported by customers. In light of this, whilst DWMP provides visibility of future pressures, the level of investment informed by the best value will not be sufficient to maintain current risk levels.

Our Water Resources Management Plan

The scenario analysis that feeds into the WRMP looks at how population growth, drought, regulation and environmental ambition, and wider climate change pressures will impact upon the future demand for water over the next 25 years, taking into account scenarios to 2085 to understand and prepare for more extreme risk. Our WRMP then sets out how we propose to meet that demand.

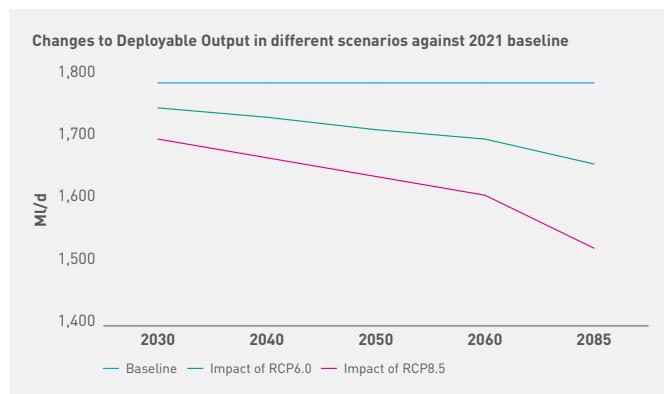
Since our last WRMP was published in 2019, we have seen significant differences in the way that water is consumed in domestic settings, whilst at the same time seeing new governmental ambition to reduce water consumption. There has also been an increase in environmental focus and changes to the classification of some areas as 'water stressed', which means that demand can outstrip supply in those areas. In addition, our customers are facing a cost of living crisis, meaning that more needs to be done to protect our customers.

Overall, future pressures mean that our draft plan (to be released in full in 2023) describes a likely future supply/demand deficit of 244 ML/d by plan year 2040/41 growing to 540 ML/d by 2050/51. Our WRMP will set out how we anticipate to meet this increased level of demand.

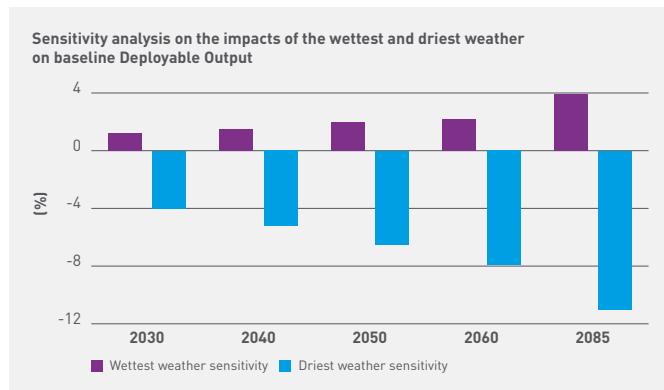
Deployable Output

Hotter, drier summers

Hotter, drier summers will have a significant impact on future water availability when compared with 2021 (see below graph for an indication of how water availability (Deployable Output) will reduce in RCP6.0 and RCP8.5 to 2085).



Different regions may also have particular attributes that make them more or less sensitive to climate change, therefore we carry out sensitivity analysis (on central estimates of climate change) looking at the impacts of the wettest and driest weather on climate impacted Deployable Output. As you can see in the graph below, our region will become progressively more sensitive to the driest weather conditions over time.



Our regulatory commitments to reduce leakage and water consumption do, however, help to provide us with additional headroom to increase water available for supply.

In addition, we plan to deliver a range of schemes to ensure water supplies can cope with a 1 in 500-year return period drought by 2039, whilst keeping pace with climate change and the requirements set out by the Environment Agency by 2050. Plans incorporated in WRMP24 include increased capacity for reservoirs and treatment plants, new reservoirs and treatment plants, transfers to areas of need and changes to import/export arrangements. Details of the individual schemes are outlined in WRMP24.

CASE STUDY

DROUGHT IN SUMMER 2022

Conditions across the whole of the UK in 2022 were extreme, with the Severn Trent region being no exception. For large parts of our region, we experienced the driest seven-month period since 1891. At the same time, temperature records were set in England with the first ever Red Extreme Heat warning. These extremes combined to drive very high levels of customer demand and place our water resources under significant pressure.

To help tackle this problem, we increased our demand management activities, finding and fixing more leaks as well as proactively engaging our customers on how they can help reduce demand.

We also delivered our largest ever programme of encouraging behavioural change by customers, providing advice and messaging throughout the summer to help minimise demand and then continuing into the winter with the first ever winter demand reduction programme to drive long-term sustained change, rather than short-term restrictions on use. This is key because climate change means we are likely to experience more extreme weather in the future.

At the heart of our demand management approach is working with our customers as partners, giving them the motivation and means to make sustainable demand reductions, rather than shorter-term restrictions. Our extended customer engagement, promoting positive actions to help reduce demand, is in contrast to prohibitive restrictions and resulted in significant customer recognition and commitment to reduce water use, as illustrated below. The majority of our customers have said they are likely or very likely to change their water use as a result of behaviour campaigns.



METRICS AND TARGETS

We measure and manage a wide range of metrics, which help us assess how well we are doing to minimise our risks in a changing future. These include a range of metrics that measure our ability to provide and take away water, our influence and impact on natural capital, our adaptation measures and any changes in the regulatory environment. These are reported annually in our Annual Performance Report to Ofwat which provides a transparent assessment of our performance.

This section of our TCFD disclosure sets out the industry and cross industry metrics and targets against which we have reported. We have incorporated metrics used by the Board and management to measure progress towards our targets, and the impact this has had in terms of financial investment. These meet the ISSB and FCA guidance and our metrics go above and beyond what the Sustainability Accounting Standards Board ('SASB') recommends. The table on page 63 shows how measures map across. More detail around how our reporting maps to the recommendations of SASB can be found within our Sustainability Report.

METRICS AND TARGETS		
TCFD recommendation	Progress this year	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. Severn Trent has reported against the Metrics and Targets TCFD recommendations in full within the 2022/23 Annual Report. More detail can be found on the following pages: – Our key targets and milestones page 54 – Measuring our progress page 62 – Our Net Zero Transition Plan pages 58 to 65 Or in the following reports, on our website severntrent.com: – Sustainability Report – Annual Performance Report – Adaptation Report The organisation's internal carbon pricing strategy	Progress this year We were awarded an A- for 2021/22 from the Carbon Disclosure Project ('CDP'). The CDP requests information from companies about climate change and scores each company on the quality and completeness of responses. Our climate change information is publicly accessible. This year we are expanding on this disclosure to incorporate financial information for the first time, as we recognise the importance of this in providing greater transparency over the impact climate change has on our investment decisions. We implemented an internal carbon tax at the beginning of the financial year, at a rate of £18/tonne CO ₂ e, across all directorates. This raised funds of £5.2 million that are being invested in our Net Zero Transition Plan, including new research and development innovations, and £2 million to pay for the people needed to support the transition, both across the business and in a central team. We achieved the Advancing Tier for the Carbon Trust Route to Net Zero Standard, this certification recognises the progress of an organisation on its route to net zero. Following the updates to our ERM system and the commitments we have made to net zero by 2030, we have adapted our financial planning – both this AMP and for PR24 – to incorporate carbon prices. These are now integrated into both our annual processes and our investment objectives for our ambitious transition plan over the next AMP.	
This table sets out the cross industry metrics and targets against which we have reported. We have also assessed our processes to understand where to focus on developing our reporting in future.		
CROSS INDUSTRY METRICS AND TARGETS		
GHG emissions	See table on page 60	3
Transition risks – the amount and percentage of assets or business activities vulnerable to transition risks	See sections 1 – 3 of Key Metrics and Investment table on pages 55 to 56	2
Physical risks – the amount and percentage of assets or business activities vulnerable to physical risks	See sections 4 – 6 of Key Metrics and Investment table on pages 55 to 56	2
Climate-related opportunities – the amount and percentage of assets or business activities aligned with climate-related opportunities	See Key Metrics and Investment table on pages 55 to 56	2
Capital deployment – the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities	See Key Metrics and Investment table on pages 55 to 56	3
Internal carbon prices (amount and explanation of how it is used)	See section 1 of Key Metrics and Investment table on pages 55 to 56	3
Remuneration (% remuneration recognised in current period that is linked to climate-related considerations, and how these are factored in)	See section 3b of Key Metrics and Investment table on pages 55 to 56, and further detail on page 141	3

* = We have rated our disclosure by referencing to the maturity of our processes and readiness to disclose the required level of detail against the above cross industry metrics:
 3 = we have incorporated the required detail within this disclosure across the subsequent pages.
 2 = we have sought to provide detail on some of the required information while we establish more mature processes to improve the level of information available in future.
 1 = we are working to establish new processes that support our work to provide a more detailed disclosure in future.

OUR APPROACH TO CLIMATE CHANGE CONTINUED

Our key targets and milestones

In our business, we appreciate that water is a precious natural resource that we can't take for granted. It is also one of the first impacted by climate change, so we have set ourselves ambitious targets towards net zero and taken action to build resilience against the effects of climate change on our business and our communities, as outlined below.

Our plan	<p>Triple Carbon Pledge commitment to</p> <ul style="list-style-type: none">  Net zero operational emissions, including offsets, by 2030 from a 2019/20 baseline  100% energy from renewable sources by 2030  100% Electric Vehicles by 2030, where possible <p> SBT targets: 46% reduction in Scope 1 and 2 by 2031 from a 2019/20 baseline</p>			
<h3>Protecting our environment</h3>				
Our operations	<p>Launch of our Green Recovery programme in 2021 target of 58,000m³ of blue-green infrastructure for surface water storage</p>	<p>Launch of our Great Big Nature Boost exceeding our 2020 targets to enhance the biodiversity of 5,000 ha of land, and restore 2,000 acres of peatland in England and Wales by 2025</p>	<p> River pledges delivering against our pledges announced in March 2022, including support for farmers, better data and reduced CSO discharges, alongside nature-based solutions</p>	
<p>Managing demand</p> <p>65% of customers onto a water meter by 2024</p> <p>4% reduction in Per Capita Consumption by 2024/25</p> <p>15% reduction in leakage by 2024/25</p>			<p>Managing supply</p> <p>Feasibility started on North/South water interconnector</p>	
Our value chain and the communities we serve	<p> AMP7 commitment we have spent £923m of our commitment to spend £1.2 bn on sustainability, including our Triple Carbon Pledge</p> <p> SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION</p> <p>Science Based Targets 13.5% reduction in emissions from sold products by 2026 from a 2019/20 baseline</p> <p>70% of supply chain (by emissions) to set SBT by 2026</p>	<p> Launch of £10m Community Fund and a £30m affordability package supporting customers who struggle to pay</p>	<p> Official Nature and Carbon Neutral partner for 2022 Commonwealth Games</p>	<p>Launch of Societal Strategy</p>
Governance, resource and reporting	<p>Continued commitment to meet TCFD requirements</p> <p>Ongoing disclosure via CDP</p> <p></p>	<p>Established net zero governance and resources</p> <p>Launch of an internal carbon tax for FY23</p>	<p>Climate performance linked to Executive remuneration</p> <p>Sustainability LTIP launched in 2021 and adapted targets each year</p>	<p>External third party assurance of TCFD and LTIP measures</p> <p>Carbon Trust Route to Net Zero Standard (Advancing Tier)</p>
<p>Key planning documents</p> <p>WRMP DWMP SDS PR24 LTDS</p>				



Launched EcoVadis
to assess supplier environmental and social performance

MEASURING OUR PROGRESS

Key metrics and investment table

Outlined in the table below are the key metrics and targets that align with the transition (purple) and physical (green) risks and opportunities, as covered in the Risk Management section from page 46. These are outlined alongside the financial investment we have made this year to demonstrate the financial impact of climate change on our investment programme and planning processes. We have identified both climate risks and climate opportunities in our strategy and capital deployment approach, within both mitigation and adaptation objectives.

	Target	Investment update
1	REGULATION/POLICY: Changing societal expectations resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance	
1a	Carbon tax To prepare ourselves for a future of potential carbon taxes, in 2022/23 we applied our first internal carbon tax.	This year, we allocated all of the £5.2 million of carbon tax funds raised to trials and new projects aimed solely at driving down our operational emissions. We utilised the resourcing fund that we set aside, of £2 million, to hire new people across internal teams focusing on carbon reduction, giving us opportunities to do more, faster.
1b	Carbon pricing We set ourselves a goal to adapt our internal processes before the end of this AMP, in order to begin considering external carbon prices when appraising capital projects.	Starting this year, we incorporated a price of £248 per tonne from Government Green Book shadow prices for carbon into our process for capital investment appraisal. We have used these prices for project assessment in preparation for PR24.
2	AFFORDABILITY: The investment required will impact customer bills and affect affordability for some	
2a	Financial support Although we have one of the lowest bills in the country, we know that 6% households in our region are in water poverty. In May 2022, we launched our Affordability Strategy, a £30 million package of additional financial support to additional 100,000 customers. For more information, refer to our Sustainability Report.	This year, we have supported 132,296 customers through our Big Difference Scheme, and will continue to support customers who struggle to pay their bill.
2b	Community Fund From 2020 to 2025, we will be giving away more than £10 million to support new projects run by local charities and community groups in the Severn Trent region.	We have invested £2 million this year in 116 projects approved through the Community Fund, facilitating investment in nature and the environment across our communities.
3	CLIMATE CHANGE STRATEGY: Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain essential services Mitigating climate change will require rapid decarbonisation	
3a	Net Zero Transition Plan In 2019, we made a commitment to be net zero by the end of 2030. We set out our targets within our Triple Carbon Pledge. We have since committed to SBTs for Scope 1 and 2 emissions, our supply chain, and sold products. These are outlined on page 57.	This year, we invested £2.3 million in our Net Zero Transition Plan and progression against our SBTs. We have also invested £1.1 million this year to begin transforming one of our sites into our first ever Net Zero hub.
3b	Executive remuneration In 2021, we restructured our Executive remuneration to incorporate a sustainability element to the LTIP. Twenty percent of the bonus paid under this plan is based on sustainability performance measures and targets for both innovation and actual carbon reduction.	The sustainability element of the LTIP will vest in FY24, when we will report on the bonus amounts and criteria. More information on our current remuneration structure is on page 145.

OUR APPROACH TO CLIMATE CHANGE CONTINUED

4	A SAFE AND SECURE SUPPLY OF DRINKING WATER: Demand for water will increase as a result of population growth and changing weather conditions		
4a	Customer meters	We need our customers to help save water, and giving them more insight on usage helps them and us to focus in the right areas. We set a target to get 65% of customers onto a water meter by 2025, which equates to 1.1 million new smart meters and 1.4 million upgrades.	In 2022/23, we invested £8.6 million to install 72,000 new smart meters. We are on track to meet our AMP target for 2024/25.
4b	Per Capita Consumption	We have committed to an ambitious target to reduce consumption by 4% by the end of 2024/25. This equates to a target of 122.7 litres per person per day, and 124.5 litres per person per day by 31 March 2023.	This year we invested £1.4 million in reducing PCC through customer engagement projects. We are working with customers directly to change behaviours around water usage, and provide quick and easy ways to report leaks to us. Our PCC figure for this year is 137.6 litres per person per day.
4c	Interconnector	We are collaborating with others in the water industry to investigate and plan for an interconnector pipeline that will move water from areas of water surplus in the North to areas of water scarcity in the South. Our target by the end of 2024/25 is to have a plan approved by Ofwat to begin construction in AMP8 of relevant schemes.	We have invested £7.2 million this year on interconnector projects, including investigating the feasibility of using the Grand Union Canal as an alternative resilient water source, and expanding reservoir capacity in our region. Our first four options have been submitted to Ofwat for consideration ahead of AMP8.
4d	Leakage reduction	We need to stop water leaking from our network. This will help to engage customers to preserve water and avoids energy and chemicals waste. We have set an ambitious leakage reduction target of 15% by the end of AMP7 (averaged over 3 years at 14.3%), and 50% by 2045 (since 2019/20).	This year, we deployed capital investment of £44.6 million in both proactive and reactive repairs to our pipes alongside proactive management of our network. We have so far delivered a 3.5% reduction since 2019/20.
5	TRANSPORT AND TREATMENT OF WASTE WATER: We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment		
5a	Public sewer flooding	In 2020 we committed to 7.4% reduction in public sewer flooding – the only company in the industry to have such a measure for AMP7.	This year we invested £80 million to prevent sewer flooding. We have outperformed on our public sewer flooding target by 34% and we are outperforming this measure by 40% on average across the AMP. Unfortunately we missed this year's challenging target for external sewer flooding by 26%. Storm events over the winter had a significant impact on our network, and some areas experienced more than 200% of the average monthly rainfall. We are working to get back on track and improve performance significantly, as we have ambitions to demonstrate great outcomes here.
5b	External sewer flooding	We set ourselves a highly ambitious target at the beginning of AMP7 to reduce external sewer flooding incidents by 8%. We know how important it is to our customers to see performance in this measure improve, and to our business to build resilience to the effects of climate change.	
5c	Combined Sewer Overflows	As part of our Get River Positive river pledges, we set a target to reduce spills from storm overflows to an average of 20 per year by 2025.	We have deployed capital investment of £13.7 million in improving the data we have on CSOs, creating new processes to manage and monitor triggers, and have reduced the number of storm overflow activations from an average of 25 to 18 this year.
6	NATURAL CAPITAL: We fail to positively influence natural capital in our region		
6a	Green Recovery	In July 2021, Ofwat awarded us £566 million (2017/18 prices) to invest in our ambitious Green Recovery Programme. Projects include collaborative flood resilience, via which we set a target to store 58,000m ³ of surface water to reduce flooding risk to homes. You can read more about this and our progress on page 35.	This year we invested £3.3 million in collaborative flood resilience as part of our project in Mansfield to store more surface water and prevent flooding. We also invested £7.6 million to support environmental improvements to rivers, through our Bathing Rivers programme.
6b	Biodiversity	In 2020, we launched our Great Big Nature Boost, committing to enhance the biodiversity of 5,000 hectares of land, plant 1.3 million trees and restore 2,000 km of rivers by 2027. We also committed to improve rivers in 44 catchments covering 432,000 hectares through our Farming for Water programme by working with two thirds of all farmers in our region. 381 hectares of our land will be managed using an approved biodiversity action plan.	This year we have invested £1.5 million to plant 227,999 trees, reaching a total of 694,144 to date. We have already exceeded our target of enhancing the biodiversity of 5,000 hectares, four years early. 923 STEPS grants have been awarded since 2020, with a total investment applied for of £5.6 million. You can read more about these initiatives on pages 18 to 19 and on our dedicated website pages: stwater.co.uk/about-us/environment/biodiversity/

OUR TRIPLE CARBON PLEDGE AND SCIENCE-BASED TARGETS COMMITMENT

The following outlines performance against our existing targets and highlights of the last year's activities, see pages 60 to 62 and our dedicated Sustainability Report online for more information

OUR TRIPLE CARBON PLEDGE



Net zero

operational carbon emissions Scope 1 and 2 across our business by 2030 (offsets included) from a 2019/20 baseline

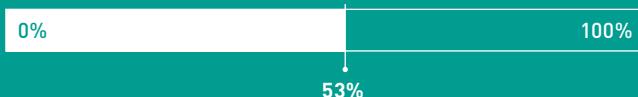


- Improving our data, particularly in monitoring actual process emissions
- Investing in national and international partnerships
- Working on a portfolio of innovations to test individual technologies and designing plans for a world's first Net Zero hub at a waste water treatment site to trial and test technologies that minimise our operational emissions
- Stepping up our operational focus on energy use, using energy more flexibly and promoting behavioural change to reduce wasted energy
- Building net zero into our business plans for the next regulatory cycle
- Investing further in peatland restoration and tree planting



100%

of energy from renewable sources by 2030

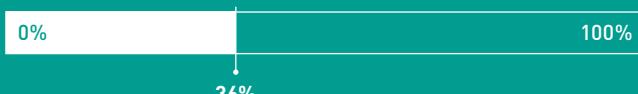


- We continue to procure 100% renewable-backed electricity via our suppliers
- We continue to invest in energy efficiency to offset the upward drivers we face from drought and improving water quality
- We've increased our total renewable energy generation and generated a record 548 GWh this year



100%

electric vehicles, where available, by 2030



- 146 company electric vehicles now in use
- Ran Hydrogenated Vegetable Oil trials in place of diesel for some vehicles
- Increased number of home charging points installed
- We work with manufacturers, suppliers and professional bodies to understand and influence the roadmap of EV development

SCOPE ONE

Direct emissions from owned or controlled sources.



SCOPE TWO

Indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed.



SCOPE THREE

Includes all other indirect emissions that occur in a company's value chain.



OUR SCIENCE-BASED TARGETS



46% reduction

in Scope 1 and Scope 2 emissions by 2031 from a 2019/20 baseline



- Improving our data, particularly in monitoring actual process emissions
- Investing in national and international partnerships
- Working on a portfolio of innovations to test individual technologies and designing plans for a world's first Net Zero hub at a waste water treatment site to trial and test technologies that minimise our operational emissions
- Stepping up our operational focus on energy use, using energy more flexibly and promoting behavioural change to reduce wasted energy
- Building net zero into our business plans for the next regulatory cycle
- Investing further in peatland restoration and tree planting



70% of our supply chain

(by emissions) having set a SBT by 2026



- Starting to align incentivisation to environmental outcomes
- Engaging with and supporting our supply chain to understand, report and set their own Science-Based Targets ('SBTs')
- Increasing data maturity with others in the sector to capture actual data and drive consistency in data capture and reporting
- Assessing high-impact suppliers through EcoVadis
- Secured place on CDP Supplier Engagement Leaders board



13.5% reduction

in emissions from the use of sold products by 2031 against a 2019/20 baseline



- The change stems largely from utilisation of propane when injecting biomethane into the National Gas Grid to meet energy criteria regulations
- We have explored ways to mitigate this and use of alternatives e.g. biopropane, so we can continue to increase our renewable generation from sludge

OUR NET ZERO TRANSITION PLAN

What are we aiming for?

Our Net Zero Transition Plan brings together our Triple Carbon Pledge (which we set in 2019) and our SBTs, approved in 2021. We need to achieve these targets whilst continuing to provide the high-quality service our customers expect, at a price they can afford.

What do we mean by net zero?

Net zero means achieving a balance between the amount of emissions produced and those removed from the atmosphere in order to limit the impact from climate change.

Our target is to achieve net zero operational emissions (our Scope 1 and 2, and some outsourced Scope 3) by 2030. We will prioritise our net zero investment to achieve this without purchased offsets, but if we do need them, we will only use high-quality offsets to meet our 2030 target.

Our glidepath and future strategy

Our strategy considers the best operational, technological and economic route to meeting our climate goals. We constantly review this as part of our net zero programme to ensure decisions reflect latest advancements and best practice.

Our approach

Achieving our plan is requiring us to re-think every aspect of our business processes and adopt new ways of working. Our approach is to follow the carbon hierarchy to achieve our 2030 targets:

- REDUCE**
Reduce our emissions
- REPLACE**
Replace fossil fuels such as natural gas with green energy
- REMOVE**
Remove carbon emissions such as through carbon sequestration
- OFFSET**
Only then we will offset where we can't remove any residual emissions through high quality and accredited schemes

● SCOPE ONE

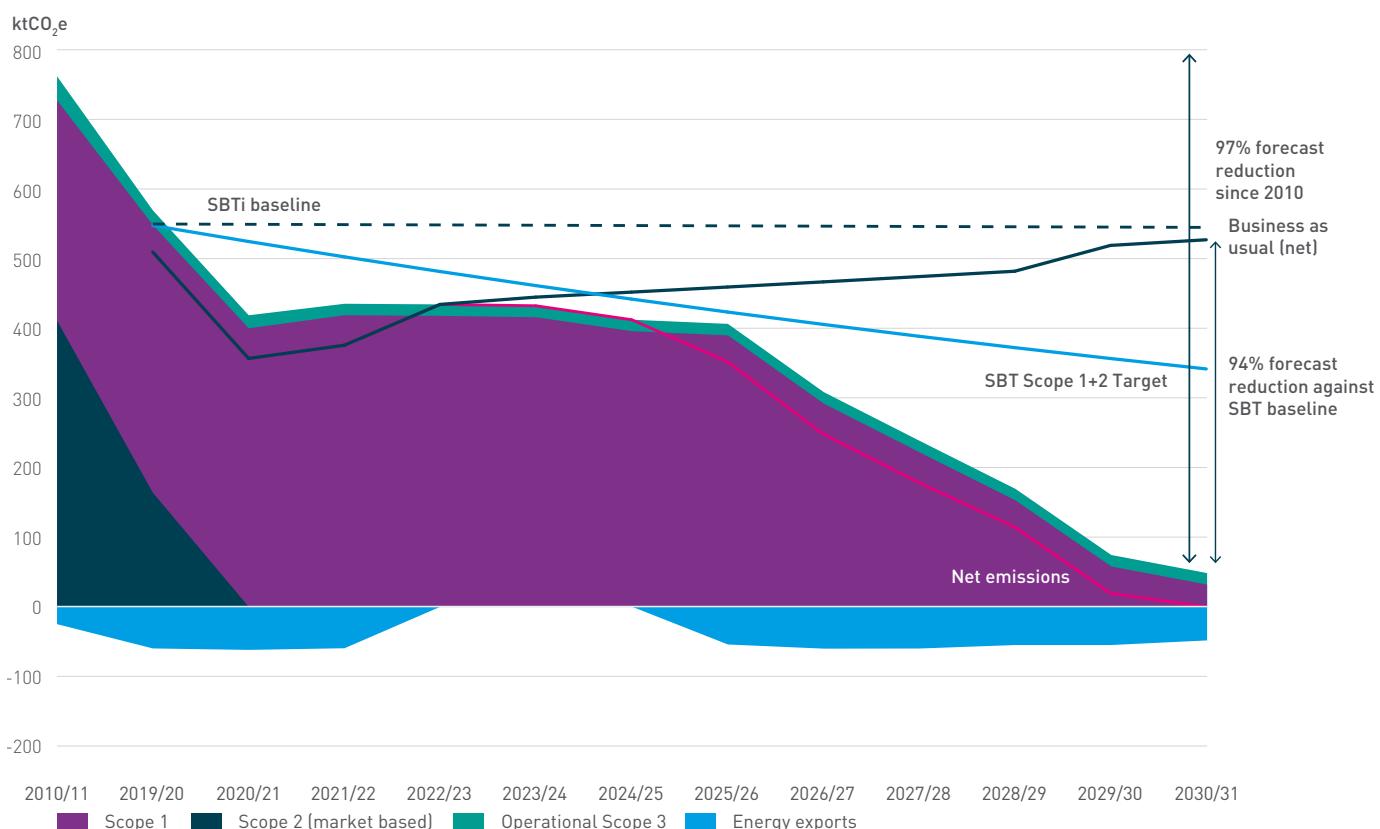
Since introducing more advanced process emission measurement systems, we have been able to capture more accurate data, resulting in a significant perceived increase in Scope 1 emissions that reflects the change in reporting

● SCOPE TWO

We have committed to purchase renewable-backed electricity for all our import supply, which reduced our market-based Scope 2 emissions to zero, effective from 2021

● SCOPE THREE

Scope 3 is a major source of emissions, which we are working on with our suppliers



The chart on the previous page shows the significant progress we have already made on our carbon reduction journey, delivering 59% since 2010/11 and 24% reduction against our SBT target of 46% by 2031 (against our baseline in 2019/20). Based on internal projections, linked to our transition and investment plans, we believe it will be possible to significantly outperform our SBT reduction target for Scope 1 and 2 operational emissions by 2030/31 and in turn set the roadmap for others to follow.

Despite being confident in our plan to deliver the net zero programme, it will not be a linear journey. The step change in effort and investment required between now and 2030 to deliver the next phase of reduction will require innovation at scale in the next 18 months, followed by a strong delivery programme in the second half of the decade. The additional challenge we will face along the way is implementing the required reduction interventions that not only cope with today's demand, but the incremental demand on our business that comes from population growth, increased water quality standards and resilience of water supply.

As such, we are currently focused on investing in research and development to trial and test new technologies and ways of working that will enable us to make reductions that address these competing demands. Not all of the technologies we've tested are suitable and our innovation portfolio enables us to quickly adapt our approach in view of learnings.

The emphasis on transparent and rigorous reporting remains a key priority to ensure that we invest in the right areas. As the science and requirements of reporting standards and frameworks evolve, it's important to distinguish between method changes and actual changes such as our process emissions. We continue to improve the granularity and confidence of our data as we move from estimates to actual data as much as possible across all our scope emissions.

This means our emissions are going up in the short term, before we can start to realise reductions again.

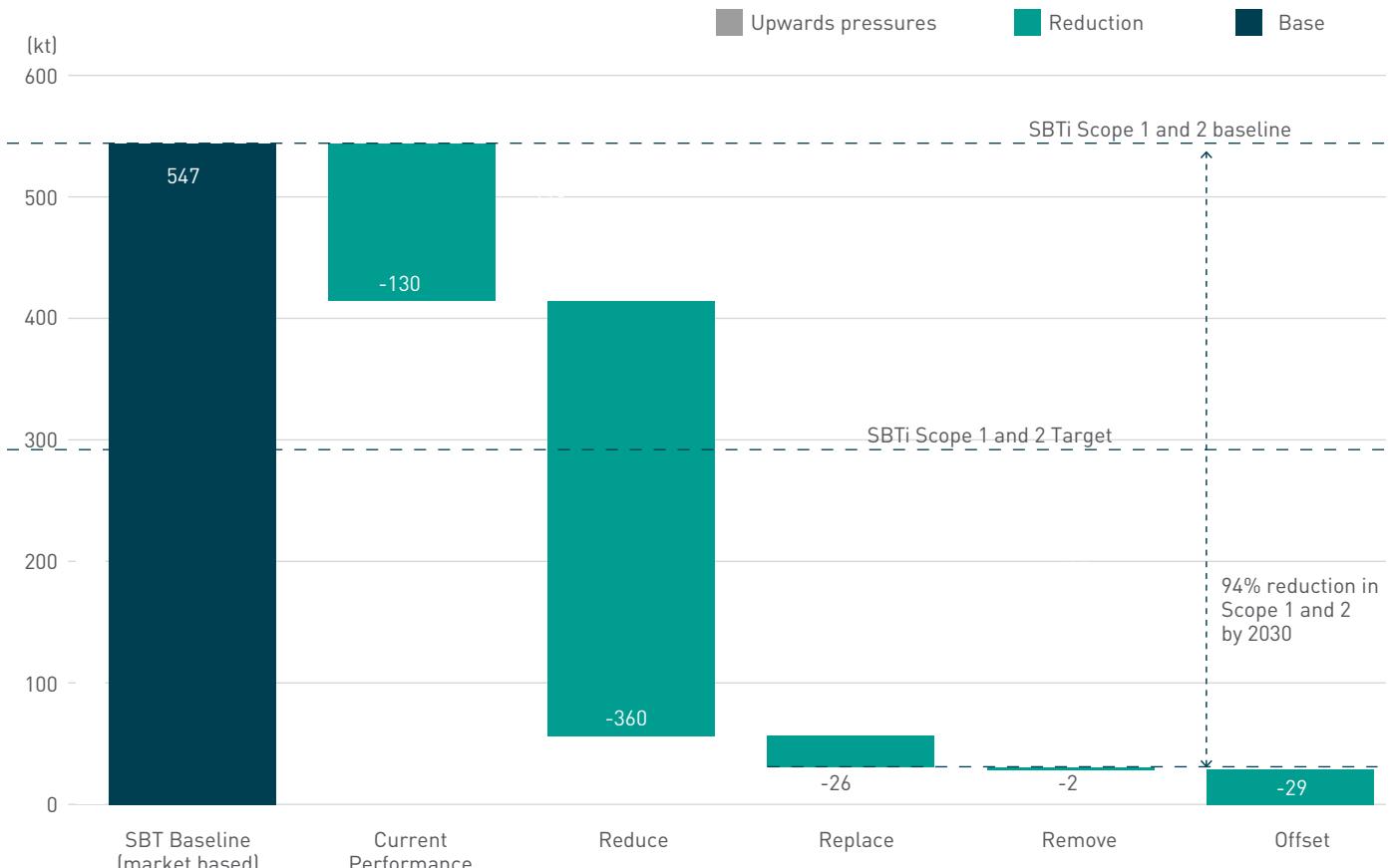


NET ZERO HUB — INNOVATING FOR THE FUTURE

In order to make significant headway with our reductions, we will need to implement new technologies on a wider scale across our waste water treatment sites. Work on our portfolio of innovations has progressed significantly over the last twelve months through a combination of testing and trialling individual technologies for feasibility and viability at our Resource and Recovery Centre, as well as drawing on the learnings of trials undertaken by other companies. We have brought these together and are designing a whole system of technologies that can be retrofitted onto an existing waste water treatment site, as outlined in the Net Zero hub case study, and is a pivotal part of the programme to reduce our Scope 1 and Scope 2 emissions. See our Sustainability Report for the case study.

Building our programme

We are confident that the investment we are making now will ensure we meet our targets. Our current estimates to achieve our reduction targets are outlined below. This will be updated with more detailed and costed plans as part of our next business planning cycle, PR24, which is currently being developed.



OUR NET ZERO TRANSITION PLAN CONTINUED

The following table shows our annual greenhouse gas performance and accounts. Our reporting method is documented overleaf along with a summary of this year's performance, with supporting technical detail to ensure full transparency reflecting the complexity and growing granularity of our data.

Annual operational emissions – location and market based

OPERATIONAL GREENHOUSE GAS EMISSIONS (TONNES CO ₂ E)	ST Plc 2019/20 baseline	ST Plc 2020/21	ST Plc 2021/22	ST Plc 2022/23
Scope 1 Emissions – Combustion of fossil fuel on site	18,215 ⁴	29,669	48,716	51,167
Scope 1 Emissions – Process emissions – CAW ¹	150,266 ⁴	155,441 ⁴	149,515 ⁴	138,724 ⁴
Scope 1 Emissions – Process emissions – Revised methodology ²	348,052	351,601	350,481	346,508
Scope 1 Emissions – Transport fleet	17,639 ⁴	17,914	18,968	19,656
Scope 1 Total Emissions³	383,906	399,184	418,165	417,330
Scope 2 Emissions (Electricity purchased for own use) – Location Based ³	199,635	182,768	159,638	149,964
Scope 2 Emissions (Electricity purchased for own use) – Market Based ³	163,581	1	–	8
Scope 1 and 2 Total Emissions – Location Based	583,541	581,952	577,803	567,294
Scope 1 and 2 Total Emissions – Market Based	547,487	399,185	418,165	417,338
Scope 3 Emissions (Business Travel)	1,447	343	620	958
Scope 3 Emissions (Outsourced bioresource activities)	3,187	3,340	2,424	2,463
Scope 3 Emissions (Electricity Transmission and Distribution)	16,985	15,718	14,127	13,719
Total Annual Gross Operational Emissions³ – Location Based	605,160	601,353	594,974	584,434
Total Annual Gross Operational Emissions³ – Market Based	569,106	418,586	435,336	434,478

Annual GHG intensity ratio (tCO ₂ /unit) ³	ST Plc 2019/20 baseline	ST Plc 2020/21	ST Plc 2021/22	ST Plc 2022/23
Gross Location Based Operational GHG emissions per £m turnover	328	329	306	270

1 The CAW has been our historical and industry standard reporting method for process emissions, so it is provided for transparency and comparison.

2 Process emissions based on our trial and monitoring data, see page 61 for more details.

3 These values use the revised process emissions numbers.

4 Historic process emissions have been updated to reflect revised data and emissions factors. Historic emissions for combustion of fossil fuels have been revised to reflect changes to biomethane production methodology and 2019/20 fleet data has been updated to capture fleet in our Green Power business. Intensity factors have been updated to reflect these adjustments

Avoided emissions

Our generation of energy from anaerobic digestion within our Severn Trent Water and Green Power businesses provide us with the opportunity to export renewable energy to the grid. This energy displaces natural gas and electricity that might have come from other sources. We estimate the benefit of these avoided emissions below versus average grid emissions factors for electricity and natural gas in the UK.

Avoided emissions (tCO ₂ e)	ST Plc 2019/20 baseline	ST Plc 2020/21	ST Plc 2021/22	ST Plc 2022/23
Estimated emissions benefit of the renewable electricity we export	46,954	40,648	33,961	29,547
Estimated emissions benefit of the renewable biomethane we export ¹	32,926	45,006	54,032	73,393
Total avoided emissions	79,880	85,654	87,993	102,940

1 Benefits calculated using the latest UK grid emissions factors.

Supply chain emissions

The table below shows our estimated Scope 3 emissions which are not included as part of our operational footprint. These emissions are part of our Science-Based Targets. We will be disclosing improved data on these areas in future, as explained in our Sustainability Report.

Scope 3 Emissions	ST Plc 2019/20 baseline	ST Plc 2020/21	ST Plc 2021/22	ST Plc 2022/23
1) Purchased goods and services	161,171	160,710	219,777	248,231
2) Capital goods	250,546	250,546	197,376	183,702
3) Fuel and energy-related activities – transmission and distribution	21,148	15,718	14,127	13,719
3) Fuel and energy-related activities – upstream well to tank emissions		8,715	13,909	13,714
4) Upstream transportation and distribution	17,140	17,140	16,682	12,766
5) Waste generated in operations	6,440	6,084	10,280	10,380
6) Business travel	1,121	343	620	958
7) Employee commuting	3,471	3,471	5,250	4,907
8) Upstream leased assets	NA	NA	NA	NA
9) Downstream transportation and distribution	1,823	3,340	2,348	2,463
10) Processing of sold products	NA	NA	NA	NA
11) Use of sold products	32,332	32,995	36,821	36,439
12) End of life treatment of sold products	NA	NA	NA	NA
13) Downstream leased assets	10,469	10,469	15,104	14,493
14) Franchises	NA	NA	NA	NA
15) Investments	NA	NA	NA	NA
Total Scope 3	505,661	509,491	532,295	541,772

1 Benefits calculated using the latest UK grid emissions factors.

Greenhouse gas reporting method

2022/23 is the tenth year Severn Trent has reported GHG emissions. For Severn Trent Water, which accounts for 98% of our total Group emissions, we have been publicly reporting our emissions since 2002. We also continue to report our energy use and generation data to provide more detail on how we manage energy use. Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO₂e), for the period 1 April 2022 to 31 March 2023. We report our location-based and market-based emissions separately and report on ten Scope 3 categories. We report using a financial control boundary and follow the practices set out by the Greenhouse Gas Protocol.

Method for calculating process emissions

We used the UK Water Industry Research ('UKWIR') standardised methodology for estimating operational GHGs, Carbon Accounting Workbook ('CAW'), to calculate our 2019/20 baseline. However, deeper insights led us to enhance our measurement practices, and over the last three years we've been running an industry-leading monitoring programme that shows our process emissions are substantially higher than the previous CAW estimations. Our method for estimating process emissions reflects guidance from the International Panel for Climate Change ('IPCC') which highlights the need to improve on broad emission factors by taking measurements at the facility-specific level. We are targeting effective monitoring at sites responsible for 40% of N₂O and 40% of CH₄ emissions and have met this target for N₂O emissions. This data will give us an insight into long term seasonal and diurnal profiles as well as any variation caused by processes on site. This is the second year we are reporting our process emissions based on our own measured data, rather than a crude emission factor estimate.

The emissions factors across our process emissions have increased as a result of our wider monitoring (to just below IPCC factors), which continues to confirm that emissions factors are substantially higher than the previous UKWIR CAW calculations. This method has been applied to our historical emissions. In addition, our monitoring has allowed us to capture new sources which were previously unreported.

Assuring our data

The GHG data we report is tracked internally during the year through the Corporate Sustainability Committee and shared with the Board. We have subjected our GHG data and processes to external assurance by Jacobs. They completed a full audit of our Scope 1, 2 and 3 data in line with the principals of the ISO 14064 International standard for GHG emissions and found our processes for reporting are consistent with reporting requirements the GHG Protocol.

In addition, we achieved the Advancing Tier for the Carbon Trust pilot Route to Net Zero Standard – this certification recognises the progress of an organisation on its journey to net zero. This included assurance to the principles of ISO 14064-3 International standard for GHG emissions for our Scope 1 and 2 and a small portion of our Scope 3 data. We are in the process of verifying our 2022/23 footprint with the Carbon Trust to maintain our accreditation.

Summary of performance

Our emissions have fallen by 24% against a 2019/20 baseline for our SBT of 46% reduction by 2031 on a 2019/20 baseline, driven predominantly by moving to 100% renewable electricity from our suppliers.

Our Scope 1 emissions are broadly flat from last year. As we capture more data, you see this reflected in some areas such as our fleet, which now include emissions from HD that were not previously calculated. Our use of natural gas is higher due to the deployment of Thermal Hydrolysis sludge treatment process at an increasing number of sites, which produces better quality sludge digestate and more renewable energy, but requires high temperatures. This is balanced by a reduction in our process emissions, which continue to make up the majority of our Scope 1 emissions at 83%. Even though we are processing higher volumes of sludge, approximately 60% of our sludge is now being treated using advanced digestion ('THP', 'APD') which has approximately half the emission factor of traditional anaerobic digestion.

For Scope 2, whilst we have used more electricity, we have benefitted from reduced grid emissions factors for location based factors. We also report the benefit of our 100% renewable green tariff as reflected in the market based emissions.

Also shown in our avoided emissions table, is the carbon benefit of the renewable electricity which we export and biomethane we export to the grid. We generate renewable energy in both our regulated and non-regulated businesses and continue to see growth in both these areas. We use the proceeds to invest in our research and development programme to reduce Scope 1 emissions.

We have seen an increase in our use of sold product and associated emissions, due to changing how we account for our propane usage to inject biomethane into the national gas grid. The propane is required to ensure our renewable gas meets energy standards within the grid for metering purposes and we are seeking ways to reduce/replace the propane and improve our performance.

Our total Scope 3 footprint has increased by 2% from 2021/22 driven mainly by increased expenditure on goods and services, and capital goods. See our Sustainability Report for wider reporting on our Scope 3 journey.

REPORT ON ENERGY

Below is data on our energy consumption and generation for the last five years across the Severn Trent Group. This is source data for the carbon data reported above and is tracked internally on a monthly basis. All data is collected from metered data for electricity and gas imports and exports. Biogas combustion information is calculated using assumptions based on metered data. Fuel use is reported based on financial records of fuel purchased. We have applied assumptions on standard calorific values to convert all liquid and gas fuel types to a common energy metric ('GWh') and data is reported for the period 1 April 2022 to 31 March 2023. All energy is used in the UK.

Energy efficiency

Energy became an even more important focus for us this year as prices rose to record levels.

Our energy management policy and dedicated team and investment programme have enabled us to manage these pressures effectively during the year. We also established new communication campaigns focused on energy use management and expanded our flexibility approach to participate in the world's first National Grid Demand Flexibility Scheme to mitigate price rises.

This year we invested an additional £4.3 million in energy efficiency schemes and we have invested a total of £36 million over the last eight years. This includes proactive maintenance of our energy-intensive assets, such as pumps and air blowers, and investment in improved controls and monitoring to reduce energy use. Our energy management policy and programme reflects best practice outlined in ISO 50001, the international energy management standard.

To reduce our operational emissions further, we continue to focus on improving our energy efficiency to offset the additional demands of a growing population and greater treatment to improve water quality. Our long-term energy strategy is to increase the amount of renewable energy we generate and procure, to continue to focus on energy efficiency and to take advantage of incentives to use energy flexibly.

Our total use of electricity rose this year, driven primarily by the drought conditions during summer, which required more water into supply, abstraction restrictions on our cheapest gravity sources and intensive reservoir recovery pumping over the winter period to prepare for the year ahead. This rise was mitigated by our energy efficiency activity and our like-for-like year end position on total electricity use is 2% lower, when removing the impacts of drought conditions.

The figures below include the large quantity of renewable biogas from organic waste, which we generate from sludge and food waste and then either combust in combined heat and power engines or export to the national gas grid. Our import of gas has increased over the last three years, driven by the commissioning of new heat-intensive sludge treatment processes and our deployment of combined heat and power ('CHP') generation fed by imported gas to mitigate high electricity costs. We have also increased our export of biomethane into the gas grid and decreased the amount of biogas we combust in CHP.

We generated more renewable energy this year than ever before, a total of 548 GWh. Our aim is that, by 2030, all energy that we use will come from a renewable source. That means it is either directly renewable or covered by a renewable-backed source of gas or electricity such as a Renewable Energy Guarantee of Origin ('REGO') or green gas certificate. Achieving this target will require electrification, which will result in an increase in our use of electricity in order to phase out the use of fossil fuels in our business. It will also mean an increase in use of biofuels and green hydrogen to replace diesel.

Energy type	Source	Units	2018/19	2019/20	2020/21	2021/22	2022/23
Electricity	Electricity imported	GWh	771	780	784	752	775
	Electricity generated from renewable sources and used on site	GWh	198	194	184	170	153
	Electricity generated from renewable sources and exported	GWh	114	184	174	160	153
	Electricity generated from fossil gas and used on site	GWh	0	0	12	43	48
Gas Fuels	Gas imported from the grid	GWh	52	44	120	208	233
	Biogas generated and combusted on site	GWh	745	922	872	801	733
	Biomethane generated and exported to the grid	GWh	166	181	245	336 ¹	403
Liquid Fuels	Fuel used by plant (gas oil and diesel)	GWh	20	20	23	31	31
	Fuel used by company fleet	GWh	62	70	77	71	74
	Fuel used for business travel (personal cars)	GWh	7	6	4	2	2
Totals	Total energy used (i.e. annual quantity of energy consumed from activities for which the Company is responsible, including combustion of fuel and operation of facilities)	GWh	1,855	2,037	2,064	2,035	2,002
	Total energy imported (i.e. annual quantity of energy consumed resulting from the purchase of electricity and gas. No imports of heat, steam or cooling)	GWh	912	921	1,008	1,064	1,116
Normalised Metrics	Total energy per unit of revenue	GWh/£m	1.05	1.11	1.13	1.05	0.92
	Energy imported per unit of revenue	GWh/£m	0.52	0.50	0.55	0.55	0.52
	Clean water electricity use per unit treated	kWh/ML	714	698	718	726 ¹	744

¹ We have restated gas export volume for 2021/22 which is now higher than reported last year. Some gas export volume was not included at year end last year as it was not accredited in time for annual reporting. It is included here in the restated 2021/22 gas export number.

DISCLOSURE UNDER SUSTAINABILITY ACCOUNTING STANDARDS BOARD

Companies in the Water Utilities and Services industries are recommended to report against the following metrics and topics for SASB standards in the draft IFRS S2 (Climate-related Disclosures).

SASB standards		Equivalent reporting	Location of reporting	Description of reporting
Energy management	1) Total energy consumed 2) Percentage grid electricity 3) Percentage renewable	1) Total energy used 2) Electricity imported 3) Electricity generated from renewable sources and used on site; biogas generated and combusted on site	Annual Report and Accounts page 62	We report on the change in energy usage expressed in GWh over three years from 2018/19 baseline
	Water main replacement rate	Length of new mains requisitions, length of new mains – Self Lay Providers	Annual Performance Report ¹	We report on our water main replacement rates expressed as a percentage
	Volume of non-revenue real water losses	Leakage Mains bursts	Annual Performance Report ¹ Annual Performance Report ¹	Our reporting considers the percentage reduction of three-year average leakage in megalitres per day [ML/d] from the 2019/20 baseline Our reporting considers the number of mains bursts per thousand kilometres of total length of mains
Distribution network efficiency		Speed of response to visible leaks	Annual Performance Report ¹	We report the time taken to fix customers' reported significant visible leaks on Severn Trent Water's network
	Percentage of water utility revenues from rate structures that are designed to promote conservation and revenue resilience	Number of water meters installed	Annual Performance Report ¹	Our reports outline the number of customer water meters installed
	Customer water savings from efficiency measures, by market	Inspiring our customers to use water wisely Per Capita Consumption	Annual Performance Report ¹ Annual Performance Report ¹	We report the number of people who have agreed to change their behaviour as a result of our educational activities Our reporting outlines the average amount of water used by each person that lives in a household property [litres per head per day], reported as a three-year average
End-use efficiency	Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	Reported in the EA Water Scarcity Status report ('WSSR')	EA Water Scarcity Strategy ²	Our reporting on sourcing from high-stress regions is outlined within the WSSR
	Volume of recycled water	Not reported		We do not currently report on the volume of recycled water delivered to customers
	Discussion of strategies to manage risks associated with the quality and availability of water resources		Water Resources Management Plan	
Water supply resilience	Waste water treatment capacity located in 100-year flood zones		Drainage and Wastewater Management Plan	
	(1) Number and (2) volume of sanitary sewer overflows ('SSO') and (3) percentage of volume recovered	Not reported		
	(1) Number of unplanned disruptions, and (2) customers affected, each by duration category	Supply interruptions	Annual Performance Report ¹	
	Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and waste water infrastructure		Water Resources Management Plan / Drainage and Wastewater Management Plan	
Network resiliency and impacts of climate change				

1 Read our Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports online at www.stwater.co.uk/regulatory-library/regulatory-library-documents/ and www.hdcymru.co.uk/regulatory-library/regulatory-library/ respectively.

2 Read the EA Water Scarcity Strategy online at www.gov.uk/government/publications/water-stressed-areas-2021-classification.

OUR EU TAXONOMY DISCLOSURE

As we look forward to the development of a UK green taxonomy, we have voluntarily disclosed now our eligible activities under EU Taxonomy guidance. We look forward to undertaking a full alignment review for the next iteration of our disclosure. This has enabled us to report 'green' revenues, operating costs and capital expenditure of over 95%, increasing visibility of the scale of our commitment to run a business that goes hand-in-hand with nature, and drives positive change.

Application of the EU Green Taxonomy to the economic activities of Severn Trent

Severn Trent is committed to protecting and enhancing the environment in a way that has a positive sustainable impact. Robust disclosure is crucial in evidencing our delivery of that commitment, and we welcome the regulatory progress being made by both the EU and UK in developing standardised corporate sustainability reporting frameworks for ESG activities. Whilst we look forward to the expected establishment of an interoperable UK Taxonomy, we have decided to accelerate the enhancement of our sustainability disclosures by making a voluntary disclosure under the EU Taxonomy framework. By reporting our activities against the EU Taxonomy, we hope to provide greater transparency for all stakeholders and decision-useful information for both investors and lenders. More detail on our Principal Adverse Impact ('PAI') assessment can be found in our ESG data book on our website severntrent.com/sustainability-strategy/.

Our approach

We have begun to adapt our processes to enable Severn Trent to prepare a preliminary analysis of eligible economic activities under the EU Taxonomy. Our approach for this disclosure is based on guidance and interpretation, and has been subject to external third-line assurance. However, this is not a full disclosure, and we will be developing our approach over the coming months to enable a full review of alignment to the EU Taxonomy.

We have established a 'Taxonomy' working group tasked with embedding a new process for taxonomy reporting within the ST Group, including an initial activity review using data available from existing financial systems and application of the EU Taxonomy to our economic activities. The working group consists of finance and sustainability professionals, co-ordinating with subject matter experts across the wider business to input into the activity review as required.

As part of this review, we have performed a detailed analysis of our economic activities, allowing us to make an initial assessment of their eligibility under the EU Taxonomy.

The analysis was based on the EU Taxonomy Regulation, which includes its associated legislative acts (the 'Delegated Acts') described below and any additional guidance released, such as FAQs, up to the date of reporting:

- **The Climate Delegated Act** – establishes the technical screening criteria ('TSC') for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation (Annex 1) or climate change adaptation (Annex 2), and for determining whether that economic activity does no significant harm, in line with the Do No Significant Harm ('DNSH') principle, to any of the other environmental objectives.
- **The Disclosure Delegated Act** – specifies the content and presentation of information to be disclosed, concerning environmentally sustainable economic activities, and specifying the methodology to perform that assessment.

We will expand on our initial analysis to include a full review of the significant contribution criteria, including the assessment of our economic activities against the Do No Significant Harm ('DNSH') principles and minimum safeguard requirements. Through this process, we will establish the evaluation methodology that will apply in future periods, with the aim of reporting against all alignment criteria in the next iteration of our disclosure.

Initial disclosure – eligibility review

We have disclosed the eligibility of our business activities against the two objectives that have so far been published (climate change mitigation and climate change adaptation), alongside the proportion of revenue, operating costs and capital expenditure associated with each. The table below provides a summary of our taxonomy-eligible activities, which are broadly the same for both objectives. When we review full alignment, we expect there to be more marked differences between the values against the two objectives, and to be able to disclose with more granularity the allocation within our existing activities. We also expect to be able to report against the remaining four objectives when the relevant legislation is published.

Methodology

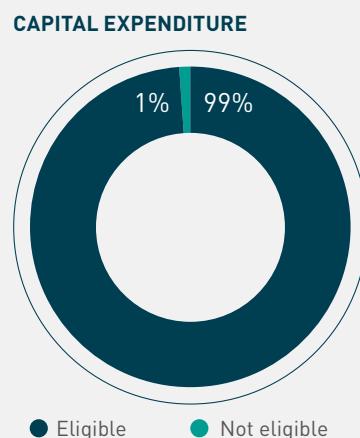
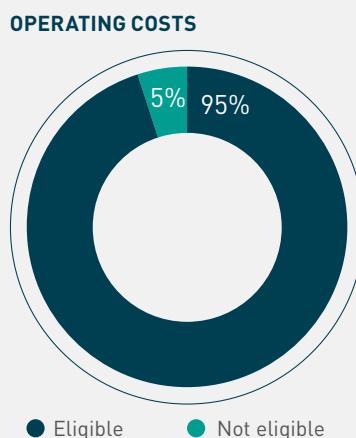
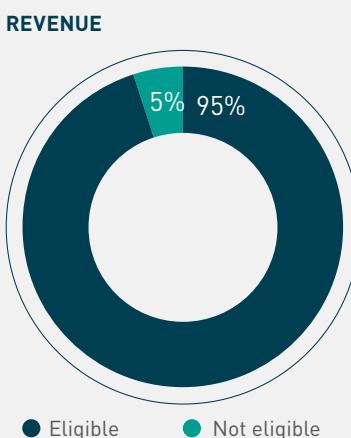
Within the regulated entities of Severn Trent Water and Hafren Dyfrdwy we report to Ofwat under price controls (Water Resources, Water Network +, Waste Network +, Bioresources). To comply with regulatory accounting guidelines, we apply cost allocations and recharges between business areas across the Group. These include centralised costs such as HR, Finance, and other support functions, whilst our Retail price control incorporates costs associated with ensuring we provide a continued service for our customers, such as managing bills and running our customer contact centres. As these services are vital for the eligible activities to take place, we have allocated the associated costs to the eligible activities mapped out in this disclosure under the Water Resources, Water Network + and Waste Network + price controls on a pro-rata basis.

The figures taken to report our activities against the EU Taxonomy are based on the same cost allocation approach we use for both entity and regulatory reporting, as a percentage of the totals presented in the Balance Sheet and Income Statement here in our Annual Report and Accounts to 31 March 2023. We have made an assumption that all costs allocated to our Bioresources price control are eligible, whilst further work is needed to establish eligibility of some of the separate activities within this area. Based on EU Taxonomy guidance published to date, we have excluded depreciation and amortisation costs from operating expenditure in calculating the level of eligible costs, as well as the charge for bad and doubtful debts.

Climate change mitigation and climate change adaptation objectives

Allocation in the Severn Trent Group	Eligible Economic Activity in accordance with the EU Taxonomy	NACE Code	Revenue %	Operating costs %	Capital expenditure %
Water Resources and Water Network +	Construction, extension and operation of water collection, treatment and supply systems	E36.00, F42.21, F42.99	45%	52%	55%
	Renewal of water collection, treatment and supply systems	E36.00, F42.99			
Waste Water Network +	Construction, extension and operation of waste water collection and treatment	E37.00, F42.21, F42.99	43%	39%	38%
	Renewal of waste water collection and treatment	E37.00			
Bioresources	Anaerobic digestion of sewage sludge	E37.00, F42.99	4%	1%	5%
Severn Trent Green Power	Electricity generation using solar photovoltaic technology	D35.11, F42.22			
	Electricity generation from wind power	D35.11, F42.22			
	Electricity generation from hydropower	D35.11, F42.22			
	Electricity generation from renewable non-fossil gaseous and liquid fuels	D35.11, F42.22	3%	3%	1%
	Electricity generation from bioenergy	D35.11			
	Installation, maintenance and repair of renewable energy technologies	E36.00, F42.99			
			Total	95%	95%
					99%

The following graphs depict the proportion of revenue [Fig.1], operating costs [Fig.2] and capital expenditure [Fig.3] that we have assessed as eligible against the EU Taxonomy (as detailed previously):



Incorporated within the costs allocated to the above categories are costs associated with the activities listed here, also eligible within the EU Taxonomy. We may seek to extract and report on costs within these activities separately in a future iteration of our disclosure.

It is expected that the UK Taxonomy, when established, will be interoperable with the EU Taxonomy, so that the UK model does not deviate significantly from that of the EU. We expect our assessment of our taxonomy-eligible activities disclosed here to be consistent with the future UK framework. We also note that the future introduction of the remaining four objectives of the EU Taxonomy (sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystem) will include environmental objectives relevant to Severn Trent. Based on an initial review of the proposals, we believe there will be additional activities eligible under the criteria recently published for consultation.

Other eligible activities within Severn Trent

Afforestation

Forest management

Restoration of wetlands

Co-generation of heat/cool and power from bioenergy

Co-generation of heat/cool and power from renewable non-fossil gaseous and liquid fuels

Production of heat/cool from bioenergy

Anaerobic digestion of bio-waste

Composting of bio-waste

Renovation of existing buildings

Installation, maintenance and repair of energy efficiency equipment

Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)

Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings

Acquisition and ownership of buildings

Data processing, hosting and related activities

Close to market research, development and innovation (adaptation only)

CHIEF FINANCIAL OFFICER'S REVIEW

We have delivered strong financial performance this year in the face of challenging external factors including:

- unprecedented wholesale energy prices
- cost pressures on chemicals, other materials and licence fees
- additional operating costs during the exceptionally hot and dry summer and the freeze thaw event in December

The regulatory model set the inflationary uplift in this year's tariffs from CPIH in November 2021. This lag meant our regulated revenue for the year included an increase of only 4.6% while inflation on key operating costs was significantly higher than this.

Despite these challenges we have delivered Group PBIT of £508.8 million (2021/22 £506.2 million). A summary of our financial performance for the year is set out below:

	2023 £m	2022 £m	Change £m	Change %
Turnover	2,165.1	1,943.3	221.8	11.4
PBIT	508.8	506.2	2.6	0.5
Net finance costs	(362.6)	(269.4)	(93.2)	(34.6)
Gains/(losses) on financial instruments, share of results of joint venture and impairment of loans receivable	21.7	37.3	(15.6)	(41.8)
Profit before tax	167.9	274.1	(106.2)	(38.7)
Tax	(35.7)	(361.3)	325.6	90.1
Profit for the year	132.2	(87.2)	219.4	251.6

Turnover in Regulated Water and Waste Water increased year on year by £191 million, which was in the middle of our expected range. Business Services turnover increased by £34 million as a result of growth in our Operating Services business and the benefit of higher generation and energy prices in our Green Power business.

Net labour and hired and contracted costs increased by £21.4 million (4.9%). Gross costs increased due to hired staff providing leakage reduction support and other short-term labour requirements. Increased activity on our capital programme was offset by higher capitalised labour.

Higher energy prices reduced Group PBIT by around £43 million year-on-year as the higher costs of energy consumed exceeded the benefit from our energy revenues. The impact on totex in our regulated business was around £23 million higher as this does not include the benefit of revenue from energy generated in our Green Power business. We expect totex and RoRE to be impacted by higher energy costs for the remainder of the AMP but this impact will be offset to deliver a broadly neutral Group return on equity across the five-year period. Across the Group, we generate the equivalent of around 53% of our energy requirements. This provides an effective energy price hedge for our group return on equity because our power costs mainly arise in parts of our regulated business in which



Severn Trent Water's RoRE for the year was 12.2%, 830 bps above the base return of 3.9%. Outperformance came mainly from our customer ODI rewards of £53 million, with around 80% of our measures in reward, and financing, reflecting our continued low cash interest cost and the impact of higher inflation in the year compared to Ofwat's Final Determination assumption.



over or under spend is shared with customers, whereas revenues are earned in the non-regulated business or areas where performance variances are not shared.

We also saw a sharp increase in the cost of energy intensive products. Chemical costs increased by £21.3 million, of which £20.5 million arose in our Regulated Water and Waste Water business.

Net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. Our effective interest cost was 150 bps higher at 6.2% (2021/22: 4.7%); our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was unchanged at 3.0% (2021/22: 3.0%).

We continued to benefit from the super deduction, which gives a 130% tax allowance in the year for qualifying capital expenditure. This, together with the higher finance costs, resulted in an adjusted effective tax rate of nil% (unchanged from nil% in 2021/22) and, as expected, no current tax payable relating to the year.

In his 2023 Budget, the Chancellor introduced 100% first year capital allowances for qualifying plant and machinery for a three-year period from 1 April 2023. As a result, we expect our adjusted effective tax rate to remain around nil while the allowance is in place.

The tax charge of £35.7 million reflects our full effective tax rate this year of 21.3% (2021/22: 24.4% before exceptional deferred tax). In the previous year, the increase in the corporation tax rate to 25% from FY24 was reflected in our deferred tax provision and in an exceptional deferred tax charge to the income statement of £294.4 million.

Group profit after tax was £132.2 million (2021/22: a loss of £87.2 million as a result of the exceptional deferred tax charge) and our adjusted basic EPS was 58.2 pence (2021/22: 96.1 pence) reflecting higher net finance costs from the impact of inflation on the cost of our index-linked debt. Basic EPS was 52.7 pence (2021/22: loss of 35.2 pence due to the exceptional deferred tax from the change of corporation tax rate).

Our balance sheet remains strong. At 31 March 2023 our net debt was £7,160.5 million (2022: £6,507.8 million) and our shadow RCV gearing, taking into account amounts that will be included in the RCV at the end of the AMP but which we have already incurred, is 60.0% (2022: 59.2%). Our regulatory gearing is 60.7% (2022: 59.5%), well below the sector average and close to Ofwat's notional capital structure for AMP7.

Our net pension deficit on an IAS 19 basis is £279.4 million (2022: £128.0 million). Gross liabilities decreased as the discount rate, which is based on the yield observed on high-quality corporate bonds, increased and inflation expectations over the life of the liabilities decreased. Hedging assets moved broadly in line with the fall in liabilities, with other asset values affected by the higher yield environment in the second half of the year. The 2022 triennial actuarial valuation was agreed in November 2022, with an unchanged future funding plan.

Operational cash flow was £713.1 million, (2021/22: £848.9 million). EBITDA increased by £18.3 million but pension contributions increased by £38.6 million as we paid two years' deficit reduction contributions in the year and changes in working capital increased cash outflows by £100 million more than the previous year. Cash

capex was £686.6 million, up £92.3 million due to the increasing capital programme. Net cash outflow before changes in net debt was £440.4 million (2021/22: inflow of £76.7 million).

This year we have published in our Annual Report our first disclosure consistent with the EU Taxonomy. We are committed to protecting and enhancing the environment and transparent disclosures are an important part of demonstrating that commitment. We have accelerated the enhancement of our sustainability disclosures by making a voluntary disclosure under the EU Taxonomy framework. We have completed an initial eligibility-only review and are working towards a full alignment review. Our initial assessment is that eligible activities make up 95% of our revenues, 95% of our operating costs and 99% of our capital expenditure.

Severn Trent Water's RoRE for the year was 12.2%, 830 bps above the base return of 3.9%. Outperformance came mainly from our customer ODI rewards of £53 million, with around 80% of our measures in reward, and financing, reflecting our continued low cash interest cost and the impact of higher inflation in the year compared to Ofwat's Final Determination assumption.

Although in the current year we have seen an adverse impact from higher inflation on our operating and finance costs, in the longer term we expect to see the benefits through indexation of our RCV, revenue growth and lower gearing, all of which underpin our inflation-linked AMP7 dividend policy.

Our proposed final dividend of 64.09 pence (2021/22: 61.28 pence), is in line with our inflation-linked dividend policy and payable on 14 July 2023.

Financial KPIs

Group PBIT (£m)

2022/23	£508.8m
2021/22	£506.2m
2020/21	£470.7m

Group PBIT is a measure of the profit generated by the Group's operations. Commentary on the performance in the year is set out in this CFO Review.

Shadow RCV Gearing (%)

2022/23	60.0%
2021/22	59.2%
2020/21	64.5%

Shadow RCV gearing is calculated as set out in note 32 Ofwat's regulatory model, for AMP7 is based on a notional gearing level of 60%. Low gearing would lead to a higher cost of capital as this would indicate a reliance on more expensive equity funding. High gearing indicates greater risk of default on debt finance.

Adjusted basic EPS (p)

2022/23	58.2p
2021/22	96.1p
2020/21	104.5p

EPS is a key financial metric that indicates the Group's profitability after finance costs and tax. Adjusted EPS excludes distorting factors such as exceptional gains and losses and accounting adjustments for gains and losses on valuations of financial instruments and deferred tax. Commentary on the performance in the year is set out in this CFO's Review and the calculation of adjusted EPS is set out in note 14 to the financial statements. Commentary on the performance in the year compared to the previous year is set out in this CFO's Review.

RoRE outperformance (basis points)

2022/23	830
2021/22	480
2020/21	190

RoRE outperformance is a key metric used by Ofwat and is the performance metric used in our Long Term Incentive Plans. It measures performance against an expected return set by Ofwat.

Performance is determined across three main areas:

- total expenditure ('Totex') measured by efficiency in operational and capital expenditure;
- operational performance is measured by the customer ODI reward earned or penalty incurred; and
- financing performance is measured by performance against Ofwat's expected cost of debt set in the AMP7 Final Determination.

Commentary on the performance in the year compared to the previous year is set out in this CFO Review.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Regulated Water and Waste Water

Turnover for our Regulated Water and Waste Water ('RWWW') business was £1,995.4 million (2021/22: £1,804.4 million) and PBIT was £467.5 million (2021/22: £476.3 million).

	2023 £m	2022 £m	Increase/(decrease)	
	£m	£m	£m	%
Turnover	1,995.4	1,804.4	191.0	10.6
Net labour costs	(158.2)	(165.3)	7.1	4.3
Net hired and contracted costs	(217.2)	(190.0)	(27.2)	(14.3)
Power	(204.6)	(114.1)	(90.5)	(79.3)
Bad debts	(24.5)	(24.8)	0.3	1.2
Other costs	(284.6)	(250.7)	(33.9)	(13.5)
	(889.1)	(744.9)	(144.2)	(19.4)
Infrastructure renewals expenditure	(238.4)	(198.2)	(40.2)	(20.3)
Depreciation	(400.4)	(385.0)	(15.4)	(4.0)
PBIT	467.5	476.3	(8.8)	(1.8)

Turnover increased by £191.0 million with the main movements being:

- an increase of £78.0 million for the annual CPIH uplift in tariffs, partially offset by reductions of £15.1 million from the 'K' factor for the year;
- a £66.9 million increase representing the recovery, under the RFI mechanism, of lower than allowed revenue in 2020/21;
- £35.0 million of in-year fast money allowance for the Green Recovery Programme;
- £24.4 million additional energy generation revenue in our Bioresources business driven by higher wholesale energy prices;
- an increase of £18.7 million in diversions income largely due to the increase in activity related to HS2 as guided. This represents a recovery of costs incurred and is offset by an increase in infrastructure renewals expenditure;
- lower revenue from the Voids and Gaps Incentives Scheme (£4.7 million lower); and
- lower revenues billed by other water companies on our behalf and other small differences (£12.2 million).

Net labour costs of £158.2 million were 4.3% lower year-on-year. Gross employee costs increased due to the annual pay award of 2.3% and an increase in FTE from the step up in the capital programme. This was offset by higher capitalisation of employee costs and an £8.3 million credit related to a change in defined benefit scheme options developed with the Trustee. The new bridging pension option allows members who retire early to bridge the gap between their retirement date and the date when the state pension becomes payable, by taking more of their occupational pension up front, which has a positive effect on expected pension liabilities.

Net hired and contracted costs increased by £27.2 million (14.3%). The increase is driven by higher tankering and jetting activity, more hired staff to support leakage reduction and improve operational performance, third party technology consultants and other contract management cost increases.

Our economic energy hedge effectively limits the impact of higher energy prices on the Group's return on equity. Power costs were £90.5 million (79.3%) higher than the previous period although our weighted wholesale average price was about 30% less than the average market wholesale energy price. We benefited from self-generation and favourable energy export in Bioresources, as well as internal hedges between our regulated business (a net consumer of energy) and our non-regulated Green Power business (a net generator).

Bad debt charges decreased by £0.3 million and represented 1.7% of household revenue. Our cash collection in the year was lower as households felt the impact of cost of living increases. However, this impact was not as high as we provided for at the previous year end, leaving the overall charge broadly flat.

Other costs increased by £33.9 million, including £20.5 million higher chemical costs and higher Environment Agency abstraction and discharge consent fees of £3.7 million. The remaining increase was due to higher costs of materials and consumables, fuel and insurance costs.

Infrastructure renewals expenditure was £40.2 million higher in the period, reflecting the planned step up in the programme and activity related to HS2 referred to above.

Depreciation of £400.4 million was £15.4 million higher year-on-year due to new assets coming into service as part of our Water Framework Directive programme as well as a full year of depreciation on the advanced digestion and biogas-to-grid plants at Finham and Stoke Bardolph.

Return on Regulated Equity ('RoRE')

RoRE is a key performance indicator for the regulated business and reflects our combined performance on totex, customer ODIs and financing compared to the base return allowed in the AMP7 Final Determination.

Severn Trent Water's RoRE for the year ended 31 March 2023 and for the three years ended on that date is set out in the following table:

	2022/23	AMP7 to date
	%	%
Base return	3.9	3.9
Enhanced RoRE reward ¹	-	0.2
ODI outperformance ²	0.7	1.3
Wholesale totex performance	-	-
Retail cost performance	(0.1)	(0.2)
Financing outperformance ³	7.7	3.7
Return on Regulatory Equity⁴	12.2	8.9

1 Fast track reward taken over the first two years of AMP7.

2 ODI performance includes in year ODI reward, PCC and forecast C-MeX and D-MeX outturn.

3 Includes 0.7% for the variance on tax from the benefit of super deduction capital allowances.

4 Calculated in accordance with Ofwat guidance set out in RAG 4.11, which excludes Ofwat's AMP7 tax true-up mechanism.

We have delivered RoRE of 12.2% in the year, outperforming the base return by 8.3% as a result of:

- ODI performance of 0.7%, driven by strong performance across the majority of measures, with c.80% meeting or exceeding regulatory targets;
- our neutral totex position reflecting good cost control and efficient spend over a challenging year; and
- financing performance of 7.7%, driven by our AMP7 financing strategy that includes a relatively low level of index-linked debt, and the tax benefit of super deduction capital allowances.

Business Services

	2023 £m	2022 £m	Increase/(decrease)	
			£m	%
Turnover				
Operating Services and Other	98.5	88.1	10.4	11.8
Green Power	78.6	55.5	23.1	41.6
Total	177.1	143.6	33.5	23.3
EBITDA				
Operating Services and Other	28.1	22.5	5.6	24.9
Green Power	35.7	17.5	18.2	104.0
Property Development	2.0	13.2	(11.2)	(84.8)
Total PBIT	65.8	53.2	12.6	23.7

Business Services turnover was £177.1 million (up 23.3%) and EBITDA was £65.8 million (up 23.7%).

In our Operating Services and Other businesses, turnover increased by £10.4 million due to increased activity on the Ministry of Defense ('MoD') and Coal Authority contracts as well as sales growth in our water hygiene business, Aqualytix. EBITDA was £5.6 million higher mainly due to improved margins on these contracts.

In Green Power, turnover increased by £23.1 million, largely due to significantly higher energy prices over the last year which helped offset increased power consumption costs in RWWW, through the Group's natural energy hedge. EBITDA was up £18.2 million due to the higher revenue, partially offset by increased costs of food waste, silage and haulage as well as a £2.2 million charge for the government energy generator levy in the final quarter of the financial year. We do not expect to incur the levy in FY24 based on latest forecast prices.

Profits from Property Development were £11.2 million lower than the prior year mainly due to timing of significant disposals and delays in the planning process. However, we remain on track for our 15-year plan of £150 million profit by 2032, having generated c.£52 million since setting the target in 2017.

Corporate and other

Corporate costs were £8.7 million (2021/22: £8.2 million) including directors' bonuses charged to Severn Trent Plc this year rather than Severn Trent Water. Our other businesses generated PBIT of £0.7 million (2021/22: £1.3 million).

Net finance costs

Net finance costs for the year were £93.2 million (34.6%) higher than the prior year at £362.6 million. During the year we issued £1,351 million of new debt at rates consistently below the iBoxx index and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was unchanged at 3.0% (2021/22: 3.0%).

Average net debt was up 6.8% at £6,720.6 million (2021/22: £6,292.2 million), with higher inflation in the year increasing the cost of our index-linked debt by £100.9 million. Our effective interest cost was 6.2% (2021/22: 4.7%).

Capitalised interest of £56.6 million was £22.1 million higher year-on-year, due to the higher effective interest cost and increased capital work in progress compared to the previous year.

Our earnings before interest, tax, depreciation and amortisation ('EBITDA') interest cover was 2.6 times (2021/22: 3.5 times) and PBIT interest cover was 1.4 times (2021/22: 1.9 times). See note 42 for further details.

Gains/losses on financial instruments

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

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

We hold interest rate swaps with a net notional principal of £448.4 million floating to fixed, which economically act to hedge exchange rate risk on certain foreign currency borrowings. We also hold cross currency swaps with a sterling principal of £98.3 million, that swap foreign currency fixed interest debt to sterling floating interest rate.

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

Where hedge accounting is not applied, if the risk being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the year there was a gain of £35.7 million (2021/22: £51.5 million) in relation to these instruments.

Note 11 to the financial statements gives an analysis of the amounts charged to the income statement in relation to financial instruments.

As part of our power cost management strategy, we have fixed the wholesale price for more than 95% of our estimated wholesale energy usage for 2023/24 through physical hedges with suppliers and natural hedges from the export of self-generated energy.

Share of loss of joint venture

Water Plus's performance continues to improve and it achieved break even in the year. Our share of Water Plus's result for the year was therefore £ - million (2021/22: loss of £2.2 million).

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employer's national insurance and environmental taxes such as the Climate Change Levy as well as the corporation tax shown in our tax charge in the income statement.

	2023 £m	2022 £m
Tax incurred:		
Corporation tax	-	1.2
Business rates and property taxes	84.4	83.4
Employer's National Insurance	35.3	30.5
Environmental taxes	6.6	6.1
Other taxes	6.0	5.9
	132.3	127.1

Further details on the taxes and levies that we pay can be found in our report "Explaining our Tax Contribution 2022/23", which will be made available at www.severntrent.com/sustainability-strategy/reports-and-publications/tax/ when our Annual Report and Accounts is published in June.

The corporation tax charge for the year recorded in the income statement was £35.7 million (2021/22: £66.9 million before exceptional taxes) and we made net corporation tax payments of £4.0 million in the year (2021/22: £1.2 million). The difference between the tax charged and the tax paid is summarised below:

	2023 £m	2022 £m
Tax on profit on ordinary activities	35.7	66.9
Tax effect of timing differences	(28.3)	(50.8)
Impact of deferred tax provided at 25%	(7.7)	(15.9)
Overprovisions in previous years	0.3	(0.2)
Corporation tax payable for the year	-	-
(Receipts from)/payments to Water Plus re consortium relief	(6.1)	1.2
Payments to HMRC for consortium relief disclaimed	6.1	-
Payments in respect of prior years	4.0	-
Net tax paid in the year	4.0	1.2

No tax was paid relating to the year as the allowances available from the super deduction resulted in a loss for tax purposes (2021/22: £1.2 million paid to Water Plus).

Note 12 in the financial statements sets out the tax charges and credits in the year, which are described below.

The current tax charge for the year was £0.2 million, which arose from adjustments to tax provisions from previous years (2021/22: credit of £4.8 million). The deferred tax charge was £35.5 million (2021/22: £71.7 million before the exceptional charge arising from the change of rate).

Our effective tax rate excluding the exceptional deferred tax charge this year was 21.3% (2021/22: 24.4%), which is higher than the UK rate of corporation tax in both years (19%), mainly due to deferred tax on temporary differences arising during the year charged at 25%, partly offset by the permanent difference that arises mainly from the additional 30% deduction included in the super deduction.

Our adjusted effective current tax rate was nil (2021/22: nil%) (see note 42).

UK tax rules specify the rate of tax relief available on capital expenditure. Typically this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. In the current and previous years, this was enhanced by the super deduction for certain capital expenditure, which gave a 100% tax deduction in the year of spend plus an additional allowance of 30%.

The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our adjusted effective current tax rate and corporation tax payments in the year. Accounting standards require that we make a provision for the tax that we would pay in future periods, if the depreciation charge arising on expenditure for which tax relief has already been received is not offset by further tax allowances in those periods. However, the nature of our business, including a significant rolling capital programme and the long lives of our assets, means we do not expect these timing differences to reverse for the foreseeable future, and they may never do so. This is the most significant component of our deferred tax position.

Profit for the year and earnings per share

Total profit for the year was £132.2 million (2021/22 loss: £87.2 million).

Basic earnings per share was 52.7 pence (2021/22: loss of 35.2 pence). Adjusted basic earnings per share was 58.2 pence (2021/22: 96.1 pence). For further details see note 14.

Cash flow

	2023 £m	2022 £m
Operational cashflow	713.1	848.9
Cash capex	(686.6)	(594.3)
Net interest paid	(203.5)	(185.0)
Purchase of subsidiary net of cash acquired	(0.4)	–
Net (payments)/receipts for swap terminations	(11.2)	5.6
Net tax paid	(4.0)	(1.2)
Free cash flow	(192.6)	74.0
Dividends	(261.3)	(254.5)
Issue of shares	15.3	257.2
Purchase of own shares	(1.8)	–
Change in net debt from cash flows	(440.4)	76.7
Non-cash movements	(212.3)	(140.7)
Change in net debt	(652.7)	(64.0)
Opening net debt	(6,507.8)	(6,443.8)
Closing net debt	(7,160.5)	(6,507.8)
	2023 £m	2022 £m
Bank loans	(713.0)	(782.5)
Other loans	(6,474.2)	(5,823.5)
Lease liabilities	(110.9)	(117.4)
Net cash and cash equivalents	28.7	107.7
Cross currency swaps	33.6	28.3
Loans due from joint ventures	75.3	79.6
Net debt	(7,160.5)	(6,507.8)

Operational cash flow was £713.1 million (2021/22: £848.9 million). PBIT was broadly flat year on year but higher depreciation and amortisation were more than offset by increased pension contributions and working capital movements.

Net cash capex increased to £686.6 million (2021/22: £594.3 million), reflecting our progress against our £2.9 billion core capital programme.

Our net interest payments of £203.5 million (2021/22: £185.0 million) were higher than the previous year due to the impact of higher net debt, with the effective cash cost of interest (which excludes the non-cash indexation charge on index linked debt) in line with the previous year.

The benefits of the super deduction capital allowance and the impact of higher interest costs meant that we had no taxable profit in the year and therefore paid no corporation tax in relation to the year. Our net tax payments of £4.0 million related to previous years. In the previous year we paid Water Plus £1.2 million for consortium relief.

We received £13.5 million net from the exercise of options under the employee Save As You Earn share scheme and purchase of shares for other share schemes. In the prior year we received £11.9 million from option exercises and raised net proceeds of £245.3 million from the May 2021 equity placing. Our dividends paid increased in line with our policy to increase by CPIH each year during AMP7.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase in debt of £652.7 million (2021/22: £64.0 million).

At 31 March 2023 we held £28.7 million (2022: £107.7 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2022: 13 years). Including committed facilities, our cash flow requirements are funded until November 2024.

Net debt at 31 March 2023 was £7,160.5 million (2022: £6,507.8 million) and balance sheet gearing (net debt/net debt plus equity) was 88.1% (2022: 83.7%). Regulatory gearing (net debt of our regulated businesses, expressed as a percentage of estimated RCV) was 60.7% at 31 March 2023 (2022: 59.5%). Shadow regulatory gearing was 60.0% (2022: 59.2%).

The estimated fair value of debt at 31 March 2023 was £366.2 million lower than book value (2022: £1,075.8 million higher). The change in the difference between book and fair value is largely due to the impact of higher inflation expectations on the fair value of our index-linked debt.

Our policy for the management of interest rates is that at least 40% of our borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2023 interest rates for 67% (2022: 66%) of our gross debt of £7,261.2 million were fixed; 5% were floating and 28% were index linked. We continue to carefully monitor market conditions and our interest rate exposure.

Our long-term credit ratings are:

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

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

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Pensions

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

The most recent formal actuarial valuation for the Severn Trent Pension Scheme ('STPS'), which is by far the largest of the schemes, was completed as at 31 March 2022. The future funding plan agreed with the Trustee was unchanged from the 2019 valuation (save for inflationary uplifts where applicable) and includes:

- annual deficit reduction payments to be made until the year ending 31 March 2027, with a forecast¹ payment of c.£40 million in the year ending 31 March 2024, increasing thereafter in line with November CPI.
- payments under an asset-backed funding arrangement of £8.2 million per annum to 31 March 2032, which will only continue beyond 31 March 2025 if the Scheme's assets are less than the Scheme's Technical Provisions; and
- inflation-linked payments under an asset-backed funding arrangement, with a forecast¹ payment of c.£28 million in the year ending 31 March 2024, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

In June 2021 we executed a bulk annuity buy-in for the Severn Trent Mirror Image Pension Scheme, which represents around 4% of the Group's defined benefit liabilities. Under the buy-in, the liabilities of this scheme will be met by an insurance policy and as a result the Group's risk is substantially reduced.

Hafren Dyfrdwy participates in the Dee Valley Water Limited Section ('DVWS') of the Water Companies Pension Scheme. DVWS funds are administered by trustees and held separately from the assets of the Group. DVWS is closed to new entrants. The most recent formal actuarial valuation of DVWS was completed as at 31 March 2020 and no deficit reduction contributions are required. In March 2023, the DVWS also entered into a bulk annuity buy-in insurance policy that covers the majority of the scheme obligations.

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £279.4 million (2022: £128.0 million).

Calculation of the pension deficit for accounting purposes uses corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the scheme's assets or their expected returns.

On an IAS 19 basis, the funding level decreased to 86% (31 March 2022: 95%).

The movements in the net deficit during the year were:

	Fair value of scheme assets £m	Defined benefit obligations £m	Net deficit £m
At start of the period	2,659.4	(2,787.4)	(128.0)
Amounts credited/(charged) to income statement	74.3	(74.0)	0.3
Actuarial gains/(losses) taken to reserves	(922.0)	669.8	(252.2)
Net contributions received and benefits paid	(26.4)	126.9	100.5
At end of the period	1,785.3	(2,064.7)	(279.4)

The income statement includes:

- current service costs of £0.1 million on the DVWS, which remains open to further accrual but is closed to new members;
- a past service credit of £8.3 million following a change in the STPS's rules to allow members to take a higher initial pension on retirement in exchange for a lower pension from state pension age;
- scheme administration costs of £4.3 million; and
- interest on scheme liabilities and expected return on the scheme assets – together a net cost of £3.6 million.

Higher interest rate expectations increased the discount rate, which is derived from yields on high-quality corporate bonds, by 200bps. Inflation expectations decreased by around 30bps since the previous year end. The impacts of these changes resulted in a net decrease in the scheme liabilities of around £745 million.

Changes to demographic assumptions to align with the 2022 funding valuation increased scheme liabilities by around £30 million. This was partly offset by an update to the most recent CMI data tables and also a weighting to allow for higher mortality experienced in 2021.

The actual outturn in the year for inflation and other assumptions increased scheme liabilities by £58.7 million.

Higher bond yields impacted the value of scheme assets, which decreased in value by £922.0 million more than the return included in the income statement in the year.

Contributions paid to the STPS in the year included:

- the amounts due under the asset-backed funding arrangements (£26.9 million); and
- a deficit reduction payment of £34.7 million that was deferred from March 2022 to April 2022 and the payment due for the year ended 31 March 2023 of £37.8 million.

There were also contributions of £0.2 million to the DVWS, a payment of £0.4 million for MIPS running costs and payments of benefits under the unfunded scheme amounting to £0.5 million.

Dividends

In line with our policy for AMP7 to increase the dividend by at least CPIH each year, the Board has proposed a final ordinary dividend of 64.09 pence per share for 2022/23 (2021/22: 61.28 pence per share). This gives a total ordinary dividend for the year of 106.82 pence (2021/22: 102.14 pence).

The final ordinary dividend is payable on 14 July 2023 to shareholders on the register at 2 June 2023.

¹ Index linked payment forecasts based on the Oxford Economics forecast CPI for the twelve month period to November 2023

OUR APPROACH TO RISK

Severn Trent has a robust risk management framework in place to effectively identify, assess and mitigate risk. Our risk management framework enables us to meet our strategic priorities and optimise our risk exposure within our risk appetite.

2022/23 risk positioning

Since 2020/21, we have provided a risk update highlighting the challenges and opportunities we face as a business, with a greater focus on global events and effects of those events, both economically and on society, and geopolitical instability, including the conflict in Ukraine.

Another key area of focus for this year has been the 'cost of living crisis' which has impacted many UK households as real disposable incomes fall. Inflation has soared, with a key driver being the rapid increase in energy costs, caused by a rise in the wholesale price of gas. Furthermore, the Bank of England has raised the base rate several times over the last year in an effort to control inflation. We recognise that it is a difficult time and it can be a real struggle for some of our customers and we have a number of customer support schemes that are helping customers who are struggling with the cost of living (see pages 29 to 30 for more information).

Risk appetite statement

No business is free of risk and to achieve our strategic priorities we often need to take calculated risks. We will, however, only take risks that are consistent with our Purpose, Values and Strategy, and are well understood, so that they can be managed effectively.

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

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

Our risk priorities

The Board has overall responsibility for determining the nature and extent of the risks Severn Trent takes and for ensuring that risks are managed effectively across the Group. In addition to managing the inherent risks associated with our business, we prioritise the following:

- The **health, safety and wellbeing** of our people and the communities we serve and **maintaining our essential operational services** are our top priorities, and we have no appetite for risks brought on by unsafe actions.
- **Protecting the environment** is a key long-term commitment. We aim to enhance the water environment and improve biodiversity.
- **Adherence to laws and regulations** is a fundamental requirement and we are committed to ensuring compliance with all UK water regulations and to operate within our licence permits; therefore, we have no appetite for compliance-related risks.
- Our approach to **financing** is to take measured risk consistent with providing resilience and delivering sustainable outperformance for the best long-term value for our customers and shareholders.
- We are determined to play a leading role in addressing the impact of **climate change** through mitigating our own impact and that of our **supply chain**, and adapting to the challenges that climate change may bring in the future.

Overseeing risk

Our approach to risk management is designed to enable the business to deliver its strategic priorities. We have an established Enterprise Risk Management ('ERM') process and internal control framework that help us to identify, evaluate and manage risks to influence decision making. Our approach cannot eliminate all risk entirely, but ensures we have the right structure to effectively navigate the challenges and opportunities we face, and only take risks that are within our risk appetite.

We operate a top-down and bottom-up model of risk management in line with the three lines of defence approach that ensures both a clear articulation of risk appetite, and a comprehensive and structured process of risk identification, assessment and management. Our risk management framework on the next page shows the parties involved in risk across Severn Trent.

Top down

The Board has overall responsibility for the oversight of risk and for maintaining a robust risk management and internal control system. The Board recognises the importance of identifying and actively monitoring all types of risk (e.g. strategic, reputational, financial, and operational risks) in the short, and longer term. The Board regularly receives updates on the threats, trends and challenges facing the business.

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

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

The Strategic Risk Forum ('SRF') assists the Executive Committee, the Board, and the Audit and Risk Committee to effectively oversee the risk framework and its processes of risk identification, risk assessment and risk mitigation to ensure that the Company meets its strategic priorities.

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

Bottom up

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

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

Risk reporting

The ERM process is operated by the Central ERM Team and underpinned by a standardised methodology and policies to ensure consistency.

ERM Champions and Co-ordinators operate throughout the business, with support and challenge from the Central ERM Team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Standardised criteria are used to consider the likelihood and velocity of occurrence and potential financial and reputational impacts.

OUR APPROACH TO RISK CONTINUED

RISK MANAGEMENT FRAMEWORK

Risk governance and oversight		
Board: <ul style="list-style-type: none"> – Sets the risk culture. – Defines and regularly reviews risk appetite. – Challenges the level of risk taken to pursue objectives. – Makes risk-informed decisions and provides oversight for key strategic risks. – Responsible for effective risk oversight of enterprise-wide risks at Group level. – Undertakes annual assessment of Principal Risks. 	Audit and Risk Committee: <ul style="list-style-type: none"> – Supports the Board in monitoring significant risks and tracking progress against risk mitigation plans. – Signs off the risk management framework. 	↑
Risk management and oversight		
Executive Committee: <ul style="list-style-type: none"> – Supports the Board in the management and oversight of risk. – Assesses the level of risk taken in achieving objectives by challenging the AMP7 business plan and the forthcoming AMP8 business plan. – Approves risk mitigation strategies of significant risks – assigned to the individual members of the Executive Committee. – Sets and evaluates risk tolerances. – Identifies and assesses Principal and Emerging Risks. 		
Risk ownership, management and oversight		
1st line of defence	2nd line of defence	3rd line of defence
Strategic planning: <ul style="list-style-type: none"> – Longer-term, holistic risk response plans, e.g. WRMP, our AMP7 business plan and forthcoming AMP8 business plan. – Establishes critical controls for ensuring the operational effectiveness of essential services. Service Area Boards: <ul style="list-style-type: none"> – Capital investment programme management. – Implement strategic risk management processes, such as WRMP. – Identify and monitor Emerging Risks and opportunities. – Assess all categories of risk at an operational level. Business Unit and Risk Champions: <ul style="list-style-type: none"> – Day-to-day risk and incident management, e.g. Severn Trent Operational Risk Management and Drinking Water Safety Plans. – Identify, assess and respond to risks at a local level. – Continual monitoring of risks assigned within the business unit. – Produce risk response plans and strategies. – Develop, implement and monitor key controls. – Follow risk management framework. 	Strategic Risk Forum: <ul style="list-style-type: none"> – Assesses the Business Units' ('BU') reported risks (Bottom-up BU Risks) and mitigation plans, and challenges any ERM information or deliverables as required. – Reviews and validates all ERM reporting and risk-related information prior to Board and Audit and Risk Committee meetings. – Reviews the Company's Principal Risks and proposes amendments to the Board for the Annual Report and Accounts. – Ensures the efficient and effective delivery of the risk management programme carried out by the Central ERM Team. – Monitors compliance across the organisation with the Company's risk management framework and processes. Central ERM Team: <ul style="list-style-type: none"> – Applies the risk management framework. – Owns the corporate ERM system. – Monitors and reports key risk information, including response plans and risk tolerance. – Establishes best practice risk processes across the Group. – Provides guidance and training for Risk Champions and Risk Co-ordinators. – Assists with the identification and assessment of Principal and Emerging Risks. – Facilitates risk escalation processes. 	Internal Audit: <ul style="list-style-type: none"> – Provides assurance for significant risk mitigation strategies. – Assesses effectiveness of the risk programmes by analysis of key controls. – Evaluates internal control environment.

The potential causes, impacts and mitigating controls related to each risk are well documented. This assessment allows us to put in place effective risk response strategies to mitigate the risk to an acceptable level and, following governance checks, to remediate any defective controls or implement additional controls as required.

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

Our recognised ERM risks are linked with our Licence to Operate process. This helps create a dynamic link and improves our risk reporting to the Board and Audit and Risk Committee. Additionally, our ERM risks have been mapped against our business model and we have linked risk causes with recognised climate drivers where the likelihood could be exacerbated by a different climatic future.

OUR PRINCIPAL RISKS

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

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

This list does not comprise all the risks that the Group may face, and they are not presented in order of importance. The nature and profile of these risks are updated each year to reflect the changing risk landscape.

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

Our Principal Risks reported in 2022/23 are detailed on pages 75 to 78 and each individual Principal Risk includes:

- examples of risk mitigation (these mitigation examples are not exhaustive, opportunities have been consolidated within this section);
- the risk exposure level movement at year end;
- a risk update; and
- key risk indicators are used as a metric for measuring the probability of an event and its consequences. They reflect the level of risk exposure, and the effectiveness of key controls.

Key risk indicators play an important role in the Severn Trent ERM function, providing advance notice of potential risks that could harm Severn Trent, insight into possible weaknesses in the monitoring and control tools, and ongoing risk monitoring between the formal risk assessments and reporting.



Health and safety

Risk 1

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

Strategic pillars



Stakeholders



Examples of risk mitigation

- The Group's Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do.
- We have a well-established Health, Safety and Wellbeing Framework to ensure all our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. The Framework is subject to regular review.
- We employ a competency framework and compliance with mandatory training is regularly monitored.
- Monitoring of our supply chain through site manager forums and on site inspections, including Health and Safety reviews to ensure compliance.
- Health and Safety bulletins are cascaded throughout the Group, including the supply chain.
- A dedicated Health, Safety and Wellbeing toolkit, called Safety Net, allows real time data recording to capture, analyse and report on all Health, Safety and Wellbeing incidents and implement targeted interventions in a timely manner.
- We monitor and investigate relevant Health and Safety incidents from other sectors.

Change in year

- This year we have completed reviews of electrical safety across the estate and chemical safety management, including the design, build, operation and decommissioning of chemical related assets.
- We have upskilled key senior stakeholders in the principles of process safety and have started a gap analysis on the key components/controls of the framework.

KPIs

- Lost Time Incident ('LTI') rate target, see page 23

Infrastructure failure and asset resilience

Risk 2

We do not provide a safe and secure supply of drinking water to our customers

Strategic pillars



Stakeholders



Examples of risk mitigation

- We have developed comprehensive resilience plans, such as our WRMP and Drought Plan to inform our capital investment programme and business plan.
- Key operational employees are required to complete mandatory Water Quality Competency training.
- We have invested in our in-house capability to bolster repair teams and facilitate accelerated response times.
- Our 24/7 control centre monitors our operations and assets, including real-time telemetry coverage from our loggers.
- We run strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change. See Principal Risk 10.
- We regularly review and update processes, standards, and operational procedures.

Change in year

- Our final 2022 CRI score was outside of the target, driven mainly by water treatment works performance.
- We launched a more detailed initiative assessing compliance with our operating standards which are based on regulations and industry best practices. Since starting the initiative, our compliance against the standard has increased to over 88%.

KPIs

- Supply interruptions (no. of minutes), see page 15
- Leakage % (ML/d) target, see page 15
- CRI (Index), see page 16
- % Water Quality Competency training competed target
- Priority Services Register (%), see page 29

Infrastructure failure and asset resilience	Customer service and experience	Supply chain and capital project delivery
<p>Risk 3 We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment</p> <p>Strategic pillars  Stakeholders </p>	<p>Risk 4 We do not meet the needs of our customers or anticipate changing expectations through the level of customer experience we provide</p> <p>Strategic pillars  Stakeholders </p>	<p>Risk 5 Key suppliers cannot meet contractual obligations causing disruption to capital delivery (cost and quality) and/or critical operational services</p> <p>Strategic pillars  Stakeholders </p>
<p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - We run strategic modelling, such as the DWMP, to assess potential changes to supply and demand on our waste water network, to reduce service issues and potential damage to the environment. See Principal Risk 10. - Our 24/7 control centre monitors our asset performance, including real-time telemetry coverage. We operate an in-house Waste Water Network Response Team. - Key operational employees are required to complete mandatory training programmes to ensure continued competence with evolving standards. - We run educational programmes for customers promoting safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat. - We monitor all sites with Flow to Full Treatment ('FFT') permit requirements with a dedicated Flow Performance Team. 	<p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - Service Level Agreements ('SLA's) in place and communicated to our customers that require assistance. - We have a specialist digital team that monitors activity and allow us to engage with and respond to customers digitally, whether on social media or WhatsApp, informing customers of planned and reactive work. - The Priority Service Register ('PSR') supports customers with special requirements to give them a better, more personalised service. - Our retail transformation plan and customer experience steering group helps drive further improvements of our customers' journeys on an end-to-end basis. - Our Developer Services Team proactively engages with local new-build developers, to ensure the appropriateness of supply planning and connection. - We have an incident management processes and procedures for vulnerable customers in the event of operational events impacting services. - A dedicated Non-Household ('NHH') customer team engages and responds to market retailers. 	<p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - We have framework agreements covering multiple contractual partners, to provide a flexible and diverse supply chain. - We use a gated capital process to provide assurance around design and delivery. - We have dedicated quality and assurance teams who perform in-depth quality reviews. - We review contracts regularly and run contract performance meetings, including KPI reviews and proactive supplier and market assessments. - Appropriate regular training for contract management teams. - We regularly check the stability of the Severn Trent supply chain; we have a methodology in place to assess financial stability with lead measures. - We have regular management reviews with our strategically material suppliers through to CEO level where needed.
<p>Change in year</p>	<p>Change in year</p>	<p>Change in year</p>
<ul style="list-style-type: none"> - We monitor 100% of CSOs with EDM monitors that can provide 300 million data points on operation of storm overflows. - We have successfully insourced our Wet Well Cleansing Team enabling greater flexibility with our planning and delivery of cleaning activities. - Performance of our sites is being monitored closely through MCERTS, the Environment Agency's Monitoring Certification Scheme For Equipment, and we are promoting additional MCERTS monitoring equipment where necessary. 	<ul style="list-style-type: none"> - We made an additional £30 million support fund available for our customers facing difficult circumstances through cost of living pressures, offering up to a 90% reduction on their water bill. - We have made improvements in our customer-facing processes and the digital experience we offer to our customers. 	<ul style="list-style-type: none"> - We have experienced cost pressures due to the economic climate which have led to multiple rounds of re-scoping and re-designing to reach affordable prices for some of our capital programmes for the benefit of our customers. - We are refreshing and updating our Standard Operating Procedures ('SOPs').
<p>KPIs</p> <ul style="list-style-type: none"> - Internal sewer flooding (no. of incidents), see page 17 - External sewer flooding (no. of incidents), see page 17 - Public sewer flooding (no. of incidents), see page 17 - Pollutions incidents (no. of incidents), see page 17 - Customer written complaints 	<p>KPIs</p> <ul style="list-style-type: none"> - C-MeX (index), see page 16 - D-MeX (index), see page 16 	<p>KPIs</p> <ul style="list-style-type: none"> - Number of project milestones completed on time (no. of projects) - Ratio of critical single source supplier (%)

Cyber security and technology resilience

Risk 6

Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems

Strategic pillars



Stakeholders



Examples of risk mitigation

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

Change in year

- We have delivered 13 Contributing Outcomes ('CO's) this year (29 since 2021/22) for Network and Information Systems Regulations ('NIS-R') compliance ahead of the DWI's expectation of the end of April 2023.
- We have improved our internal structure to delivery, bringing all workstreams under one programme manager with a focus on delivering to the Sector Specific Profile ('SSP') for each CO.
- We are supplementing our NIS-R regulatory requirements with best practices for security using the National Institute of Standards and Technology ('NIST') framework.

KPIs

- Number of high- and medium-priority incidents (no. of incidents)

Political, legal and regulatory

Risk 7

Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance

Strategic pillars



Stakeholders



Examples of risk mitigation

- Delivery of our AMP7 plan, which was based on customer research, and developing our AMP8 plan, which will be submitted later in 2023.
- We actively engage with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector, sharing our experience where possible.
- We operate an established Governance Framework, policies and training ensuring our ongoing compliance with all applicable laws and regulations, including Competition Law and General Data Protection Regulations ('GDPR'), for the operation of separate wholesale and retail business and between our Group businesses. This is subject to regular review.
- Investment plans are subject to regular review, on at least an annual basis, to take account of changes to legislation, regulation and our business.
- External legal advisers provide detailed reviews in respect of upcoming legislation that may affect the Group.
- As part of our Licence to Operate process, we ask relevant managers, strategic leaders and Directors to complete a self-declaration twice a year.

Change in year

- We are actively developing an ambitious PR24 business plan, with high levels of customer engagement and feedback, which will set out what we aim to achieve in the next AMP (2025-30).

Financial liabilities

Risk 8

We fail to fund our Severn Trent defined benefit pension scheme sustainably

Strategic pillars



Stakeholders



Examples of risk mitigation

- Our deficit recovery plans are agreed by the Trustees and the Company setting out the cash contributions required from Severn Trent to the Scheme.
- In November 2022, the Company agreed the triennial actuarial valuation as at 31 March 2022, including repair payments of c.£65 million per annum.
- Interest rate, inflation and equity risk are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustee in considering The Pensions Regulator's consultation on its funding code of practice.
- The Company is represented on the Investment Committee of the Scheme and the investment policy is formally approved by the CFO.

Change in year

- We agreed the 2022 triennial valuation in November 2022, confirming an unchanged contribution schedule which is locked in for three years.

KPIs

- Pension deficit (£m)

OUR PRINCIPAL RISKS CONTINUED

Financial liabilities	Climate change, environment and biodiversity	Climate change, environment and biodiversity
<p>Risk 9 We are unable to ensure sufficient liquidity to meet our funding requirements</p> <p>Strategic pillars  Stakeholders </p> <p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - The Group's treasury activity is overseen by our Treasury Committee with support from dedicated advisers. - The Group has a diversified capital structure, in terms of both tenor and access to global debt capital markets to mitigate risks. - The Group maintains liquidity headroom of at least 15 months. - The Group has committed credit facilities for five years. - The Group cash balances are deposited across a range of investment-grade counterparties to spread and mitigate risk. - The proportion of the Group's debt maturing in any AMP period does not exceed 40% of the Group's total debt to reduce refinancing risks. - Treasury policy statements and procedure manuals are in place and operating effectively. These are reviewed at least annually. 	<p>Risk 10 Severn Trent's climate change strategy does not enable us to respond to the shifting natural climatic environment and maintain our essential services</p> <p>Strategic pillars  Stakeholders </p> <p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - We utilise scenario modelling and data modelling, to understand the impact climate change could have on our essential services (see Principal Risks 2 and 3). - The Water Resources Management Plan and Drainage and Wastewater Management Plan provides a 25 year, longer-term planning approach to future challenges. - Our AMP7 business plan supports increased resilience against the potential impacts of climate change through capital scheme delivery. See Principal Risk 5. - Our climate change strategy (described in more detail on pages 43 to 48). - Our Triple Carbon Pledge commits us to net zero carbon emissions, 100% renewable energy and an all-electric fleet [where available] by 2030. Read more on page 54. - We have committed to significantly reducing our greenhouse gas emissions by 2030. Read more on page 57. 	<p>Risk 11 We fail to influence positively the natural capital in our region</p> <p>Strategic pillars  Stakeholders </p> <p>Examples of risk mitigation</p> <ul style="list-style-type: none"> - We support the Get Nature Positive journey in our region working to protect biodiversity by working in partnership with regulators and other stakeholders. - Strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including pollution incidents, biodiversity improvements and environmental compliance. - Use of catchment-management approaches to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity. - Modelling to estimate the impact of increasing pressures on nature, for example from climate change, including, drought or extreme weather events (see Principal Risk 10) and biodiversity loss that has potential to impact ecosystems. - Using our in-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.
<p>Change in year</p> <ul style="list-style-type: none"> - We are in a strong liquidity position supported by our £1.3 billion committed facilities, providing liquidity until November 2024. - We have been active in the debt markets during the year raising £1,351 million new debt from a range of diverse sources. - We have issued a further £450 million after the year end through a £400 million GBP bond, which we priced in March 2023, and a £50 million private placement. - Our strong balance sheet and ESG credentials provides a level of resilience during periods of higher interest rates and rising inflation as a result of the gilt crisis. 	<p>Change in year</p> <ul style="list-style-type: none"> - We're working with our high-impact suppliers to help them set one SBT for their organisation as the majority of our total Company carbon footprint is made up of emissions associated with our value chain (also known as Scope 3 emissions). - We've made an ambitious public commitment to ensure 70% of suppliers, by emissions, set an SBT by 2026. We are in regularly in conversations with our suppliers to make sure we meet this target. 	<p>Change in year</p> <ul style="list-style-type: none"> - Doubled our biodiversity target to 10,000 hectares by 2025. - In Mansfield, we're trialling a nature-based approach to reduce flooding, while creating a green environment to protect people from flooding, improving river quality, and creating green environments to be enjoyed. - Our WINEP project is helping accelerate our environmental commitments by improving 500 km of river, five years earlier than planned; allowing communities and wildlife to benefit sooner. - Our Green Recovery Bathing Rivers Programme is helping to create bathing-quality stretches of river along the River Leam in Warwickshire and the River Teme in Shropshire.
<p>KPIs</p> <ul style="list-style-type: none"> - Months of liquidity 	<p>KPIs</p> <ul style="list-style-type: none"> - See metrics and targets section that forms part of our approach to Climate Change on pages 54 to 57 	<p>KPIs</p> <ul style="list-style-type: none"> - Biodiversity (no. of hectares improved) (ha), see page 18

EMERGING RISKS

We define Emerging Risks as upcoming events which present uncertainty but that we currently are unable to fully quantify.

Emerging Risk management ensures potential risks are identified, with budget plans evaluated and stress tested as if they were to materialise. Our processes aim to identify new and changing risks at an early stage and analyse them thoroughly to deduce the potential exposure to Severn Trent.

We continually identify and monitor Emerging Risks using our top-down and bottom-up processes. Our network of ERM Co-ordinators, ERM Champions and risk owners use techniques such as cross functional workshops and PESTLE ('Political, Economic, Social, Technological, Legal and Environmental') analysis. This culminates in an Emerging Risk horizon map reported annually to the Audit and Risk Committee and Board.

We closely monitor Emerging Risks that may, with time, become either complete ERM risks, incorporated into the existing corporate risk reporting process, have potential to be superseded by new Emerging Risks, or cease to be relevant as the internal and external environments in which we operate evolve.

The Directors have carried out a robust assessment of the Company's Emerging Risks and consider the following to be risks that have the potential to increase in significance and affect the performance of the Group.

Title	Detail	Area/Factor	Time horizon
Energy infrastructure stability	We are reliant on the stability of the energy grid and are susceptible to power disruptions, brownouts, partial outages, blackouts and complete shutdown of electricity due to problems with the local, or national, energy grid. We are focused on delivering our longer-term energy strategy.	Operational	Short-Medium
Geopolitical tensions	Ongoing conflict in Ukraine and resulting sanctions could further increase commodity prices and could result in an economic slowdown. The cyber threat environment has increased globally following the Russian invasion of Ukraine in 2022.	Economic	Short-Medium
Supply chain disruption	Dynamic market conditions can cause supply chain shortages and resource security pressures, increasing commodity prices globally. We are dependent on our supply chains, including foreign suppliers, which could be impacted by ongoing global matters.	Operational	Short-Medium
Evolving research and understanding around 'forever chemicals'	Increasing research into the impact of Per- and Polyfluorinated Substances ('PFAS'), known as 'forever chemicals', results in changes to existing regulations and alters testing and treatment processes.	Operational	Short-medium

VIABILITY STATEMENT

Assessment of current position and long-term prospects

The Directors' assessment of the Group's financial position at 31 March 2023 is set out in the Chief Financial Officer's review on pages 66 to 72. Important aspects of that assessment that are most relevant to the assessment of viability are:

- The Group's shadow RCV Gearing is 60.0%, equal to Ofwat's assumed gearing of 60% for the notional company on which the regulatory allowances for this AMP are based;
- The Group has sufficient cash and available facilities to fund its financial commitments, including returns to debt and equity investors, operating and capital expenditure until November 2024;
- The Group's credit ratings from two agencies (S&P and Moody's) are above the investment grade base level and are stable; and
- The defined benefit pension deficit increased to £279 million in the year. The triennial valuation as at 31 March 2022 was completed during the year and the contributions remained unchanged.

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

AMP7 runs to 31 March 2025 and Severn Trent Water has developed its plans to deliver the operational and financial performance set out in Ofwat's determination. We have based our assessment of prospects for the next two years on these plans.

When considering the Group's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025–2030 (PR24), which will take place in 2024. In making this assessment we have taken account of:

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

We have significant investment programmes, largely funded through access to debt markets. Our strategic funding objectives reflect the long-term nature of the Severn Trent Water business and we seek to obtain a balance of secure long-term funding at the best possible economic cost. Our Treasury Policy requires us to maintain sufficient liquidity to cover cash flow requirements for a rolling period of at least 15 months in order to limit the risk of restricted access to capital markets. Our Group treasury team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 14 years.

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

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

Period of assessment

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

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

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

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

Assessment of Viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described on pages 73 to 74, and from the key assumptions in the financial model.

While we have estimated the size of each of the severe but plausible scenarios described below, we have grouped scenarios with similar impact types together and performed stress testing for the scenario with the greatest impact. Where the scenario occurs at a point in time, we have assumed that it occurs at the point in the plan with the lowest headroom.

The risks and scenarios tested are described below:

Risk assessed	Severe but plausible scenario	Stress test applied
Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public.	Serious injury, ill health or death of employees, contractors or members of the public as a result of what we do.	An extreme one-off event.
We do not provide a safe and secure supply of drinking water to our customers.	Catastrophic breach of a large raised reservoir (>25,000 cubic metres). Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment.	An extreme breach in a sludge lagoon at a large sewage treatment works. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	An extreme one-off event. Totex underperformance in each year of the forecast. ODI penalty in a single year.
We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide.	Our performance is well below customers' expectations across a range of measures.	ODI penalty in a single year.
Key suppliers cannot meet contractual obligations causing disruption to capital delivery and/or critical operational services.	Significant increase in capital programme costs. Service failure leads to increased operating expenditure or failure to meet performance commitment targets.	Totex underperformance in each year of the forecast. ODI penalty in a single year.
Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems.	A cyber attack results in a critical loss of personal data leading to regulatory action.	An extreme one-off event.
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.	A breach of law or regulations results in a significant one-off penalty.	A financial penalty.
We fail to fund our defined benefit pension obligations sustainably.	Increasing pension deficit leading to higher deficit reduction contributions.	Increased pension contributions.

We also applied stress tests relating to economic factors: higher and lower inflation (including deflation); and higher interest rates, and a combined scenario taking into consideration totex underperformance, ODI penalties and a financial penalty.

The amounts of the stress tests applied were:

Stress test applied	Amount modelled
An extreme one-off event	A one-off impact of £250 million at the point in the forecast with the lowest headroom.
Totex underperformance	An increase in totex of £250 million in each year of the forecast.
ODI penalty	A penalty of £275 million in a single year.
Financial penalty	A penalty of £160 million in a single year (c.6% of turnover).
Increased pension contributions	Contributions increase by £34 million per annum.
Combined scenario	An increase in totex of £250 million in each year, an ODI penalty of 1.5% in one year, and a financial penalty of £250 million in one year.
Higher inflation for three years	10% spike in CPIH followed by two years at 5%.
Lower inflation in each year	Decrease of 2% in CPIH.
Deflation for two years	CPIH of -1%.
Higher interest rates	New debt financed at 2% above the iBoxx index.

We assessed the impacts of the scenarios on our financial metrics, credit metrics and debt covenants. Where the result of the stress test indicated more than a limited impact, a risk of a downgrade of credit rating or a breach of a bank covenant, we considered what mitigating actions would be available and whether they would be sufficient to mitigate the potential impact of the stress test.

VIABILITY STATEMENT CONTINUED

The table below sets out the potential impacts of the stress tests and the mitigating actions that would be available to address the impacts.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available
An extreme one-off event	Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt. Reprofile capital programme to ease short-term pressure on ratings. Consider reducing dividend in the year or downgrading the dividend policy.
Totex underperformance	Earnings in the year are lower than the dividend indicated by our policy. Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Headroom against debt covenants significantly reduced.	Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt. Consider reducing dividend in the year or downgrading the dividend policy.
ODI penalty	The penalty would flow through revenue two years after the performance commitment was breached. Earnings in the year are lower than the dividend indicated by our policy. Increased gearing and deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Accelerate recognition of accumulated ODI rewards not yet taken. Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Financial penalty	Lower profits lead to dividend cover less than one. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Increased pension contributions	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt.
Combined scenario	Significant reduction in profitability and cash flow. Earnings in the year are lower than the dividend indicated by our policy. Significant increase in gearing leading to risk of downgrade below investment grade in credit rating and breach of covenants.	Engage with ratings agencies and banks to discuss the impacts on ratings and covenants. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Reprofile capital programme. Consider downgrading the dividend policy.
Higher inflation in one year	Short term adverse impact to profit, dividend cover and cash. However, in the longer-term higher inflation increases revenue and RCV leading to higher profits and lower gearing.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash.
Lower inflation in one year	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Our dividend policy is index-linked and therefore low inflation would reduce the dividend payable. We would also consider downgrading the dividend policy if necessary.
Deflation for two years	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Consider new sources of funding, including hybrid debt. Cost reduction programme. Consider reducing dividend in the year or downgrading the dividend policy.
Higher interest rates	Reduction in profitability. Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the impacts and the regulatory true-up mechanism that would mitigate the impacts in the longer term. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year or downgrading the dividend policy.

The mitigating actions available are described in more detail below:

Mitigating action	Details
Engage with ratings agencies and banks	While ratings agencies and banks apply formulaic calculations as part of their ratings and covenant assessments, judgment is also applied. Where a threshold for a particular rating is breached or a covenant ratio not met, a downgrade might not be applied or a temporary covenant waiver might be granted if the agency/bank considers the situation to be temporary and likely to reverse in the near future.
Manage liquidity by temporarily reducing working capital	We would seek to accelerate collection of amounts receivable with particular focus on overdue accounts. We would work with our suppliers to negotiate longer credit terms where appropriate.
Cost reduction programme	We would review discretionary expenditure to identify costs that could be avoided or reduced without a detrimental impact to customer service.
Reprofile capital programme	By deferring elements of capital expenditure, we could mitigate the impact of significant events on our cash flow and smooth the effect on key ratios over a number of years, reducing the size of the impact in any one year.
Close out derivative financial instruments in asset positions	Derivative financial assets such as swaps can be closed out with the agreement of the counterparty, generating cash in the short term.
Consider new sources of funding, including hybrid debt	The Group has access to a wide range of capital markets and maintains a diverse range of funding sources. However, there are instruments that we do not currently use that would be available when more traditional funding is not. Hybrid debt instruments are a form of debt that has some of the characteristics of equity, for example a bond that features an option to convert to equity.
Consider reducing dividend in the year	Our dividend policy for AMP7 is to grow the dividend by CPIH each year. If necessary, we would consider diverging from this policy to deal with short term pressure on credit metrics or ratings.
Consider downgrading the dividend policy	In circumstances where the pressure on metrics, ratings or covenants was sustained, we would consider amending our dividend policy for the AMP to relieve the pressure while giving investors a basis to set their expectations for returns.

In selecting which mitigating actions to apply, we would seek to balance the interests of all stakeholders and, in particular, would prioritise mitigating actions that would not lead to a breach of our commitments to customers.

We have significant funding requirements to refinance existing debt that falls due for repayment during the period under review and to fund our capital programme. Under all scenarios considered, the Group would remain solvent and have access to sufficient funds in normal market conditions. Our Treasury Policy requires that we retain sufficient liquidity to meet our forecast obligations, including debt repayments for a rolling 15-month period.

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

- Any period in which the Group is unable to access capital markets to raise finance during the period under review will be shorter than 15 months.

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

Governance and assurance

The Board reviews and approves the medium-term plan on which this Viability Statement is based. The Board also considers the period over which it should make its assessment of prospects and the Viability Statement. The Audit and Risk Committee supports the Board in performing this review. Details of the Audit and Risk Committee's activity in relation to the Viability Statement are set out in the Audit and Risk Committee report in the Severn Trent Plc Annual Report.

This statement is subject to review by Deloitte, our External Auditor. Their audit report is set out on page 168.

Assessment of Viability

The Board has assessed the viability of the Company over a seven-year period to March 2030, taking into account the Company's current position and principal risks.

Based on that assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2030.

Going Concern

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

The Directors have reviewed the cash and committed facilities available to the Group alongside a cash flow forecast extending beyond the period considered for this Going Concern Statement. The Directors have considered the potential impacts, in the period of one year from the date of this report, resulting from the scenarios described in the Viability Statement set out above.

The Directors are satisfied that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements, and that the severe but plausible downside scenarios considered indicate that the Group will be able to operate within the amount and terms (including relevant covenants) of existing facilities.

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

STAKEHOLDER ENGAGEMENT

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

This section provides insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision making and the actions taken as a consequence. You can read more in our formal Section 172 Statement ('s.172') on pages 95 to 97, which sets out our approach to s.172 and provides examples of

Stakeholder	How we engage at Board Level	How we engage across the Company
 Our Customers <p>In serving our customers, we want to provide strong service delivery over the long term. Our consultation with customers helped our Severn Trent Water Limited 2020-25 business plan to be fast-tracked by Ofwat and we have engaged with our customers in development of our PR24 business plan.</p>	<ul style="list-style-type: none"> - Customer-shareholders engage with the Board and submit questions in advance of our Annual General Meeting ('AGM'). - Service delivery for customers is discussed at every Board meeting. - Customer perceptions of value for money reported to our Corporate Sustainability Committee. - Our Board approved extensive customer engagement to shape our Strategy and business plan. - 'Your water, your say' event held in April 2023. 	<ul style="list-style-type: none"> - Quarterly meetings with CCW at management level. - Frequent discussion and consultation with our online customer community. - Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. - Online self-service options for customers and made it easier to check for and report problems through our 'Check My Area' app and 'Report a Problem' services. - Customers can contact us 24/7 including through two-way messaging functionality through SMS, WhatsApp, TapChat and Apple Business Chat channels.
 Our Colleagues <p>Our greatest asset is our experienced, diverse, and dedicated workforce. Our relationship with them is open and honest, and they are appropriately supported, developed and rewarded to encourage them to do their best in all that they do.</p>	<ul style="list-style-type: none"> - A dedicated virtual employee engagement event, 'Ask Our Board', was held in May 2023. - Employee-shareholders have the opportunity to meet the Board and submit questions to the AGM. - The Chair, Non-Executive and Executive Directors attend Company Forum meetings and provide feedback at Board meetings. - Company Purpose and culture, talent development and our People Strategy are discussed at Board meetings. - The Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board. - The Board considers our employee engagement – QUEST – survey results and steps taken to address feedback. 	<ul style="list-style-type: none"> - Employees are invited to attend the 'Ask Our Board' and 'Ask Liv' events. - In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. - Continual communication to employees on mental and physical health awareness. - Employees are invited to attend the all company roadshows held throughout the year.
 Our Communities <p>Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.</p>	<ul style="list-style-type: none"> - Employees who live and work in our communities 'meet' the Board at the Employee Forum, AGM, and site visits. - Employees who live and work in our communities could also engage with the Board through the employee engagement virtual event, 'Ask Our Board', held in May 2023. - Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings. - Environmental matters, including progress on our Get River Positive river pledges, are considered by the Board at every meeting. 	<ul style="list-style-type: none"> - Our employability scheme inspires our people and makes a real difference to people's lives. - Regular engagement with Government officials and elected representatives on water and environment-related issues. - Our people volunteer, when safe to do so, through our Community Champions programme, working to improve our communities and environment. - Regular community workshops and drop-in sessions held across our region.

decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making. The principles underpinning s.172 are not only considered at Board level, they are part of our culture.

They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, and strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance Report from page 100. You

can also read more in our separately published Sustainability Report which can be found on our website. Our Engagement in Action section showcases some of the exciting opportunities we have had throughout the year to engage with our key stakeholders. We welcome any feedback from our stakeholders.

What matters to them	How we delivered on feedback this year	Outcomes from engagement	Link to KPIs
<ul style="list-style-type: none"> - Customer service and performance - Leakage and supply reliability - Affordability and value for money - Assistance in times of need - Responsible investment - Environment, river quality and climate change 	<ul style="list-style-type: none"> - Societal Strategy launched - 2022 Demand Reduction Campaign - New technology services - Good progress on our Affordability Strategy - First Get River Positive annual report on progress against our river pledges 	<ul style="list-style-type: none"> - Hit or exceeded our targets on c.80% of our performance commitments, earning an outperformance of £53 million. - Supported 132,296 customers through our Big Difference Scheme this year. - 17,178 customers supported this year through our WaterSure scheme. - 7.7% of our customers signed up to our Priority Services Register. 	<ul style="list-style-type: none"> - Value for money - Help to Pay When You Need It - Priority Services Register - C-MeX - D-MeX - CRI - Drinking water quality complaints - Supply interruptions - Leakage - Internal sewer flooding - External sewer flooding
<ul style="list-style-type: none"> - Health, Safety and Wellbeing - Diverse and inclusive workplace - Opportunities to reach full potential - Open and honest environment - Fair pay and reward 	<ul style="list-style-type: none"> - Well-developed employee advisory groups - 2022 Leadership event - YuLife wellbeing app - Continued to narrow our gender pay gap - Improved all-employee benefits including discounted childcare and support for elderly dependants - Refreshed Strategy 	<ul style="list-style-type: none"> - Our employee engagement survey score of 8.4 out of 10 ranked us in the top 5% of utility companies globally. - 16 LTIs compared to 19 in 2021/22, our best ever performance this year. - 5th on Social Mobility Index. - 23rd in Stonewall Workplace Equality Index. - 4th year in Bloomberg Gender Equality Index with our highest ever score. - 14th on Equality in the Tortoise. Responsibility 100 Index. - 900 attendees at our Leadership event. 	<ul style="list-style-type: none"> - Employee Engagement - Lost Time Incidents
<ul style="list-style-type: none"> - Operational impact and disruption - Local employment - Economic contribution - Protection of the environment - Cost of living pressures 	<ul style="list-style-type: none"> - Societal Strategy launched - Welcomed 263 new apprentices and graduates - Welcomed 5 new Hereford and Derwen College interns - Work experience opportunities - Employee volunteering days - Education sessions - New Care Leavers Scheme - Improved the biodiversity of 5,000 hectares of land, four years early 	<ul style="list-style-type: none"> - Financial support was given to care leavers through our Big Difference Scheme. - Over £2 million awarded to 116 projects through our Community Fund this year. - 7,728 hectares of land improved during the year. - Over 340 'Kickstarters' across the business as part of our Kickstart Programme since its launch. - 71,259 hours delivered as part of our 100,000 employability hours scheme. - Over £270,000 donated to our Get River Positive Community Fund this year. 	<ul style="list-style-type: none"> - Education programme - External sewer flooding - Public sewer flooding - Pollutions - Biodiversity

STAKEHOLDER ENGAGEMENT CONTINUED

Stakeholder	How we engage at Board Level	How we engage across the Company
 Shareholders and Investors <p>Continued access to capital is vital to the long-term performance of our business. We work to ensure that our shareholders, investors and investment research analysts have a strong understanding of our Strategy, performance, ambition and culture.</p> <p>Many of our shareholders are also customers, employees and pensioners.</p>	<ul style="list-style-type: none"> - The Board approves the full and half-year results, Annual Report and Annual Performance Report. - The Board receives quarterly trading updates. - The Chair, Senior Independent Director ('SID'), Chief Executive, CFO and Non-Executive Directors attend investor meetings and feedback is reported to the Board. - The Head of Investor Relations gives an update to the Board on a regular basis and the Investor Relations Strategy is discussed by the Board. - The Chair attends the Capital Markets Day. - Regular meetings between Investor Relations and the Chair to discuss feedback from investors and strategy. - Annual Chair governance roadshow to meet with shareholders, hear views and answer questions. 	<ul style="list-style-type: none"> - We have a comprehensive programme of investor engagement including investor site visits, so that shareholders can experience our operations and culture first hand. - Regular dialogue with shareholders to support them in their investments. - Q&A Sessions held with the Executive Committee bi-annually.
 Suppliers and Contractors <p>Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders.</p>	<ul style="list-style-type: none"> - Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers. - Supplier representatives attend the Capital Markets Day and the Company Forum alongside Executive Directors and Non-Executive Directors. - Our Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain. - Board has oversight of our Supply Chain Charter and approval of our Modern Slavery Statement. 	<ul style="list-style-type: none"> - Meetings with suppliers at the outset of the relationship to agree on performance metrics and ensure continual monitoring of performance; supplier questionnaires and satisfaction surveys/stakeholder materiality surveys. - Regular meetings with our suppliers, including training on Modern Slavery, and our Code of Conduct, Doing the Right Thing. - Audits and inspections of suppliers. - Periodic performance and commercial reviews. - Supplier whistleblowing hotline.
 Regulators and Government <p>The policy framework for the water sector in England and Wales is set by the English and Welsh Governments, respectively. We seek to engage constructively to achieve the best outcomes for customers and the environment. Below the policy framework, our industry is regulated by Ofwat and others. We agree commitments with our regulators and report our performance against these. We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment.</p>	<ul style="list-style-type: none"> - To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year. - Regulatory matters are regularly considered by the Board, including business plans, the Water Resources Management Plan and Scheme of Wholesale Charges. - Regulatory stakeholders attend Board meetings, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA'), the Consumer Council for Water ('CCW') and Defra. - Regulatory consultation updates are considered by the Board. 	<ul style="list-style-type: none"> - Regular meetings with our regulators at management level including, the EA, Natural Resources Wales, Natural England, Ofwat, the DWI and Defra. - Regular engagement with Government officials and elected representatives on water and environment-related issues.

What matters to them	How we delivered on feedback this year	Outcomes from engagement
<ul style="list-style-type: none"> - Strategy and business model - Financial performance and returns - Reputation - ESG performance - Financial and climate-related risk management - Strong leadership - Company culture - Energy pricing risk management - Executive remuneration 	<ul style="list-style-type: none"> - Interim dividend of 42.73 for 2022/23 - Final dividend for 2023/24 of 64.09 - Disclosures under EU taxonomy - Delivery against our Get River Positive river pledges, Societal Strategy and Affordability Strategy 	<ul style="list-style-type: none"> - Total Shareholder Return - AMP7 dividend policy with a growth rate of at least CPIH – 2022/23 final dividend of 64.09 - £737 million invested this year in our capital programmes with 84% of capital prices agreed for the remainder of AMP7 - All resolutions received over 95% of votes at our 2022 AGM - Investment into our Green Recovery Programme
<ul style="list-style-type: none"> - Fair engagement and payment terms - Collaboration - Responsible supply chain - Sustainable procurement - Reputation 	<ul style="list-style-type: none"> - Net zero engagement with supply chain - AMP8 Supplier Engagement Event - Supply Chain Sustainability School 	<ul style="list-style-type: none"> - 89 suppliers assessed through EcoVadis this year - CDP Supplier Engagement Leader 2022 - CIPS Procurement Excellence Standard Accreditation - 14.9 score by Sustainalytics (top 4% of utilities companies) - Ranked 12th in Tortoise Responsibility 100 Index - Carbon Disclosure Project Advanced Rating
<ul style="list-style-type: none"> - Outcomes for customers, the environment and long-term resilience - Performance against regulatory targets - Trust and transparency - Governance and compliance - Environmental impact - Sustainable procurement 	<ul style="list-style-type: none"> - Ensuring resilient supply chain - Sharing knowledge and expertise to find solutions and opportunities for innovation - Developing responsible business strategies and achieving continuous sustainable development - Meeting shared targets for growth and development 	<ul style="list-style-type: none"> - December 2022 named by Ofwat in the top categories for both performance and expenditure for the second year running. - Highly confident of achieving EPA 4* status for the fourth consecutive year, a unique accolade in the sector. - Awarded London Stock Exchange's Green Economy mark.

ENGAGEMENT IN ACTION



OUR CUSTOMERS

We have a relentless focus on improving service delivery for customers. Our continuous engagement with them ensures that we are truly able to understand what matters to them and deliver further improvements in service.

Combining insights from our programme of engagement, the below section outlines issues of importance to our customers and signposts where you can read more about the steps we have taken to address them:

Customer Priorities

Providing clean, safe drinking water and an affordable service, alongside supply reliability, customer education and protecting the environment.

[Read more: page 15.](#)

Environmental concerns: around seven in ten customers agree climate change is already having an impact and customers expect us to have plans in place to meet these challenges and prevent disruption to their service. Informed customers are willing to invest in resilience, climate change and protecting and improving the environment. However, in a less informed setting, customers are increasingly likely to prioritise low bills over PR24 investments.

[Read more: from page 39.](#)

The increasing cost of living, with financial anxiety evident even amongst those who are not financially vulnerable. New categories of vulnerable customers are emerging, and whilst we are a leader in affordability support, we recognise there is more to do to increase awareness of these schemes and remove psychological barriers to seeking support.

[Read more: page 157.](#)

The majority of customers are satisfied with their water company and consider that the company has a good reputation. Customers want increasing honesty and transparency, and reassurance that we are focusing on, and investing sufficiently in, those areas in which we are performing less well. Customers welcome more information about how the way we are funded, investment and how customers' interests are protected by regulators.

[Read more: pages 6 and 7.](#)

Understanding and supporting customers' diverse needs

We greatly value customer insights and have a programme of continuous customer research to monitor and understand customer views and perceptions. We conduct customer surveys and a six-monthly social barometer survey exploring customers' societal concerns and their priorities for the future. In addition, we use TapChat, an online research panel of around 7,000 customers, to undertake regular ad hoc surveys, discussions and communications tests. As part of our research, we also commission ad hoc quantitative and qualitative research, including that specifically for price reviews.

Our PR24 research comprises a mix of surveys, focus groups, deliberative workshops and in-depth interviews. This includes research with those in vulnerable circumstances and those without internet access. This research is focused on answering the following questions:

- What are our customers' needs and priorities?
- How can we ensure that our service is affordable and accessible for everyone?
- How, where and when should we invest to meet customers' and communities' long-term needs?
- What value do customers place on service improvements?
- Is our plan acceptable and affordable?

Understanding customers' views

In April 2023, we hosted our first 'Your water, your say' session, allowing our customers and other stakeholders to pose questions about issues that are important to them, including priorities for the future, in a public environment.

We were delighted to have over 100 attendees, including customers, regional stakeholders, other water companies, Expert Challenge Panel members and our regulators, join us virtually for the event.

You can read more about the outcomes of the session on our website.





OUR COLLEAGUES

We are immensely proud of our culture; it is something we work on every day and is demonstrated by every colleague across the business. We reinforce our culture through the initiatives and interventions that we put in place as a company.

Employee voice means different things to different people and, as such, multiple initiatives are needed to achieve effective outcomes.

We have a combination of collective and direct employee feedback mechanisms that focus on two-way inclusive dialogue across the business.

All of these communication and engagement mechanisms are well established, well utilised and cover the full breadth of the organisation.

Our collective and direct employee feedback mechanisms

Collective Voice

- Company, business and local Trade Union forums
- Departmental meetings
- Annual leadership events
- OnTap news and Weekly 'News Splash' updates
- Monthly Team Talk
- Wonderfully you
- Diversity and Inclusion Advisory Groups

Direct Voice

- QUEST survey
- Comm cells
- Whistleblowing
- Employee/manager meetings
- AskLiv
- Yammer
- Safety Net Reporting

Engagement with our Company Forum

Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture. Our Company Forum facilitates this in a structured way. According to a recent survey by Tortoise, we are one of only 38% of organisations in the FTSE100 who have this in place.

The Company Forum meets four times a year and attendees are invited from Trade Unions, all leadership levels, the Executive Committee and Board. Through this Forum, we engage with employees on all ways of working. It is jointly chaired by the Director of Customer Operations and the Joint Secretaries of our two main Trade Unions (Unison and GMB). Board Directors are invited to attend and participate at meetings and, over the last twelve months, Christine Hodgson, Sharmila Nebhrajani, Gillian Sheldon and John Coghlan, as well as Liv Garfield, have attended meetings, to listen to the discussions and to talk about their areas of responsibility and interests.

The agenda is wide-ranging and topics for discussion this year have included working time and fatigue, an overview of the occupational health contract tender and ongoing dialogue on company-wide initiatives such as our Societal Strategy, diversity and inclusion, and new talent. There are also regular updates on company performance, year end results, and all large change programmes.

The Company Forum consistently feeds back on the value it gets from Board member attendance and the Trade Union national officers highlight how different this is to the experience that they have in other organisations.

Engagement with Business Forums and Local Forums

In order to reach all parts of the business and tailor conversations relevant to those areas, we hold local forums chaired by area business leaders to discuss performance, health and safety, successes and areas of concern. To act as a bridge between the Company Forum and Local Forums, there are Operational and Customer Business Forums. They meet to discuss business updates and to resolve matters that cannot be solved at a local level.

There is also a separate Health and Safety Company Forum and Severn Trent Services has its own non-unionised employee forum.

Engagement with all employees

Creating, developing and growing the right communication and engagement channels for our employees is kept under continual review. Some forms of communication, such as line manager relationships, are well established; however, we continue to run regular line manager training, especially for new managers, as we recognise the crucial role that manager behaviours, in particular visibility and trust, play in encouraging an active employee voice. Likewise, the approach and format of local team meetings is an important factor in creating an open dialogue with the team. The monthly Team Talks encourage this discussion and provide consistency and structure as part of a wider team agenda.

Yammer is well used across the business, particularly in operational areas, allowing employees to showcase work and start discussions on work-related topics. AskLiv provides a route for individuals to raise questions to the CEO and Senior Management Team that colleagues are unable to find an answer to elsewhere. The encouragement of open dialogue is complemented by top-down communications in the form of the OnTap intranet news and the Weekly 'News Splash' magazine-style round-up of key news articles.

All employee engagement events

We know that coming together and taking time to connect to our Strategy and ambitions is important to our colleagues, and drives engagement and curiosity amongst our teams. We take pride in delivering engaging collaborative leadership events year on year, bringing our leaders together to build networks and make links to our performance opportunities.

In September 2022, we held our leadership events at Tittesworth Water, with over 900 attendees from across the business. Sessions focused on PR24, the launch of our Societal Strategy and the promotion of our Company benefits offering. The event was hugely engaging, with over 95% of colleagues saying that it was a positive use of their time, and that they were confident of being able to communicate the messages to their teams. To ensure that the messages reached across the whole organisation, a cascade 'Team Talk' pack was provided for managers to use with their employees.

We also hold Long Service Awards and annual 'Awesome Awards' to celebrate individual and team achievements.

Ask HR Roadshows

During the year, our Ask HR Roadshows visited and attended multiple sites and team meetings to help our colleagues get their questions answered in a more convenient way which can often help resolve their queries quicker. The sessions allow us to listen and give employees and teams an opportunity to air any issues or concerns they have while building deeper relationships across sites.

Doing the Right Thing ('DTRT') and our 'Speak Up' approach

It is important that our colleagues have the right processes in place to raise concerns should they need to. Whistleblowing procedures are in place for all Group companies to deal with any allegations of breaches of DTRT.

We remain committed to providing an open and transparent 'Speak Up' environment to foster a culture where employees have the confidence to speak out about issues that concern them.

All employees have access to independent psychological support and legal advice through our Employee Assistant Programme, and we regularly communicate and increase awareness of all whistleblowing routes, including our confidential Safecall 'Speak Up' line.

 **Read more:** about our 'Speak Up' arrangements on page 139.

QUEST engagement survey

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

We were delighted that our employee engagement score achieved 8.4 out of 10 this year, placing us in the top 5% of utility companies globally. As important as the range of opportunities provided is how our colleagues feel about them. We continue to ask colleagues questions relating to their feelings about learning, careers and growth at Severn Trent. We are really pleased that all topics scored above benchmark, recognising our delivery and focus in these areas.

On career paths, employees scored the question, 'I see a path for me to advance my career in our organisation' as 7.8 out of 10, 1.3 above benchmark. When asked whether their job enables colleagues to develop and learn new skills, 8.4 agreed. It is truly lovely to see how our teams feel supported in their development and see pathways to develop and progress.

It is equally important to colleagues that we are able to respond to what they tell us. The below section offers an example of how we responded to feedback during the year.

QUEST in action – collaboration spaces

Collaboration space and environment were identified as key topics of focus by our employees this year. Following an in-depth assessment, we identified that the primary feedback was around collaboration space and technology.

With the return to office environments following COVID-19, many colleagues told us they felt frustrated with the lack of physical spaces and technology available for meetings and collaboration. And some, colleagues felt that improvements could be made to the technology available to facilitate continued use of online meetings.

QUEST performance

2022/23	8.4
2021/22	8.2
2020/21	8.3



It would be great to have more spaces for conversations and collaboration when working in the office."



How can we prevent rooms being booked and not ultimately used?"



Technology could be provided in all meetings rooms, including small single office spaces."



I would like to see more meeting spaces available, outside of ordinary meeting rooms, for more informal discussions."

How we responded

Following publication of the QUEST results, we immediately constituted a dedicated workstream to review our working environments on our sites and were able to address the issues raised, including:

- a communication campaign to all colleagues promoting better meeting room etiquette;
- building multiple breakout areas at sites with meeting pods;
- significant investment in meeting room technology; and
- an upgraded meeting room system to automatically reject no-shows to give back availability of rooms.

Outcomes

We were delighted that our QUEST scores this year showed a marked improvement we appreciate there is still more to be done in this space. We are pleased at the feedback we are receiving from colleagues:

"This has improved since introducing two additional breakout spaces within the office."

"Plenty of room, especially since the seating areas have been enhanced."

"There are always spaces available to have conversations or meetings."





OUR COMMUNITIES

We work hard to make our water wonderful and keep our millions of customers 'on tap' every day. But there is more to Severn Trent than that. We think it is important to give back to the communities where our customers and people live. Not because we have to, but because we think we should. Whether that means caring for the environment, supporting the next generation, or just making our region a better place to live, we want to make a positive difference in our communities.

Findings new ways of working and working in partnerships

Our partnerships, such as local authorities, regulators, charities, community groups and schools, are fundamental to how we are increasing our support to our customers.

We have written to the Chief Executive of every local authority in our region to offer help with identifying households that might need support, building on the work we have been doing with several local authorities in our area to help them allocate the funding available from central Government through the Household Support Fund, allocating some to ease water bills. Through our work with local authorities, we have also secured additional grants being paid directly to customers.

We have been working with Coventry City Council and Birmingham City Council to help transition households identified as financially struggling onto one of our financial support schemes. As part of our programme of partnership working, in September 2022 we partnered with Nottingham City Council to bring together advice and support agencies for customers including St. Ann's Advice Centre (debt advice), Green Doctor (energy efficiency experts) and Nottinghamshire Energy Partnership (delivering projects that tackle fuel poverty).

At the same time, we have been working with the Department for Work and Pensions to proactively identify customers in need and, where possible, move customers directly onto one of our support schemes.

We regularly visit foodbanks, community centres and outreach centres to raise awareness of the support we provide and to engage with vulnerable customers. We are monitoring the 'Warm Hubs' initiative as another potential venue for engaging with customers and those struggling financially. This enables us to engage with hard-to-reach customers, including family and friends of those who most need help. We assist customers in the completion of applications for our financial support schemes.

We announced our Societal Strategy in November 2022, which is similarly built on long-term collaboration with local authorities, community groups and schools. In the first implementation area of East Birmingham, we have aligned our strategy with the local authority's East Birmingham Inclusive Growth Strategy. We are already working with 26 partners, mostly charities and community groups, on delivering 10,000 hours of free employability training in communities. We are also working with schools to provide work experience to 300 young people every year, rising to 500 by 2032, in social mobility cold spots. We will also work with other organisations to understand and remove the barriers that could prevent children undertaking work experience, such as affordability and transport.



Severn Trent creates 100 new Water Saving Champions

In September 2022, we recruited 100 new temporary Community Water Saving Champions across Leicestershire and Derbyshire to help make homes water-efficient. Our new Champions are all making a positive difference in local communities at pop-up events and by talking to customers in their neighbourhoods, helping to advise people on how to save money by reducing water consumption, which can in turn help reduce water and energy bills.

Our Champions will also provide information on our support schemes that customers can access if they are struggling to pay their bill, as well as free products that will help reduce water use.

Uniting to cut carbon by 1 million tonnes per year

In September 2022, we announced our pioneering global partnership with Aarhus Vand (Denmark) and Melbourne Water (Australia) to work together to reduce our carbon emissions by around a million tonnes every year and to lead the green transformation of the sector.

Through this world-leading collaboration, we will build upon our collective experience, expertise and innovation capabilities on key projects such as:

- transforming our Strongford sewage treatment facility into a Net Zero hub (read more on page 19);
- developing new techniques and international standards to measure and record nitrous oxide and methane releases from waste water treatment sites;
- identifying ways to enhance waste water treatment sites with green technology while reducing emissions to net zero; and
- maximising the use of renewable, sustainable resources at treatment facilities.



Radical innovation requires participants with great diversity, different expertise, curiosity, ambition and trust-building – precisely the characteristics of our partners in the UK and Australia."

Claus Homann – Chief Executive, Aarhus Vand



We are in the decade that matters when the actions we take now will define our future. We must also adapt our operations to prepare for a changing climate, which is why we are passionate about this international alliance with Aarhus Vand and Severn Trent."

Nerina Di Lorenzo – Managing Director of Melbourne Water



SHAREHOLDERS AND INVESTORS



Our intention is to drive value for all of our stakeholders through ensuring strong service delivery for customers and the environment over the long term. Engagement with our investors is critical to our success.

What our investors and potential investors say matters to them

Investor meetings are primarily attended by our CEO, CFO and Head of Investor Relations, although other Executive Committee members also attend. The Chair and individual Directors regularly engage with major shareholders to understand their views on governance and performance against Strategy.

During the year, we held around 170 investor meetings and met with nearly 140 existing and potential investors. These meetings were attended by 53 shareholders, representing 65% of our share register. Over 70% of the meetings were held in person compared with only 53% in the previous year. However virtual meetings enable us to cover large geographical areas.

The meetings focused on the Group's financial performance, our commitment to the environment, our outlook on AMP8 and our approach to helping customers in the current climate.

Annual Report

Our Annual Report is available to all shareholders, and we aim to make it as accessible as possible. Shareholders can opt to receive a hard copy in the post, a PDF copy via email or download a copy from our website. Please contact the Group Company Secretary to request a copy.

Annual General Meeting

Our 2022 AGM was held on 7 July 2022, at which 78.05% of our shareholders voted. We were delighted to receive in excess of 95% votes in favour for all of our resolutions. The AGM was held as a hybrid meeting, meaning that shareholders were able to follow the business of the meeting by virtual as well as in person. Shareholders were invited to submit questions to a dedicated AGM mailbox and a process was put in place for the Board to respond to any questions directly and publish responses on the Company's website.

This year's AGM is to be held on Thursday, 6 July 2023 at 10.00am. Following its success in 2022, the Board agreed that the AGM would be conducted as a hybrid meeting, allowing those who join virtually to log into a live webcast and pose questions to the Board in real time. Shareholders are also able to submit questions in writing through our website in advance of the AGM. The physical location of the AGM will be the Severn Trent Academy, Hawksley Park, St. Martins Road, Finham, Coventry, CV3 6PR.

In addition to the AGM, the Group Company Secretary communicates with individual investors, making sure we respond properly to questions in relation to their shareholding. Our share registrar Equiniti also has a team to take care of shareholders' needs.

Corporate website

We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders. The website has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our annual reports, results presentations (including webcasts) and an investor news section containing information which may be of interest to our shareholders.



SUPPLIERS AND CONTRACTORS

Our investment plans for AMP7 and AMP8 will require a resilient and highly engaged supply chain. Supplier engagement is essential to our plans and promotes a shared culture of trust to share knowledge and expertise to find the right solutions for our customers, ensure continuous sustainable development and develop responsible business strategies. Our enduring relationships with our suppliers help us to reduce the risks we face as a business, for the benefit of our wider stakeholders, particularly our customers and communities.

Supplier engagement is integral to our success

We deliver this through our partnership with the Supply Chain School, in-person Supplier Summits, supplier onboarding events, one-to-one engagement, training events and dedicated supplier communications. Through these channels, we make sure that what we, and our customers, expect is relevant and appropriate to the suppliers' activities and their environmental and social impact.

AMP8 Supply Chain Engagement Day

We have an array of hugely exciting projects and AMP8 schemes aimed at improving our network and service and, more importantly build resilience to protect and enhance the water supply for our region, both now and in the future. A key factor of success is working collaboratively and creatively with our supply chain to deliver new solutions to overcome the challenges. So we have been engaging with our capital supply chain early.



On 10 March 2023, we brought together over 80 of our suppliers, sharing with them our ambitions and priorities for AMP8 and where they can play a part in delivering our shared successes.

The agenda for the day included future challenges and innovation (including energy prices, climate change and affordability), early visibility of our AMP8 investment programme and how early engagement can help us identify new ways of working and create a strong foundation upon which new opportunities and collective success can be realised.

The event was a brilliant success and received overwhelmingly positive feedback from suppliers.

Engaging on modern slavery

Collaboration is key to identifying and addressing modern slavery, so we actively engage with other organisations to gain insight and maintain best practice. We entered our second three-year partnership with Slave-Free Alliance in 2021, which has been instrumental in our approach and in the progress we have made in identifying and mitigating modern slavery risk. We continue to sit on the Steering Group of Utilities Against Slavery, formerly known as the Utilities Modern Slavery Working Group. The working group continues to grow, with over 24 utilities organisations actively participating. In 2021, we also partnered with the Supply Chain Sustainability School, which provides access to a wide range of learning resources, including dedicated modern slavery awareness training for all organisations within the Group's supply chain.

Having outperformed our ambition to ensure 60% of our high-impact suppliers were risk assessed for modern slavery, we decided to evolve our approach in view of the Ukraine conflict, cost of living crisis and labour shortages being observed within the construction sector, issues that directly increase the risk of modern slavery occurrence in our supply chain. In collaboration with our strategic partner, the Slave-Free Alliance, we enhanced our supplier selection questions in line with the utilities sector, conducted a heat mapping exercise to confirm our greatest areas of risk and engaged with contract owners to develop bespoke assessments where required.



Read more:

You can read more on our approach and engagement in our 2023 Severn Trent Plc Anti-Slavery and Human Trafficking Statement online, published in summer 2023



Scan or click to read more



Engaging with suppliers to take positive action

Working closely with our supply chain partners is critical to the delivery of our sustainability ambitions, and we are committed to building supplier capability through engagement, training and our partnership with the Supply Chain Sustainability School to support them. Our 2022/23 highlights include:

- 100% of contracted suppliers signing up to our Sustainable Supply Chain Charter;
- 89 suppliers having been assessed through EcoVadis, an independent rating platform which assesses suppliers based on their environmental and social impact performance;
- being awarded CDP Supplier Engagement Leader for the second year running;
- 44% of suppliers, by emissions, having set a Science-Based Target for 2022/23; and
- all applicable suppliers and their subcontractors to pay the real Living Wage as a minimum.



Read more:

For more information on our vision and priorities, refer to our first Sustainable Procurement Statement, and latest Annual Sustainability Report, published in summer 2023.



REGULATORS AND GOVERNMENT

Our relationships with the Government, our regulators, and other agencies support us in ensuring that we meet the highest customer service and environmental standards, while providing value for money services to customers.

Additional activities in the year

Over 12

sewage treatment tours held

Eight Community Sessions

relating to our Get River Positive river pledges, the fantastic work of our River Rangers and local growth plans, all with MPs from our region

Highlights of our engagement activities during the year

2022

April

- Mansfield Green Recovery Project Tour with MP for Bromsgrove showcasing one of our 72 Tiny Forests



Mansfield Green Recovery Project

June

- Tour of miners rescue centre in Wrexham supported by the Community Fund with MP for North Wales region
- Tour of Mansfield Green Recovery Project with the National Infrastructure Commission
- Tour of Church Wilne waste water treatment works and Green Recovery Programme with Ofwat Chair – hosted by Liv Garfield



Wrexham miners rescue centre

May

- Mansfield Green Recovery Project Tour with the Environment Agency – hosted by Liv Garfield
- Stakeholder Roadshow with MP for Mansfield – hosted by Liv Garfield
- Green Recovery Project Site Visit and lead pipe replacement programme with Ofwat



Mansfield Green Recovery Project

July

- Tour of Bamford waste water treatment works and Mansfield with Ofwat
- Tour of the Severn Trent Academy and Finham Sewage Treatment Works with The Office for Environmental Protection
- Stakeholder Roadshow to showcase our work in the community, river pledges and Green Recovery Programme with the MP for Ludlow – hosted by Liv Garfield



Bamford waste water treatment tour

September

- Site visit and overview of Green Recovery projects, including Bathing Rivers scheme and an overview of our River Rangers roles with the Environment Agency – hosted by James Jesic

November

- Showcase on local investment and Green Recovery Programme with MP for Coventry North West and MP for Rugby

2023

April

- Board hosted visit to Mansfield to showcase our work on green recovery with the Chair of the Environment Agency

February

- River water quality discussions with MP for Derby North

SECTION 172 STATEMENT

Stakeholder engagement is central to the formulation and execution of our Strategy and is critical in achieving long-term sustainable success. The needs of our different stakeholders, as well as the consequences of any decision in the long term, are well considered by the Board.

It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on balancing the competing priorities of stakeholders. Our stakeholder engagement processes enable our Board to understand what matters to stakeholders and consider carefully all the relevant factors to select the course of action that best leads to high standards of business conduct and success of Severn Trent in the long term. The principles underpinning s.172 are not only considered at Board level, they are part of our culture. They are embedded in all that we do as a company.

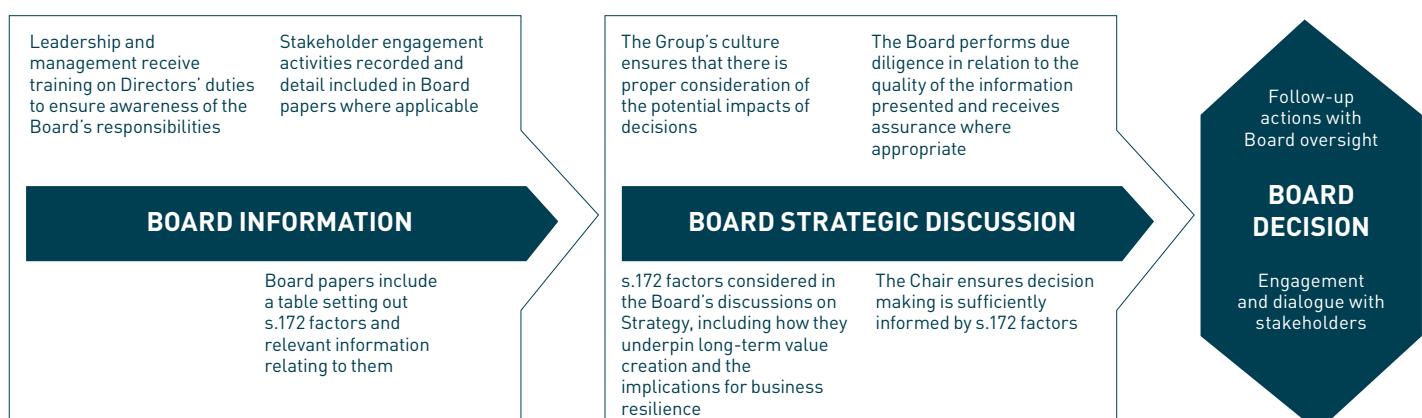
The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top. All of the Board's significant decisions are subject to a s.172 evaluation to identify the likely consequences of any decision in the long term and the impact of the decision on our stakeholders.

In performing their duties during 2022/23, the Directors have had regard to the matters set out in s.172 of the Companies Act 2006. You can read more on how the Board had regard to each matter, during the year, as follows:

s.172 factor					
The likely consequences of any decision in the long term	The interests of the Company's employees	The need to foster business relationships with suppliers, customers and others	The impact of the Company's operations on the community and the environment	The desirability of the Company maintaining a reputation for high standards of business conduct	The need to act fairly as between members of the Company
Relevant disclosure					
Page 2 to 3 – Corporate Strategy Page 4 to 5 – Our Business Model Page 14 to 38 – Performance Review Page 10 – Dividend Policy Page 39 to 63 – Sustainability	Page 2 to 3 – Corporate Strategy Page 14 to 38 – Performance Review Page 22 to 33 – Caring for Our People Page 25 to 28 – Diversity and Inclusion Page 84 and 85 and 89 and 90 – Employee Engagement Page 139 – Whistleblowing Page 102 to 103 – Company Culture	Page 2 to 3 – Corporate Strategy Page 33 – Responsible Payment Practices Page 14 to 38 – Performance Review Page 139 – Modern Slavery Page 39 to 63 – Sustainability Page 4 to 5 – Our Business Model Page 139 – Whistleblowing	Page 2 to 3 – Corporate Strategy Page 39 to 63 – Sustainability Page 137 to 140 – Corporate Sustainability Committee – Sustainability Report available at our website.	Page 2 to 3 – Corporate Strategy Page 6 to 7 – Market and Industry Overview Page 139 – Whistleblowing Page 130 to 131 – Internal Controls and Risk management Page 39 to 63 – Sustainability	Page 2 to 3 – Corporate Strategy Page 84 to 94 – Stakeholder Engagement Page 92 – Annual General Meeting Page 10 – Dividend Policy Page 39 to 63 – Sustainability

Principal decisions in 2022/23

The principal decisions taken by the Board in the year are detailed on pages 112 to 113 of the Governance Report. Our approach below sets out how the Board is supported in carefully considering all the relevant factors that lead to its selection of the best course of action to ensure the long-term success of the Company:



SECTION 172 STATEMENT CONTINUED

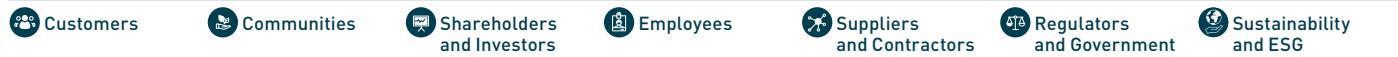
Engagement with stakeholders

The Board recognises that stakeholder engagement is essential to understand what matters most to our stakeholders and the likely impact of any key decisions. We have a long history of engaging with all of our

stakeholders and the Board values the insight that this engagement provides. Details of how we engaged with our stakeholders during the year can be found within our Stakeholder Engagement section on pages 84 to 94.

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other s.172 considerations, have been taken into account in its decision making are set out below.

Key stakeholder groups considered



SOCIETAL STRATEGY

Context

We have a range of measures in place to help support customers who are experiencing affordability pressures. The pandemic and recent geopolitical events in Ukraine have exacerbated affordability and cost of living pressures. Inflation is now the highest it has been since 1992 and households are seeing significant price rises, notably for electricity, gas, food and petrol. As a result, many more households now find themselves in water poverty.

As a socially responsible company that genuinely cares about its customers and the communities it serves, the Company launched its Societal Strategy in November 2022, which focuses on the underlying causes of water poverty to address the drivers of long-term affordability issues and contribute to the wider levelling-up agenda given the overlap between water poverty and income poverty. The Board developed the Societal Strategy with the objective of addressing affordability in the immediate term and proposing a multi-AMP strategy to eradicate water poverty in our region by improving the life chances of people in our communities.

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

Customers:

The Board considered the Company's Societal Strategy in view of its existing commitment to keep absolute bills as low as possible for all customers whilst also delivering improved resilience, sustainability and strong service delivery, by ensuring that every pound is spent wisely and efficiently. Potential impacts to customer bills were central to Board discussions and, as such, the Societal Strategy was structured so as not to increase costs to any non-water-poor customers above the level assumed in the Company's Final Determination.

Following careful analysis, the Board determined that the Societal Strategy would provide both immediate support to customers experiencing affordability pressures and help address the underlying causes of poverty for the long term.

To inform its approach, the Board engaged a research agency to carry out the Company's largest-ever, in-depth survey of stakeholder and customer views on affordability. The research was designed to include in-depth interviews, surveys, focus groups, follow-up interviews and deliberative workshops to make sure the Company, and the Board, thoroughly understood the needs of its customers prior to finalising its plans.

Communities:

Notwithstanding the Company's Affordability Strategy announced in May 2022, the Board acknowledged that more needed to be done to address the long-term drivers that perpetuate poverty in our society. Therefore, the Board determined that the Societal Strategy should be developed to complement the Company's extensive work on affordability with an equally ambitious approach to water poverty. By pulling together the Company's socially directed programmes into a clearer framework, the Board recognised that it would make it easier for communities to access the support they need.

As part of this, the Board agreed to increase the proportion of Community Fund grants going into training and skills outreach, targeting a combined allocation of £1 million by 2030 with the ambition of helping 100,000 people, in or at risk of water poverty, through access to high-quality careers and employment-related training. Careers and employability skills were determined to be the most appropriate route as they impact three of the main drivers of poverty: unemployment, low pay, and insufficient working hours.

The Company engaged with key stakeholders, including Ofwat, CCW, shareholders, local communities, Business In The Community, Birmingham City Council and Solihull Council, MPs, and schools, to listen to and understand their views and the challenges they face.

Suppliers and Contractors:

The Board recognised that the Company could have a greater and faster impact by engaging with the supply chain, building relationships with partners across a multitude of sectors, and utilising our influence to encourage and lobby for regional and national change. As part of this approach, the Company engaged its Supply Chain and Procurement Teams to encourage and challenge our largest suppliers to join us on this journey, asking them to match our ambitions on apprenticeships, recruitment, and work experience, as well as on real Living Wage, fairness and inclusion.

Regulators and Government:

The Board has a strong track record of engaging with its regulators. Alongside our extensive support for our customers and communities, the Board engaged with CCW and Ofwat's initiatives on affordability, including the recommendations of CCW's Independent Water Affordability Review. These stakeholders have indicated their support of the Societal Strategy, as have local Government and MPs.

Employees:

Our annual engagement survey, QUEST, tells us that our colleagues are the most engaged they have ever been. They are motivated by this programme of work, which will make a positive impact in the communities that they serve and live and work in. Our people will also have the opportunity to volunteer as mentors to support the delivery of our Societal Strategy.

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

Our Societal Strategy will provide support for the most financially vulnerable customers in our region, through supporting an additional 100,000 of our customers and equip them with the skills and experiences to help lift them out of water poverty, at no increase in costs above those assumed in our Final Determination to our non-water-poor customers.

Read more

You can read more about our Societal Strategy on page 32 and at stwater.co.uk.

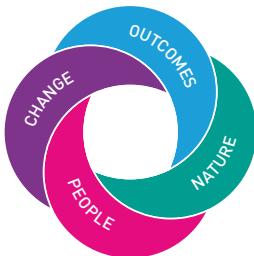


CORPORATE STRATEGY – PERFORMANCE DRIVEN, SUSTAINABILITY LED

Context

During the year, the Board considered its Corporate Strategy, with the objective of ensuring that it reflected the business that we are today, while clearly outlining the ambitions we have for the future. The Board discussed the global context the business operates within, and the challenges faced to maintain its success as a sector-leading Company.

The Board discussed the need to be a performance driven, sustainability led organisation and the desire to deliver financial and operational outperformance in balance with the long-term needs of the environment and the customers and communities the Company serves. Using this insight, we defined four key pillars that describe the strategic outcomes we seek to aim for:



Read more

You can read more about our Strategy on pages 2 to 3.

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

Customers:

The Board determined that the Group's Corporate Strategy should focus on service delivery for customers, including providing safe and consistently high-quality drinking water to customers, ensuring that supply interruption and low-pressure events are well managed and ensuring that bills remain affordable and represent good value for customers. The Board also considered that the Corporate Strategy should facilitate a continued high-quality customer experience both now and over time, in consideration of long-term water scarcity and climate change, and future customer demand.

Employees:

The Board considered that the Corporate Strategy would also provide clarity to employees on its strategic priorities, which would inspire their contribution to the Company's future success and drive transformational change programmes to support improved service delivery for customers and the environment.

The Corporate Strategy also provided clarity on the skills and capabilities required to deliver the Group's priorities and increased employee engagement at all levels of the organisation, through demonstrating opportunities to give back to the communities in which we serve and reinforce the Group's socially purposeful culture.

Environment and our Communities:

The Board considered the vital role of nature and the natural environment for the Group, including its ability to supply and treat water in a way that is sustainable for the long term.

The Board reviewed the appropriateness of the Corporate Strategy in supporting the continued protection and improvement of our region's natural environment, and the creation of new community resources – through supporting local community projects, giving support to vulnerable and disadvantaged members of society and, crucially, increasing the availability of jobs and training opportunities.

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

Successful execution of the Group's Corporate Strategy will deliver long-term sustainable success through delivering the Group's sustainability aims, increasing profitability, value growth and enhanced reputation. In setting the Group's Corporate Strategy, the Board critically assessed business performance and the future direction of the Company, and identified areas where additional value could be generated for its stakeholders.

CHIEF FINANCIAL OFFICER SUCCESSION

Context

A key focus of the Board and Nominations Committee is Board succession and composition, to ensure the appropriate balance of skills, independence, experience and diversity on the Board and Executive Committee. Succession planning allows the Board to undertake the necessary preparations to manage changes without disruption to the business and ensure continuity through effective handover processes.

In February 2023, the Board announced the retirement of James Bowling as Executive Director and CFO at the Annual General Meeting in July 2023.

The Chair and CEO led the process to identify suitable candidates for the role and an executive search firm was engaged as part of the recruitment process. It was announced that Helen Miles, Capital and Commercial Services Director, would be appointed as an Executive Director and CFO Designate with effect from 1 April 2023.

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

Communities:

The Board recognised the importance of considering the Board Diversity Policy whilst considering candidates for appointment and aligning with the diversity of our region, specifically in respect of gender, social and ethnic backgrounds, skills and experience.

Shareholders and Investors:

A key success of the Group has been its delivery of an effective financing strategy to position Severn Trent as a leader on financing performance.

The CFO successor would need to demonstrate the same commitment and acumen to ensure continued high performance and return for shareholders and investors. As a highly experienced and commercial CFO, possessing strong finance and regulatory accounting experience, the Board determined that Helen was the best candidate for the role.

Employees:

The Board recognised that the appointment of an internal candidate would demonstrate the Group's commitment to the development, upskilling and reskilling of its employees, and the priority it places on its internal succession pipeline.

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

The Board approved Helen's appointment, given her highly experienced and commercial background and detailed understanding of the water sector, with a proven track record of exceptional delivery. Helen also has an extensive knowledge of the Group and its culture, and an in-depth understanding of the regulated sector in which the Group operates.

Read more

You can read more in our Nominations Committee Report on pages 121 to 126.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

This section of the Strategic Report constitutes the Non-Financial and Sustainability Information Statement of Severn Trent Plc, produced to comply with sections 414SA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference.

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders	<ul style="list-style-type: none"> – Our customers are at the heart of everything we do and our Customer Policy outlines how our people are responsible in ensuring we keep our promises to our customers and deliver great customer service. – Our Group Data Protection Policy supports our people in taking responsibility for protecting our employee and customer data whilst considering and implementing the commitments made within the policy when performing their work and making decisions. – Our Group Commercial Policy outlines what is expected of all those involved in procurement activities, enabling them to uphold our Values of acting with integrity and putting our customers first. Complying with this Policy enables employees to maintain proper standards of fairness and integrity in business relationships with colleagues and suppliers. 	Stakeholder Engagement, pages 84 to 94 s.172 Statement, pages 95 to 97 Board Activities, pages 110 to 111
Environmental Matters	<ul style="list-style-type: none"> – Our Group Environment Policy supports our environmental plans and our commitment to environmental leadership. It sets out guiding principles of how we as a Group operate to protect the environment and the commitments our people need to consider when performing work activities and when making decisions. 	TCFD and Net Zero Transition Plan, pages 39 to 63 Corporate Sustainability Committee Report, pages 137 to 140 Sustainability Report, www.severntrent.co.uk TCFD Report, pages 39 to 56 Stakeholder Engagement, pages 84 to 94 s.172 Statement, pages 95 to 97
Employees	<ul style="list-style-type: none"> – Our Group Health, Safety and Wellbeing Policy outlines what is expected of employees as regards health, safety and wellbeing, ensuring that no one gets hurt or made unwell by what we do. This policy extends to anyone employed by, or who carries out work on behalf of, Severn Trent Plc and its Group companies, contractors, temporary staff and agency workers. – Group Speak Up Policy – We truly believe that our Values are an essential and vital part of the life and culture of Severn Trent, and that's why we take seriously any reports about illegal practices or inappropriate conducts within our Company. We hold ourselves to the highest ethical standards and encourage our colleagues to Speak Up if they are worried about wrongdoing affecting our Company, customers, colleagues or suppliers. – Our Group HR Policy outlines our commitment to maintaining a work culture that is diverse and inclusive, that's supportive and nurturing, and which makes the most of everyone's growth potential. We'll also protect the human rights of all of our colleagues. 	Caring for our people, pages 22 to 38 Stakeholder Engagement, pages 84 to 94 Gender and Ethnicity pay gap, page 156 Culture, pages 102 to 103 Governance Report, pages 100 to 163 Audit and Risk Committee Report, pages 127 to 134 Directors' Remuneration Report, pages 141 to 163
Respect for Human Rights	<ul style="list-style-type: none"> – Anti-Slavery and Human Trafficking Statement – Diversity within our workforce 	Anti-Slavery and Human Trafficking, page 139 Governance Report, pages 100 to 163 Corporate Sustainability Committee Report, pages 137 to 140

Reporting requirement	Policies and standards which govern our approach	Additional information and risk management
Anti-Corruption and Bribery	<ul style="list-style-type: none"> - Our Group Financial Crime and Anti-Bribery and Anti-Corruption Policy outlines acceptable and non-acceptable behaviours to ensure compliance with anti-bribery and anti-fraud laws, which includes improper payments, gifts or inducements of any kind to and from persons, including officials in private or public office, customers and suppliers. This policy also covers our approach to inside information, political donations, conflicts of interest, gifts and hospitality and continuous disclosure. - Our Group Conflicts of Interest Policy provides guidance around managing conflicts of interests arising from obligations pursuant to the Companies Act 2006, the 2018 UK Corporate Governance Code and associated rules and guidance issued by the FCA. - Our Group Security Policy aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions that reduce the impact of these threats through the deployment of robust response and recovery measures. - Group Competition and Competitive Information Policy – Competition law applies to all parts of our Company, and we take our position within the market, and our compliance with competition and antitrust laws, seriously. It is not enough just to comply with the law. In everything we do, we strive to do it with openness, fairness and honesty, which is supported by our Values and the stringent rules we have in place. 	Governance Report, pages 100 to 163 Audit and Risk Committee Report, pages 127 to 134
Social Matters	<ul style="list-style-type: none"> - Doing the Right Thing, our Code of Conduct, helps us put our Values into practice. Our Values and Code of Conduct embody the principles by which the Group operates and provide a consistent framework for responsible business practices. - Group Environment Policy - Customer Policy 	TCFD and Net Zero Transition Plan, pages 39 to 63 Corporate Sustainability Committee Report, pages 137 to 140 Directors' Report, pages 164 to 166 Sustainability Report, www.severntrent.co.uk Stakeholder Engagement, pages 84 to 94
Description of Principal Risks and Impact of Business Activity		Our Approach to Risk, pages 73 to 74 Principal Risks, pages 75 to 78 Emerging Risks, page 79 Our Business Model, pages 4 to 5
Description of the Business Model		Our Business Model, pages 4 to 5
Non-Financial Key Performance Indicators		Strategic Report, page 2 to 99 Key Performance Indicators, pages 14 to 38

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

Approval

This Strategic Report was approved by the Board.

By order of the Board.

Hannah Woodall-Pagan
Group Company Secretary

23 May 2023

CHAIR'S INTRODUCTION TO GOVERNANCE



Christine Hodgson
Chair



The strong leadership and breadth of experience we have on the Board **enables us to make sound and balanced decisions for the long-term benefit of our customers and wider stakeholders, both now and in the future.**



The last year has seen an increasing number of challenges impacting our sector, our business and our customers. The consequences of ongoing geopolitical events, significant increases in energy costs and rising inflation and interest rates are set to continue to impact companies and communities for some time.

We are positioned well to manage these impacts, and the Board and Executive Committee are confident that the Company's adaptability and agility will ensure we can respond to circumstances as they arise, and continue to deliver for our customers and communities at a time when they need us most.

As outlined in my Chair's Statement, the last 18 months have been some of the most challenging in our history and many of those challenges continue – with high inflation driving increases in energy costs for customers and companies alike, and the continued impact of geopolitical events. Despite these challenges, we have delivered robust operational and resilient financial performance for our customers and wider stakeholders. This success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything we do. It drives ethical behaviours, informs sound decision making, enables the effective running of our business and, ultimately, builds trust. The Board is fully committed to open and transparent reporting, and I hope that this is evident in our Annual Report this year.

I referred to the Board's review of our Corporate Strategy in my Chair's Statement, to reflect where the business is today and outline the ambitions we have for tomorrow. In line with our robust governance framework, the Board will oversee the delivery of this Strategy and hold management to account, in order to maintain the Group's success in the period ahead. You can read more about our Corporate Strategy in my Chair's Statement from page 8.

Evolution of the Board and Executive Team

Succession planning is a key area of focus for the Board and, during the year, we announced a number of significant changes to the composition of our Board, following the retirement of Philip Remnant, former Chair of the Remuneration Committee, in November. I would like to thank Philip for his dedication and significant and impactful contributions to the Board and Committee discussions. Sharmila Nebhrajani has taken on the role of Remuneration Committee Chair and, as such, will introduce her first Directors' Remuneration Report to shareholders this year. I am delighted that Sarah Legg joined the Board as an Independent Non-Executive Director during the year. Sarah brings significant financial and sustainability experience to the Board and I look forward to working with her over the coming years.

During the year, the Company also announced the planned retirement of James Bowling, our Chief Financial Officer of eight years, and Bronagh Kennedy, our Group General Counsel and Company Secretary of nearly twelve years. The Board was delighted that, following rigorous internal and external search and selection processes, the appointments in relation to both these roles, and the subsequent opportunities created on the Executive Committee, were largely made from talent within our business. This helps us promote the incredible knowledge and experience that has been developed. We are confident that this will contribute to the Group's continued success over the coming years. It also provided the opportunity to recruit an excellent Partner from Pinsent Masons, Didar Dhillon, bringing broad experience and a fresh perspective to the Executive Committee. Further detail regarding the changes made to our Board and Executive Committee can be found in the Nominations Committee Report from page 121.

Listening and responding to our stakeholders

The Board values feedback from our stakeholders and places significant importance on maintaining close relationships with them and responding to their views. We pride ourselves on listening and reflecting, before then taking action. Decisions are never taken in isolation; rather they are fully discussed and therefore the Board welcomes input from all who can add value to those conversations. Further details of how the Board has considered the views and balanced the interests of stakeholders is set out in our Section 172 Statement on pages 96 to 97.

As a Board, we want our stakeholders to hold us to account and therefore need to ensure that they have appropriate access to the facts on a range of topics so they can form a balanced opinion. A good example of this is our river pledges, which were developed through listening to our customers, local communities and campaign groups – who told us how important river quality is to them. The Board shares their passion that our region's rivers should be the healthiest they can be, and we therefore developed our river pledges aimed at protecting and revitalising rivers in our region.

I am pleased that our commitment to 'Get River Positive' has now been embraced by others, driving improvements across the sector. You can read about our progress against each of the five river pledges on pages 20 to 21 and in our dedicated Get River Positive Annual Report, which is published on our website.

We have also responded to stakeholder feedback in respect of remuneration, and the way in which it is linked to performance and particularly in areas that are most important to customers, such as the environment. In response to this, in 2022 we linked the river pledges to our remuneration structures, through introducing some of the measures into our Annual Bonus Scheme – with 8% of every employee's bonus aligned to their achievement in 2022/23. Whilst we have consistently focused on connecting remuneration to environmental outcomes, we recognise the strength of external opinion on the performance of the sector and made further changes to our Annual Bonus Scheme during the year to strengthen the focus on environmental performance – increasing the weighting within our 2023/24 Annual Bonus Scheme of river pledges to 12%, and overall environmental measures to 30%. Our Remuneration Policy is designed to incentivise exceptional, sector-leading performance for the benefit of customers, communities and the environment, and to attract, retain and motivate our Executive Directors. Three-quarters of our potential Executive pay is variable in nature, based on stretching targets that are reviewed annually by the Remuneration Committee. In this way, we ensure that our Executives are rewarded commensurate with their performance, which we believe is more beneficial to all stakeholders than removing variable pay opportunity and driving up base pay costs. Further detail can be found within the Directors' Remuneration Report on page 157.

Diversity and inclusion

The Board recognises the importance of diversity – on the Board itself, throughout the organisation, and more widely – and the need to foster an inclusive culture which encourages all colleagues to bring their whole selves to work, fulfil their potential and perform at their best.

We are encouraged by our gender and ethnic diversity representation on the Board – 56% female and 22% minority ethnic representation as at 31 March 2023 – but we are not complacent and know this needs to be maintained going forwards. We support the targets introduced by the Financial Conduct Authority and the transparency of the reporting framework that has been developed in this regard, to allow investors and other stakeholders to compare the progress being made across the FTSE and drive progress in this important area. We conducted a review of our Board Diversity Policy during the year, following which the Policy was amended to cover a broader range of diversity characteristics and facilitate open and transparent reporting. We have developed a refreshed diversity disclosure this year, which can be found within the Nominations Committee Report on pages 125 and 126, and we welcome feedback on this.

I was also personally delighted that Severn Trent was acknowledged as the first FTSE100 company to appoint women to the positions of Chair, Chief Executive and Chief Financial Officer following the announcement of Helen Miles' appointment as Chief Financial Officer Designate. Whilst appointments will only ever be made on merit, we continue to support the increase in female appointments to leadership roles across the FTSE and hope that our actions inspire the next generation of company leaders.

Board and Committee effectiveness

We spent time assessing and considering the effectiveness of the Board and its Committees earlier this year through an internally-facilitated Board effectiveness evaluation. The Board was pleased by the results of the review, which concluded that the Board, its Committees and individual Directors continue to operate effectively. A small number of improvements were identified, which will be implemented promptly. You can read more about the evaluation process and the outcomes of this year's review on pages 118 to 119.

Corporate governance reforms

The Board remains fully committed to open and transparent reporting, and we welcome the outcomes from the Department for Business, Energy and Industrial Strategy ('BEIS', now the Department for Business and Trade) consultation on 'Restoring trust in audit and corporate governance'. The Board embraces emerging corporate governance and regulatory developments – often adopting new requirements earlier than required where it is practicable to do so. As such, the Board requested that the Audit and Risk Committee review the Group's preparations for future corporate reform during the year, which concluded that we are well positioned for the proposed changes. Read more in the Audit and Risk Committee Report on pages 127 to 134.

Looking ahead to AMP8

With three years of AMP7 now behind us, the Board is spending a great deal of time formulating our business plan for AMP8. PR24 will be my first price review process at Severn Trent and I, along with my fellow Directors, have invested a significant amount of time preparing for PR24, including understanding the way in which the Company can deliver positive customer outcomes, greater environmental and social value, drive improvements through efficiency and innovation, and increase our focus on the long term. This activity is being informed through deepening our understanding of our customers and communities. Individual Directors, and the Board as a whole, have spent time engaging with our customers, attending community events and having discussions with Severn Trent's Expert Challenge Panel, ably chaired by Bernard Crump, all to ensure that our future plans continue to fulfil our Purpose of 'taking care of one of life's essentials'.

Our draft business plan is well advanced and will be submitted to Ofwat in October 2023.

Alongside our PR24 submission, the Board also spent a significant amount of time considering key long-term programmes that are inextricably linked to our environment and PR24, such as our Drainage and Wastewater Management Plan, Water Resources Management Plan and the Water Industry National Environment Programme, to ensure that we have long-term plans in place that consider the impacts of population growth, drought, our environmental obligations and climate change uncertainty, so we can continue to deliver our essential services for customers now and in the long term whilst also transitioning to a net zero world.

As we look ahead to the next regulatory cycle, I want to thank everyone involved – our customers, communities, investors, regulators and suppliers. But above all, thank you to our colleagues, for their unfaltering commitment to deliver our Strategy and fulfil our Purpose and Values each and every day, and their contribution to the communities they work and live in.

I look forward to the year ahead with confidence, knowing that our focus on improving services for our customers will be delivered through the talent of our people, the financial resilience of our business, and our commitment to serving our stakeholders will ensure that we continue to be a socially responsible business providing a high quality, essential public service.

Christine Hodgson
Chair
23 May 2023



QUICK FACTS

- Christine Hodgson was considered independent upon appointment on 1 January 2020.
- The Board considers that all Non-Executive Directors remain independent.
- The biographies of individual Directors are set out on pages 104 to 105 and include details of the skills and experience each brings to the Board to contribute to the Company's long-term sustainable success.
- All Directors are subject to election at the Annual General Meeting ('AGM') which will be held on 6 July 2023. Following the completion of this year's evaluation, the Board concluded that each Director standing for appointment or reappointment continues to contribute effectively. The Board recommends that shareholders vote in favour of those Directors standing for appointment or reappointment at the AGM, as they will be doing in respect of their individual shareholdings.
- This report explains how we have applied the principles of the UK Corporate Governance Code 2018 and confirms our compliance with its provisions. Read more on page 107.

CULTURE



Christine on a water bar shop at the Commonwealth Games

The Board places great importance on ensuring that the Group's culture and Values are established throughout the organisation, aligned across directorates and demonstrated consistently by everyone who works with us. As such, the Board spends a significant amount of time, both inside and outside of Board meetings, engaging with our people through a variety of mechanisms. The Board's participation in the Company Forum (our workforce engagement mechanism), review of QUEST engagement results, attendance at our engaging 'Ask Our Board' session, complemented by a range of site visits throughout the year, are all crucial to informing the Board's understanding of our culture. In addition, the Board recognises the need to foster an inclusive culture where all colleagues are able to bring their whole selves to work, fulfil their potential and perform at their best.

Our people are fundamental to our success and form a critical part of us being a trusted company. Our people tell us that they work best together, in an environment of collaboration and innovation. Our culture of empowerment and accountability, with a focus on skills, talent and career development, not only ensures we continue to deliver great performance but also that we continue to make Severn Trent a wonderful place to work. This is borne out by our excellent QUEST employee engagement score of 8.4 out of 10, putting us in the top 5% of utility companies globally.

Our Values of Having Courage, Embracing Curiosity, Taking Pride and Showing Care are brought to life in our culture and are integral to the way we behave and the way we do business. Our Values are demonstrated by our people every day as they work tirelessly to deliver our essential service. Their commitment is evident in the dedication they show in delivering for our customers and communities – 24 hours a day, 365 days a year. Our people are also supported by the systems and processes we have in place that enable us to deliver consistent operational performance. This consistency has created capacity for our talented people to do even more to make a positive difference for all of our stakeholders.

How the Board monitors and assesses culture

The Board understands the importance of setting the right tone from the top, with each Director leading by example to promote a culture of inclusivity. Great emphasis is placed by the Board on ensuring that the Group's culture is aligned to our Strategy, Purpose and Values. As such, one of the Board's key focus areas is to monitor and assess the culture across the Group.

The Board recognises the importance of ensuring that the Severn Trent culture celebrates diversity and inclusion in all its forms, and embraces individuals' contributions, no matter what their age, gender, race, ethnicity, disability, sexual orientation, social background, religion or belief. The Board was pleased that Severn Trent was recognised as a Top 3 FTSE100 company for representation of women on the Board in the FTSE Women Leaders Review 2023, in addition to being named a Top 25 employer by Stonewall.

The Board monitors and assesses the culture of the Group by regularly meeting with the Executive Committee and management, reviewing the outcomes of employee surveys, engaging directly with individual employees throughout the Group, and listening to feedback from our stakeholders. We believe that our culture is a unique strength and we see the benefits of this flow through into employee engagement, retention and productivity. The Board places great importance on employee engagement and regularly reviews its approach, taking into account the provisions of the UK Corporate Governance Code 2018. All of these touchpoints with colleagues and other stakeholders provide cultural insight that the Board can act upon and factor into its decision making. The table on the next page provides further detail on the activity undertaken during the year to assess the Group's culture.



Board Members on site visit to Mansfield waste treatment works in April 2023



Christine in conversation with one of our colleagues at the Academy

QUEST SCORE**8.4**

87% participation rate (up 0.2 from last year, our highest ever score, putting us in the top 5% of energy and utilities globally)

EMPLOYEE ENGAGEMENT SESSIONS**22**

Including Deep Dives, Company Forum, Advisory Groups and Site Visits to engage with employees

'ASK OUR BOARD'**110**

Number of attendees

CULTURE ASSESSMENT MECHANISM	CULTURAL INSIGHT	OUTCOME/ACTIONS
Review results of the annual QUEST survey, particularly around employee engagement levels benchmarked against peers, and how Severn Trent's Values link to its Purpose and behaviour.	Understanding strengths and opportunities as identified by employees, and that our Purpose and Values reflect the Company's culture and behaviours.	Actions taken to address the insights gained from the QUEST survey are continuously monitored by the Board through regular agenda topics structured around our people. The Board also received assurance that our culture is aligned to our Purpose and Values.
The Company Forum provides an opportunity for employee and Trade Union employee representatives to meet with Board members on a regular basis. Members of the Board and Executive Committee attend the Severn Trent Company Forum on a rotational basis, so each Director receives the opportunity to listen directly to what employees have to say and for our employees to hear about matters that the Board is reviewing and considering.	A better understanding of day-to-day operations, the practical execution of strategy and the cultural context in which employees work.	It ensures that views from a diverse cross section of the workforce – in terms of seniority, gender, ethnicity, tenure of employment and job types – are considered in Board discussions and decision making, and each meeting generates wide-ranging exchanges of opinion and insights.
The 'Ask Our Board' event ensures a direct dialogue with the workforce across the Group. The most recent event in May 2023 saw 110 colleagues join, and feedback from the Board and employees was very positive.	Provides the Board with insight into colleague sentiment and topics of importance to colleagues, including diversity and inclusion and our societal contribution.	Outputs from employee engagement sessions are used to shape future Board agenda topics and employee updates. Questions at the event in May 2023 included performance highlights over the year, the Group's Societal Strategy, River Quality and affordability initiatives.
Board members attend meetings of the four active employee advisory groups – LGBTQ+, Ethnicity, Disability and Women in STEM and Ops.	Ability to hear directly about the progress made against the diversity and inclusion action plans across the business.	Outputs from employee engagement sessions are used to shape future Board agenda topics and employee updates.
Annual review and monitoring by the Audit and Risk Committee of the effectiveness of the Group Speak Up Policy, processes and framework. Speak Up reports are considered at every Audit and Risk Committee meeting, with onward reporting to the Board.	A perspective on the nature of colleague concerns and trends in the behaviours of colleagues generally. Insight into how concerns are escalated and resolved by Severn Trent.	The Audit and Risk Committee will continue to monitor the effectiveness of the Speak Up Policy, and report to the Board the extent to which this has supported the openness of Severn Trent's culture.
Review by the Remuneration Committee of the wider workforce policies and practices, including gender and ethnicity pay gaps, CEO pay ratios and alignment of Directors' pension contributions to the workforce. Integration of sustainability measures into short- and long-term incentive targets. Remuneration is an annual agenda item at the Company Forum and outputs are reported to the Board.	Insight into the role that remuneration, and remuneration targets, have in promoting the right performance and behaviours, and the extent to which incentives and rewards are aligned with the Group's culture.	The Remuneration Committee will continue to report to the Board on colleague sentiment in relation to workforce policies and practices.
Regular reviews by the Nominations Committee of senior management talent and succession planning.	The importance of organisational culture in determining the Company's strategic priorities and reviewing senior succession plans.	The Board, Nominations Committee and Executive Committee were engaged throughout the rigorous Executive Committee recruitment and selection process.
Regular Board updates and relevant Committee updates on a broad range of risk and business integrity matters, including fraud, compliance, bribery, corruption and modern slavery, and standard supplier protocols and procedures. This is done through review of Internal Audit reports, compliance reports, risk deep dives, incident reports and policies and training.	A broad understanding of practices and behaviours, and how these align with the Purpose, Values and Strategy of the Group, including an understanding of the Group's supply chain partners and alignment to the culture of the Group.	The Board and its Committees provide appropriate scrutiny and challenge of management, and receive assurance over the Company's approach to managing risk and business integrity matters.
Completion of mandatory training modules for colleagues by all Board members on the Group's Code of Conduct, Doing the Right Thing.	A deeper understanding of Severn Trent's Values and standards to inform future employee engagement.	All members of the Board will continue to undertake training on an annual basis, to ensure their knowledge and understanding is up to date.

BOARD OF DIRECTORS

We have a strong, experienced Board, with a diverse range of professional backgrounds, skills and perspectives. The collective experience of the Directors and the diverse skills and experience they possess enable the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to

ensuring the continued long-term success of the Company. Integrity and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Severn Trent in full consideration of the impact on all stakeholders.

Effective succession planning is enabling the smooth transition of the Chief Financial Officer role and will also progress the evolution of the Board over the next few years.



**CHRISTINE HODGSON CBE
BSc (Hons), FCA**

CHAIR

APPOINTED:

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

SKILLS, COMPETENCES AND EXPERIENCE:

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

Christine was previously Senior Independent Director and Chair of the Remuneration Committee at Standard Chartered Plc until September 2022 and January 2023 respectively. Christine retired as an Independent Non-Executive Director of Standard Chartered Plc on 31 January 2023.

In January 2020, Christine was awarded a CBE in the Queen's New Year Honours for services to education.

Christine is a fellow of the Institute of Chartered Accountants in England and Wales.

EXTERNAL APPOINTMENTS

- Chair of Newton Group Holdings Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Adviser to Spencer Stuart Management Consultants NV



**LIV GARFIELD CBE
BA (Hons)**

CHIEF EXECUTIVE

APPOINTED:

Chief Executive on 11 April 2014.

SKILLS, COMPETENCES AND EXPERIENCE:

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

In October 2020, Liv was awarded a CBE in the Queen's Birthday Honours for services to the water industry.

EXTERNAL APPOINTMENTS

- Non-Executive Director of Water UK
- Non-Executive Director of Brookfield Asset Management Limited
- Director of Water Plus Limited – joint venture with United Utilities
- Chair of the Council for Sustainable Business
- Chair of the West Midlands Regional Business Council
- Member of the Takeover Panel, and its Hearings Committee and Nomination Committee
- Member of the UK Investment Council
- Member of The 30% Club



**JAMES BOWLING
BA (Hons) Econ, ACA**

CHIEF FINANCIAL OFFICER

APPOINTED:

Chief Financial Officer on 1 April 2015.

SKILLS, COMPETENCES AND EXPERIENCE:

James is a chartered accountant, who started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the Board. Prior to joining Severn Trent, James was interim Chief Financial Officer of Shire Plc, where he had been since 2005. Prior to joining Shire, James spent nine years at Ford Motor Company in various finance roles of increasing responsibility. James has recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales.

EXTERNAL APPOINTMENTS

- Director of Water Plus Limited – joint venture with United Utilities



**HELEN MILES
ACMA**

CHIEF FINANCIAL OFFICER DESIGNATE

APPOINTED:

Chief Financial Officer Designate on 1 April 2023.

SKILLS, COMPETENCES AND EXPERIENCE:

Helen joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director, before being appointed as Chief Financial Officer Designate in April 2023. She brings with her a breadth of commercial experience having worked within regulated businesses across the Telecoms, Leisure and Banking sectors. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business.

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 organisations including Bass Taverns, Barclays Bank, and Compass Group.

Helen has recent and relevant financial experience as a member of the Chartered Institute of Management Accountants.

EXTERNAL APPOINTMENTS

- Non-Executive Director of Breedon Group Plc



**KEVIN BEESTON
FCMA**

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:

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

SKILLS, COMPETENCES AND EXPERIENCE:

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

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

EXTERNAL APPOINTMENTS

- Chair of Turnstone Equityco 1 Limited (trading as Integrated Dental Holdings)



**PHILIP REMNANT CBE
FCA, MA**

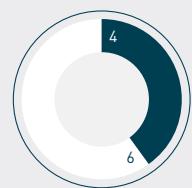
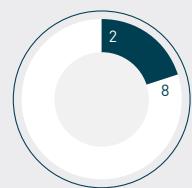
INDEPENDENT NON-EXECUTIVE DIRECTOR

Philip stepped down from the Board on 30 November 2022, having served as a Director since 31 March 2014.

Director serving for part of the year

Key

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

Board composition at a glance**GENDER REPRESENTATION AS AT 23 MAY 2023****ETHNICITY REPRESENTATION AS AT 23 MAY 2023****BOARD INDEPENDENCE AS AT 23 MAY 2023**

Chair (Independent on appointment)	
Executive Directors	
Senior Independent Directors	
Independent Non-Executive Directors	

CHAIR AND NON-EXECUTIVE DIRECTOR TENURE AS AT 23 MAY 2023

John Coghlan	9
Kevin Beeston	6.9
Christine Hodgson	3.3
Sharmila Nebhrajani	3
Gillian Sheldon	1.5
Tom Delay	1.3
Sarah Legg	0.5



JOHN COGHLAN
BCom, ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR**APPOINTED:**

Independent Non-Executive Director on 23 May 2014.

SKILLS, COMPETENCES AND EXPERIENCE:

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

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

John is the Group's designated Non-Executive Director in respect of Cyber Security.

EXTERNAL APPOINTMENTS

- Non-Executive Director of Landmark Group Holdings Limited
- Vice Chair and Senior Independent Non-Executive Director of Clarion Housing Group
- External Board Adviser to Mace Group Limited



HANNAH WOODALL-PAGAN
BSc (Hons), FCG

GROUP COMPANY SECRETARY**APPOINTED:**

2 December 2022.



TOM DELAY CBE
BSc (Hons), MBA, CEng
MIMechE

INDEPENDENT NON-EXECUTIVE DIRECTOR**APPOINTED:**

Independent Non-Executive Director on 1 January 2022.

SKILLS, COMPETENCES AND EXPERIENCE:

Tom brings extensive strategy, sustainability, energy and engineering experience to the Company. He was appointed as the first Chief Executive of the Carbon Trust in 2001. Since then, he has grown the company to become a world leader, advising businesses and governments on carbon emissions reduction and the development of low-carbon technologies, markets and businesses. More recently, he has taken the company's unique capabilities further afield, extending its mission to accelerate the move to a sustainable, low-carbon future.

Tom is a chartered engineer with extensive experience of the energy sector. He worked for Shell for 16 years in a variety of commercial and operations roles before moving into management consultancy with McKinsey and Co and then as a Principal with the Global Energy Practice of AT Kearney. Tom is a member of the UK Energy Research Partnership and the advisory boards of the Centre for Climate Finance and Investment at Imperial College London and the Global CO₂ Initiative at the University of Michigan.

In 2018, Tom was awarded a CBE by the Queen for services to sustainability in business.

EXTERNAL APPOINTMENTS

- Chief Executive of the Carbon Trust



SARAH LEGG
MA, FCMA, FCT

INDEPENDENT NON-EXECUTIVE DIRECTOR**APPOINTED:**

Independent Non-Executive Director on 1 November 2022.

SKILLS, COMPETENCES AND EXPERIENCE:

Sarah brings extensive corporate finance and significant audit and risk experience gained in the financial services sector to the Company. She is currently a Non-Executive Director at Lloyds Banking Group Plc, Chair of its Audit Committee and a member of its Risk and Responsible Business Committees.

Sarah has spent her entire career in financial services with HSBC in finance leadership roles. She was the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region. She also spent eight years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank. Sarah is also Chair of the Campaign Advisory Board at King's College, Cambridge University, Board Member of the Audit Committee Chairs' Independent Forum and Trustee of the Lloyds Bank Foundation for England and Wales.

Sarah has recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants and through her roles in the banking sector.

EXTERNAL APPOINTMENTS

- Non-Executive Director of Lloyds Banking Group Plc
- Trustee of Lloyds Bank Foundation for England and Wales
- Chair of the Campaign Advisory Board at King's College, Cambridge University
- Board Member of the Audit Committee Chairs' Independent Forum



SHARMILA NEBRAJANI OBE
MA (Hons), ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR**APPOINTED:**

Independent Non-Executive Director on 1 May 2020.

SKILLS, COMPETENCES AND EXPERIENCE:

Sharmila brings extensive Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. Sharmila is Chairman of the National Institute for Health and Care Excellence ('NICE'), the organisation responsible for assessing the clinical and cost effectiveness of medical innovations in the NHS, a Non-Executive Director of Halma Plc, ITV Plc and Coutts Bank, and a Member of Council for the University of Oxford.

In her executive career, Sharmila spent 15 years at the BBC, latterly as Chief Operating Officer for BBC Future Media and Technology, and was most recently Chief Executive at Wilton Park, an executive agency of the UK Foreign and Commonwealth Office convening international dialogues for senior policy makers from around the world with a special focus on global health. Previous non-executive roles include Deputy Chair of the Human Fertilisation and Embryology Authority and Chairman of the Human Tissue Authority, and she also has served on the board of the Pension Protection Fund.

Sharmila read Medicine at the University of Oxford and has been a World Fellow at the University of Yale since 2007. She is a chartered accountant and was awarded an OBE in 2014 for services to medical research.

EXTERNAL APPOINTMENTS

- Chairman of National Institute of Health and Care Excellence
- Non-Executive Director of ITV Plc
- Non-Executive Director of Halma Plc
- Non-Executive Director of Coutts & Company
- Member of Council for the University of Oxford



GILLIAN SHELDON
BSc (Hons)

INDEPENDENT NON-EXECUTIVE DIRECTOR**APPOINTED:**

Independent Non-Executive Director on 1 November 2021.

SKILLS, COMPETENCES AND EXPERIENCE:

Gillian has extensive strategy, corporate finance, risk management and M&A experience. She is currently a Senior Adviser at Credit Suisse in the Investment Banking division, where she provides advice on a broad range of complex transactions to clients across multiple industries. Gillian is also a member of the Salesforce Europe, Middle East and Africa Advisory Board, where she provides strategic guidance and supports the company's growth into international markets.

Gillian joined Credit Suisse in 1996, and went on to become Head of Telecoms, Media and Technology Investment Banking in Europe and then Vice Chairman of Investment Banking. Her previous experience includes roles at N M Rothschild & Sons and as a Trustee and Chair of the Investment Committee of BBC Children in Need. Until February 2021, she was the Senior Independent Director at Capita Plc. Gillian is also a Corporate Board member of the Royal Academy.

Gillian has recent and relevant financial experience gained through her roles in the banking and finance sectors.

EXTERNAL APPOINTMENTS

- Senior Adviser at Credit Suisse – Investment Banking Division
- Member of the Salesforce European Advisory Board
- Corporate Board Member of the Royal Academy
- Board Member of Business LDN

BOARD SKILLS

An effective Board requires the right mix of skills and experience, reflective of individuals from varied backgrounds. As demonstrated by their individual biographies on pages 104 to 105, our Board members together form a diverse and effective team focused on promoting the long-term success of the Group.

The skills matrix below details some of the key skills and experience that our Board has identified as particularly valuable for the effective oversight of the Company and execution of our Strategy, and indicates which Directors bring those particular skills to the boardroom.

The skills matrix is reviewed at least annually to make sure it meets current business needs, today and in the future, and is aligned with our strategic priorities, to ensure the Board remains fully equipped to deliver our Strategy and Purpose, and provide challenge to the experienced and knowledgeable Executive Team. This year's review was undertaken as part of the Board Effectiveness evaluation, which you can read more about on pages 118 to 119.

BOARD SKILLS MATRIX

STRATEGIC OUTCOMES

	SKILLS - MAPPED TO STRATEGIC OUTCOMES																
	Strategy	Customer	Utility sector	M&A	Corporate finance/Treasury	Accounting	Brands	Regulation	Technology/Innovation/Cyber	Science	Sustainability, including climate change	Commercial procurement	Construction/Infrastructure delivery	Large capital programmes	Engineering	People management	Political affairs
KEVIN BEESTON	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓		✓	✓
JAMES BOWLING	✓		✓	✓	✓	✓	✓	✓			✓	✓		✓		✓	
JOHN COGHLAN	✓	✓		✓	✓	✓		✓	✓			✓		✓		✓	
TOM DELAY	✓	✓					✓	✓		✓	✓	✓		✓	✓	✓	✓
LIV GARFIELD	✓	✓	✓	✓			✓	✓			✓		✓	✓		✓	✓
CHRISTINE HODGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
SARAH LEGG	✓	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓	
HELEN MILES	✓	✓	✓	✓	✓	✓	✓	✓				✓	✓	✓		✓	
SHARMILA NEBHRAJANI	✓					✓		✓	✓	✓	✓					✓	✓
GILLIAN SHELDON	✓			✓	✓	✓		✓	✓	✓						✓	

EXECUTIVE COMMITTEE

FULL BIOGRAPHIES ARE AVAILABLE ON THE SEVERN TRENT PLC WEBSITE.

As at 23 May 2023



LIV GARFIELD CBE
BA (Hons)
CHIEF EXECUTIVE



JAMES BOWLING
BA (Hons) Econ, ACA
CHIEF FINANCIAL OFFICER



HELEN MILES
CIMA
CHIEF FINANCIAL OFFICER DESIGNATE



SHANE ANDERSON
BA (Hons) Econ
DIRECTOR OF STRATEGY AND REGULATION



JUDE BURDITT
BA (Hons)
DIRECTOR OF CUSTOMER SOLUTIONS

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

The Group's long-term success depends on our commitment to exceptional corporate governance standards and the Board continues to be guided in its approach through the application of the UK Corporate Governance Code 2018 (the '2018 Code').

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

With this in mind, we welcome the proposed enhancements to the future corporate governance regime, including the recommendations from BEIS (now the Department for Business and Trade).

During the year ended 31 March 2023, we have fully applied the principles of good governance and have been compliant with the provisions contained in the 2018 Code.

The Board remains dedicated to open and transparent reporting, and the table below shows where shareholders can evaluate how the Company has applied the principles of the 2018 Code and where key content can be found in this report.

The full wording of the 2018 Code is available on the Financial Reporting Council's website.

BOARD LEADERSHIP AND COMPANY PURPOSE

The role of the Board is set out from page 100.

The Chair's Introduction to Governance is on pages 100 to 101.

How the Board engages with stakeholders is on page 84 to 94.

The Board's Section 172 Statement is on pages 95 to 97.

An overview of our Purpose and Values, including how these were established, is set out on page 2.

How the Board oversees the Company's Strategy is set out on pages 100 to 101.

A list of our Group policies and practices is on pages 98 to 99.

How we assess risk and our Viability Statement is set out on pages 80 to 83.

Our Strategy, including performance against our ODIs and KPIs, is on pages 2 to 38.

DIVISION OF RESPONSIBILITIES

The Governance Framework set out on page 108 provides an overview of the Board Committees in place at Severn Trent. Further details of each Committee, along with their members' attendance during the year, are provided in the respective Committee Reports.

The division of responsibilities between the Chair and CEO is clearly defined (page 109), and set out in writing in our Charter of Expectations, and we fully support the separation of the two roles.

AUDIT, RISK AND INTERNAL CONTROLS

Our approach to risk and our assessment of our Principal Risks are outlined on pages 73 to 79.

The Audit and Risk Committee Report on pages 127 to 134 provides details of the Committee's review of our risk and control environment, our fair, balanced and understandable process, and its responsibilities relating to Internal and External Audit.

COMPOSITION, SUCCESSION AND EVALUATION

The composition of the Board, along with their biographies and tenure, is on page 104 to 105.

The outputs of the internal Board evaluation is on pages 118 to 119.

The Nominations Committee Report is on pages 121 to 126 and provides information on the Committee's work this year, including Board succession planning.

REMUNERATION

The Remuneration Committee, comprising only Non-Executive Directors, is responsible for developing the Remuneration Policy and determining Executive and senior management remuneration. The Directors' Remuneration Report is on pages 141 to 163.



STEPH CAWLEY
BA (Hons), MSc
DIRECTOR OF
CUSTOMER OPERATIONS



DIDAR DHILLON
BA (Hons), GLDP
GROUP GENERAL
COUNSEL



JAMES JESIC
BSc (Hons), PhD,
MChemE, CEng
DIRECTOR OF CAPITAL
AND COMMERCIAL
SERVICES



NEIL MORRISON
BSc (Hons),
Chartered FCIPD,
FRSA
DIRECTOR OF HUMAN
RESOURCES



BOB STEAR
MEng (Hons), PhD,
MCIWEM, CWEM,
FIWater
CHIEF ENGINEER



BRONAGH KENNEDY
BA (Hons)
RETIRING AS GROUP
GENERAL COUNSEL AND
COMPANY SECRETARY
IN DECEMBER 2022

GOVERNANCE FRAMEWORK

We pride ourselves on having a high-functioning, well-composed, independent and diverse Board and being transparent in all that we do. Maintaining the highest standards of governance is integral to the successful delivery of our Strategy. Our Governance Framework ensures that the Board is effective in both making decisions and maintaining oversight, whilst also adhering to our well-established culture of Doing the Right Thing.

THE BOARD

The Board's role is to ensure the long-term sustainable success of Severn Trent by setting our Strategy through which value can be created and preserved for the mutual benefit of our shareholders, customers, employees and the communities we serve. The Board provides rigorous challenge to management and ensures the Group maintains an effective risk management and internal control system.

 Biographies – See pages 104 to 105

 Board activities – See pages 110 to 113

 Roles and responsibilities – See page 109

INFORMING

REPORTING

THE BOARD DELEGATES CERTAIN MATTERS TO ITS PRINCIPAL COMMITTEES – WHICH REPORT TO THE BOARD AT EVERY MEETING

AUDIT AND RISK COMMITTEE	CORPORATE SUSTAINABILITY COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	TREASURY COMMITTEE
Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.  Report – See pages 127 to 134	Provides guidance and direction to the Company's Sustainability Strategy and sustainability matters linked to policies, pledges and commitments, including River Quality, Anti-Slavery and Human Trafficking, and our Community Fund, Societal Strategy and the Triple Carbon Pledge.  Report – See pages 137 to 140	Assists the Board by keeping the Board composition under review and makes recommendations in relation to Board appointments. The Committee also assists the Board on issues of Executive Director succession planning, conflicts of interest and independence.  Report – See pages 121 to 126	Determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chair of the Board. The Committee also reviews workforce policies and practices.  Report – See pages 141 to 163	Provides oversight of treasury activities in implementing the Group's Funding and Treasury Risk Management plans approved by the Board. The Committee also reviews and approves the Group Treasury Policy Statements and ensures that these are applied consistently.  Report – See pages 135 to 136

INFORMING

REPORTING

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

Responsibility for the development and implementation of the Group's Strategy and overall commercial objectives rests with the Chief Executive, who is supported by STEC.

INFORMING

REPORTING

DISCLOSURE COMMITTEE

An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

DIVISION OF RESPONSIBILITIES

As at the date of this report, our Board comprised the Chair, six Independent Non-Executive Directors and three Executive Directors. There are clear divisions between Executive and Non-Executive responsibilities, which ensure accountability and oversight. The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing in the Charter of

Expectations, and regularly reviewed by the Board. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce. The Executive Directors meet weekly as part of the Executive Committee to attend to the ongoing

management of the Group. Any significant operational and market matters are communicated to the Non-Executive Directors on a timely basis outside of Board meetings. The Board is supported by the Group Company Secretary, to whom all Directors have access for advice and corporate governance services.

NON-EXECUTIVE DIRECTORS

CHAIR	SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR ('SID')	INDEPENDENT NON-EXECUTIVE DIRECTORS
CHRISTINE HODGSON	KEVIN BEESTON	JOHN COGHLAN, TOM DELAY, SARAH LEGG, SHARMINA NEBRAJANI, GILLIAN SHELDON

CHRISTINE HODGSON

- Leads our unified Board and is responsible for its effectiveness and governance.
- Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'.
- Guides the Board in shaping strategy, ensuring alignment with the Company's Purpose.
- Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Group Company Secretary.
- Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process.
- Facilitates contribution from all Directors and ensures that effective relationships exist between them.
- Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making.
- Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.

KEVIN BEESTON

In addition to his responsibilities as a Non-Executive Director, the SID also carries out the following duties:

- Supports the Chair in the delivery of their objectives.
- Acts as an alternative contact for shareholders should they have a concern that is unresolved by the Chair, CEO or CFO.
- Leads the appraisal of the Chair's performance with the Non-Executive Directors.
- Undertakes a key role in succession planning for the Board, together with the Board Committees, Chair and Non-Executive Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

- Promote high standards of integrity and corporate governance.
- Uphold the cultural tone of the Company and monitor actions to support inclusion and diversity.
- Constructively challenge and assist in the development of strategy by providing independent insight and support based on relevant experience.
- Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board.
- Satisfy themselves that internal controls are robust and that the external audit is undertaken properly.
- Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company.
- Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID.
- Serve on various Committees of the Board.

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE ('CEO')	CHIEF FINANCIAL OFFICER ('CFO')
LIV GARFIELD	JAMES BOWLING

CHIEF EXECUTIVE ('CEO')

- Represents Severn Trent externally to all stakeholders, including the Government, regulators, customers, suppliers and the communities we serve.
- Sets the cultural tone of the organisation and ensures that the Group operates in a way that is consistent with its Purpose and Values.
- Facilitates a strong link between the business and the Board to support effective communication.
- Develops and implements the Group's Strategy, as approved by the Board, through leadership of the Executive Committee.
- Responsible for overall delivery of all strategic objectives, ensuring that decisions made and actions taken support the Group's long-term sustainable Purpose.
- Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our Strategic Framework and Values. The CEO's Review can be found on pages 11 to 13.

CHIEF FINANCIAL OFFICER ('CFO')

- Manages the Group's financial affairs. The CFO's Review can be found on pages 66 to 72.
- Supports the CEO in the implementation and achievement of the Group's strategic objectives.
- Oversees Severn Trent's relationships with the investment community.
- Represents Severn Trent externally to all stakeholders, including the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.

GROUP COMPANY SECRETARY

HANNAH WOODALL-PAGAN
<ul style="list-style-type: none"> - Ensures sound information flows to the Board in order for the Board to function effectively and efficiently, in support of balanced decision making. - Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments. - Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements, and oversees the Board's professional development programme. - Ensures compliance with Board procedures and provides support to the Chair. - Co-ordinates the effectiveness evaluation of the Board in conjunction with the Chair. - Facilitates the Board's ongoing engagement with employees. - Provides advice and services to the Board.

BOARD ACTIVITIES

BOARD MEETINGS

The Board is committed to maintaining a comprehensive schedule of meetings and a forward agenda to ensure its time is used most effectively and efficiently, and it is supported by the Group Company Secretary to facilitate this. Flexibility in the programme is important to permit key items to be added to any agenda, so that the Board can focus on evolving and important matters at the most appropriate time.

Board meeting discussions are structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Group Company Secretary.

A typical Board meeting will comprise the following elements:

- Written reports from the Chairs of our Board Committees on the proceedings of those meetings, including the key discussion points and particular matters to bring to the Board's attention.
- Following every Company Forum, a report on the topics discussed at the Forum is circulated and the Directors who attended that particular Forum add further context at the Board meeting.
- Performance reports, including: CEO Overview; CFO Review; and Operational Performance Reports.
- Deep dive reports into areas of particular strategic importance, opportunities and risks, to evaluate progress, provide insight and, where necessary, decide on appropriate action. Read more about some of the topics covered during the year opposite.
- Legal and governance updates, including:
 - Approval of arrangements for delegated financial authority across the Group;
 - Review of adequacy of Whistleblowing Procedures; and
 - Approval of the Anti-Slavery and Human Trafficking Statement.

Time is set aside at the end of every Board meeting for the Chair to hold an Independent Non-Executive Director only meeting, where it is considered appropriate, which provides the opportunity for discussion on key agenda items and other matters without the Executive Directors and management present.

On the evening before most scheduled Board meetings, all the Non-Executive Directors meet either by themselves, or together with just the CEO, or with the entire Board and the Group Company Secretary. This time is usefully spent enabling Board members to build a rapport with each other and a relationship on a personal level, share external views and consider issues impacting the Company, resulting in better Board dynamics and decision making.

The following schematic aims to bring the Board's rich programme to life.

APRIL 2022

BOARD/COMMITTEE MEETINGS

B N R

SITE VISIT TO FINHAM TREATMENT WORKS



The Board received an overview of the Thermal Hydrolysis Process ('THP'), which uses anaerobic digestion to treat sewage sludge before it is recycled as fertiliser for agricultural land. The THP plant was installed alongside a gas-to-grid plant as part of an ambitious capital investment to drive efficiency and increase energy self-generation.

21 APRIL 2022: DEEP DIVE – GROUP-WIDE TALENT REVIEW

MAY 2022
BOARD/COMMITTEE MEETINGS

B A C N R T

STAKEHOLDER ENGAGEMENT: MAYOR OF THE WEST MIDLANDS

20 MAY 2022: DEEP DIVE – COMMUNITY ENGAGEMENT AND OUR PARTNERSHIP WITH THE COMMONWEALTH GAMES

24 MAY 2022: APPROVAL OF SEVERN TRENT PLC ANNUAL REPORT AND ACCOUNTS

JUNE 2022

STAKEHOLDER ENGAGEMENT: CEO, CONSUMER COUNCIL FOR WATER

OCTOBER 2022

BOARD/COMMITTEE MEETINGS

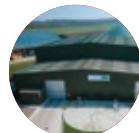
N BSD

30 SEPTEMBER 2022: DEEP DIVE – PROGRESS ON OUR SUSTAINABILITY STRATEGY, INCLUDING OUR NET ZERO TRANSITION PLAN

STAKEHOLDER ENGAGEMENT: CEO, ENVIRONMENT AGENCY

SEPTEMBER 2022
BOARD/COMMITTEE MEETINGS

B A C N T



SITE VISIT TO GREEN POWER

Following a briefing on the Group's renewables and waste recycling business, and the products it produces, Corporate Sustainability Committee members embarked on a tour of the anaerobic digestion site to observe how solid food waste is converted into green gas and energy.

AUGUST 2022

7 JULY 2022: SEVERN TRENT PLC AGM – ATTENDED BY ALL DIRECTORS

6 JULY 2022: DEEP DIVE – GROWING OUR RESILIENCE AND SHAPING OUR LONG-TERM PLANNING APPROACH

JULY 2022
BOARD/COMMITTEE MEETINGS

B A N

21 OCTOBER 2022:**BOARD STRATEGY DAY**

The Board explored opportunities to bolster the Group's resilience alongside our PR24 planning and, in the context of new long-term trends emerging across the globe, agreed a suite of positive actions designed to mitigate resilience-related risks.

20 APRIL 2023:**SITE VISIT – MANSFIELD GREEN RECOVERY****APRIL 2023****BOARD/COMMITTEE MEETINGS**

B R

NOVEMBER 2022**BOARD/COMMITTEE MEETINGS**

B A C R T

18 NOVEMBER 2022:**DEEP DIVE – FLOW TO FULL TREATMENT PROGRESS UPDATE****STAKEHOLDER ENGAGEMENT:**

CHIEF INSPECTOR, DRINKING WATER INSPECTORATE

24 NOVEMBER 2022:**TREASURY 'TEACH IN' SESSION****DECEMBER 2022****JANUARY 2023****BOARD/COMMITTEE MEETINGS**

C T

16 MARCH 2023:**DEEP DIVE – WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME****MARCH 2023****BOARD/COMMITTEE MEETINGS**

B A C N R T

STAKEHOLDER ENGAGEMENT:

CHAIR, OFWAT

BOARD EFFECTIVENESS EVALUATION:

READ MORE ON PAGES 118 TO 120

1 FEBRUARY 2023:**DEEP DIVE – SUCCESSION PLANNING OF SENIOR MANAGEMENT TEAM****FEBRUARY 2023****BOARD/COMMITTEE MEETINGS**

B R

STAKEHOLDER ENGAGEMENT:

GOVERNANCE ROADSHOWS – HOSTED BY THE CHAIR

BOARD AND COMMITTEE MEETINGS

- B** Board
- BSD** Board Strategy Day
- A** Audit and Risk Committee
- C** Corporate Sustainability Committee
- N** Nominations Committee
- R** Remuneration Committee
- T** Treasury Committee

BOARD AND COMMITTEE MEMBER ATTENDANCE 2022/23

Director	Position	Board	Audit and Risk Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Christine Hodgson	Chair	8/8	-	5/5	6/6	5/5	-
Liv Garfield	Chief Executive	8/8	-	-	-	-	-
James Bowling	Chief Financial Officer	8/8	-	-	-	-	-
Kevin Beeston	Senior Independent Non-Executive Director	8/8	5/5	-	6/6	5/5	5/5
John Coghlan	Independent Non-Executive Director	8/8	5/5	-	6/6	-	5/5
Tom Delay	Independent Non-Executive Director	8/8	-	5/5	6/6	-	-
Sarah Legg	Independent Non-Executive Director	3/3	2/2	3/3	1/1	-	3/3
Sharmila Nebhrajani	Independent Non-Executive Director	8/8	2/2	5/5	6/6	5/5	-
Philip Remnant	Independent Non-Executive Director	6/6	2/2	-	5/5	3/3	1/1
Gillian Sheldon	Independent Non-Executive Director	8/8	5/5	-	6/6	3/3	5/5

KEY TOPICS CONSIDERED BY THE BOARD IN 2022/23

The Board's 2022/23 agenda was wide-ranging, with a variety of topics drawn from the Schedule of Matters Reserved to the Board, including those related to our Strategy and culture, and overall oversight of management and operations. Set out below are examples of topics considered by the Board during the year.

APPROVAL OF THE SEVERN TRENT SOCIETAL STRATEGY

Our customers are facing a sustained increase in financial pressures – driven by rising inflation and energy costs. As a socially responsible company, that genuinely cares about its customers and the communities it serves, the Board reviewed and approved the Group's Societal Strategy, which focuses on the underlying causes of water poverty to reduce long-term affordability issues and contribute to the wider levelling-up agenda. The Board considered that the best way in the longer term to help households experiencing water poverty was to give them the tools to improve job prospects and life chances, with much of the support being delivered by the Severn Trent Academy.

Stakeholders / Considerations:

-  **Customers** – our Societal Strategy focuses on careers and employment-related skills and training to support customers and others in our communities in securing employment and helping to address a key driver of financial hardship.
-  **Communities** – helping customers and households will also help the wider community. Interventions are targeted through school work experience programmes, mentoring young offenders and establishing pop-up Academy Hubs in the areas that need them the most.
-  **Employees** – as a large regional employer, we can have a positive impact on our local communities and we know colleagues are very supportive of the work we are doing in this area. Programmes are being delivered by our Academy Team with support from Community Champion volunteers across the workforce.
-  **Suppliers and Contractors** – our supply chain is an extension of our business and, as such, we have encouraged and challenged our suppliers to join us on this journey, and many have already offered their support to the initiatives being delivered through our Societal Strategy.

Read more about how we engaged with stakeholders throughout the development of our Societal Strategy in our Section 172 Statement on pages 95 to 97

NET ZERO TRANSITION PLAN UPDATES

Climate change remains a crucial focus for Severn Trent. As such, the Board receives regular updates on the progress made in delivering the Group's commitments to transition to net zero. Through these updates, the Board received assurance that the activities and investments required to meet the Group's commitments were meeting their Key Performance Indicators and timescales, and that external reporting, including the Task Force on Climate-related Financial Disclosures ('TCFD'), was comprehensive, transparent and understood by investors. The Board also considered the risks and opportunities associated with the plan, and how these could be mitigated and explored.

Stakeholders / Considerations:

-  **Suppliers and Contractors** – Scope 3 emissions arising from Severn Trent's supply chain are discussed regularly with suppliers and we encourage completion of sustainability assessments ahead of agreeing Science-Based Targets.
-  **Sustainability and ESG** – the UK water and waste water industry is responsible for c.1% of the UK's greenhouse gas emissions. As such, the Board supports the Company's leading role both within the sector and in the wider economy to drive down these emissions.
-  **Regulators and Government** – we engaged with Ofwat around incorporating net zero investment and targets into its PR24 methodology and the Board welcomed the addition of environmental performance commitments, including in relation to the reduction of emissions.
-  **Shareholders and Investors** – investors continue to place increasing focus on financial grade reporting, such as TCFD, and this is seen as a further opportunity to engage with investors on the proactive approach taken by the Company.

FINANCIAL MATTERS

- Group Budget** – the Board reviewed the Group's performance versus the 2022/23 Group budget and agreed the 2023/24 Group budget.
- Viability Statement** – on the recommendation of the Audit and Risk Committee, the Board reviewed and approved the Viability Statement to be reported in the Annual Report and Accounts. Read more on pages 80 to 83.
- Results and Regulatory Reporting** – on the recommendation of the Audit and Risk Committee, the Board reviewed and approved the half and full year results announcements, Annual Report and Accounts, and Annual Performance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

- Enterprise Risk Management ('ERM')** – the Board, in conjunction with the Audit and Risk Committee, conducts regular reviews of the Group's ERM Risk Register. Enhancements continue to be made to risk management processes, including the identification, assessment, response and monitoring of all existing and emerging risks. Read more on pages 73 to 79.
- Review of Effectiveness of Risk Management and Internal Controls** – the Board, in conjunction with the Audit and Risk Committee, assessed the effectiveness of the risk management and internal controls in place across the Group, including in relation to whistleblowing procedures, and determined that the Group's systems had operated effectively throughout the year. Read more on pages 130 to 131.
- Deep Dives** – the Board received dedicated sessions on cyber risk, our compliance with statutory requirements relating to reservoirs, and health, safety and wellbeing to scrutinise the internal controls in place and review the external assurance undertaken.

RESILIENCE IN THE ROUND

Resilience is our ability to cope with and recover from disruption, and anticipate emerging trends and variability in order to maintain service delivery for our customers and the environment, both today and over time. The Board is supportive of Ofwat's core concept of 'Resilience in the Round' – comprising operational, financial and corporate resilience – recognising its importance for customers and broader stakeholders. It is vital that our services remain resilient over the long term. As such, the Board discusses a deep dive on Resilience in the Round on an annual basis, which provides an overview of future plans to grow our resilience and shape our long-term planning approach.

Topics featured within the deep dive included: climate change and the resulting impact on resource availability, carbon and environmental sustainability; extreme weather events, high-impact operational events; cyber security and the pace at which technology continues to evolve; attracting and retaining people with the skills and experience the business needs; and economic and social changes, such as population growth, urbanisation, consumer habits and perceptions, future financing and regulation.

The Board discussed the innovative approach being taken in consideration of the Company's suite of regulatory plans for our medium- and longer-term future to bolster the Group's resilience and mitigate the impact on services for customers, the environment, the economy and communities.

CULTURE AND ENGAGEMENT

The Board is responsible for assessing and monitoring the Group's culture, and regularly considers items relating to the workforce as part of its responsibilities. The Board is satisfied that the Group's culture remains aligned to the Company's Strategy, Purpose and Values, and did not identify any corrective action required to be taken by management.

During the year, the Board considered updates on the following workforce-related topics:

- **Company Forum** – Directors attend the Company Forum, which is the Board's selected workforce engagement mechanism, on a rotation basis and report back on proceedings to the rest of the Board.
- **Employee Voice** – the Board reviews the results and feedback from the annual employee engagement survey, QUEST, and monitors how the areas of employee focus are being addressed. The Board determined that appropriate interventions were made in a timely manner.
- **Succession Planning and Talent Management** – in order to deliver for its stakeholders, it is vital that the Group maintains a skilled workforce today and into the future. As such, succession planning and talent management at all levels remains a key topic for the Board, with discussion focused on building technical and leadership capability while creating diverse talent pipelines for the future.
- **Diversity and Inclusion ('D&I')** – significant progress has been made in advancing the Group's D&I ambitions, to ensure that our workforce increasingly reflects the communities we serve. The Group's four D&I Advisory Groups and initiatives such as the 10,000 Black Interns programme continue to play an important role. This is evident in the QUEST survey results on engagement and equality, both of which remain ahead of global benchmarks.
- **Employee Relations** – the Board maintains a strong and open relationship with employees throughout the Group, through a combination of dedicated engagement events such as 'Ask Our Board', site visits and informal meetings. These are all key components of the Group's approach to workforce engagement.
- **Workforce Policies and Practices** – the Board formally reviews the Group's workforce policies and practices to ensure these remain consistent with the Company's Purpose and Values and support the Group's long-term sustainable success.



LONG-TERM PLANNING

A key focus for the Board this year has been reviewing the Group's Strategy to reflect where the business is today and outline its ambitions for the future, in consideration of the changing environment within which the Company operates. Central to the Group's Strategy is a desire to be performance driven and sustainability led – positioning the Group to deliver consistently outstanding operational and financial performance in a manner that has a positive sustainable impact for all stakeholders. The Board determined that this is best achieved through balancing the long-term interests of all stakeholders. Read more about our Strategy on pages 2 to 3.

The Board also spent a significant amount of time considering key long-term programmes that are inextricably linked to our environment, such as our Drainage and Wastewater Management Plan ('DWMP'), Water Resources Management Plan ('WRMP'), the Water Industry National Environment Programme ('WINEP') and our PR24 submission, including our Long-Term Delivery Strategy. Through these interrelated plans, the Board has ensured that we have appropriate, and aligned, plans in place to consider the impacts of population growth, drought, environmental obligations and climate change uncertainty so that we can continue to deliver our essential services for customers now and in the future whilst also transitioning to a net zero world.

- **DWMP** – the Board reviewed the draft and final DWMP proposals detailing the Company's plans to extend, improve and maintain a robust and resilient drainage and waste water system over the next 25 years, in consideration of challenges posed by factors such as population growth, drought, environmental obligations and climate change uncertainty.
- **WRMP** – the Board reviewed the draft WRMP proposals detailing the Company's plans in relation to our water system today and in the future, in consideration of challenges posed by factors such as population growth, drought, environmental obligations and climate change uncertainty. The final WRMP is due to be published in Autumn 2023.
- **WINEP** – the Board reviewed and considered the impact of our proposed environmental programme for PR24, which is aimed at driving positive change in environmental performance across both water and waste. The Company continues to make significant investment in this important area and, as such, the Board agreed a programme that is approximately three and a half times bigger than that submitted for AMP7, comprising proposed improvements, investigations and monitoring to deliver against a range of statutory drivers.
- **PR24** – the Board continues to shape the business plan for the next AMP, due to be submitted to Ofwat in October 2023, and PR24 continues to be tabled as a standing agenda item at all Board meetings. The Board considers, reviews and discusses detailed updates at each meeting and provides management with the challenge and scrutiny required to develop our proposals. Engagement with stakeholders is an essential input to progressing the plan, and individual Board members attended customer research groups to listen to, and understand, customers' views first hand. Similarly, individual Board members, and the Board as a whole, have taken part in informed discussions with Ofwat.

GOVERNANCE

- **Governance Strategy** – the Board considered the proposed Governance Strategy, which sets out our governance approach in the context of the Group's Purpose and Values, prior to its publication for consultation. The Governance Strategy can be found on the Severn Trent Plc website.
- **Board Succession Planning** – on the recommendation of the Nominations Committee, the Board oversaw the arrangements for Board succession planning and, in consideration of maintaining a diverse, experienced and appropriately skilled Board, approved the appointment of Sarah Legg as an Independent Non-Executive Director and Helen Miles as an Executive Director and the Chief Financial Officer Designate. Read more on pages 123 to 124.
- **Board Effectiveness Evaluation** – the Board reviewed the progress made against the action plan for 2022/23 and, having considered the feedback from the 2023 evaluation, set the action plan for 2023/24. Read more on pages 118 to 119.



BOARD LEADERSHIP AND COMPANY PURPOSE

The Board's role is to be effective in securing the long-term success of Severn Trent by ensuring the delivery of our Strategy and that its overarching objectives remain aligned with the Company's Purpose and Values. Maintaining the highest standards of governance is integral to this, together with ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our shareholders, customers, employees and the communities we serve.



Scan or click
to read more

BOARD GOVERNANCE

The requirements of the Board are clearly documented in the Severn Trent Plc Articles of Association, Charter of Expectations and Schedule of Matters Reserved to the Board. All of these documents are available on the Severn Trent Plc website.

An effective Board

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

As outlined on page 109, there is a clear division of responsibilities between the roles of Chair and Chief Executive. To allow these responsibilities to be discharged effectively, the Chair and Chief Executive maintain regular dialogue outside the boardroom, to ensure an effective flow of information.

The Non-Executive Directors have direct access to senior management at all times. Informal as well as formal contact with the wider business is encouraged to develop a deeper understanding of Severn Trent's operations and this engagement is welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly. The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's internally-facilitated Board Effectiveness evaluation on pages 118 to 120.

Board independence

The independence of the Board is a matter of utmost importance given the vital role Non-Executive Directors play in scrutinising the performance of management and holding individual Executive Directors to account against agreed performance objectives. The Chair regularly holds meetings with Non-Executive Directors without the Executive Directors or any management present, and Non-Executive Directors can obtain independent professional advice, at the Company's expense, in the performance of their duties. All Directors have access to the advice and services of the Group Company Secretary, whose appointment and removal is a matter reserved for the Board.

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board Effectiveness evaluation. Particular focus is applied to Directors who have served over six years on the Board and John Coghlan, has been subject to a particularly stringent independence assessment, as detailed on page 120. 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. Read more in the Nominations Committee Report on pages 121 to 126.

All of the Non-Executive Directors who served during 2022/23 were considered by the Board to be independent for the purposes of the 2018 Code and the Chair was considered to be independent upon her appointment.

In accordance with the 2018 Code, all Directors will retire at this year's AGM and, with the exception of James Bowling, submit themselves for appointment or reappointment by shareholders. Each of the Non-Executive Directors seeking appointment or reappointment are considered to be independent in judgment and character.

Conflicts of interest

Severn Trent Plc has a Conflicts of Interest Policy in place for all Group companies. Our Board and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months, with any conflicts being recorded in the Conflicts of Interest Register. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, the Board considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

Board members hold external directorships and other outside business interests and we recognise the significant benefits that greater boardroom exposure provides for our Directors. However, we closely monitor the nature and number of external directorships our Directors hold in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Severn Trent, and to ensure that all of our Board members remain compliant with applicable shareholder advisory groups' individual guidance on 'overboarding'. These requirements specify a limit on the number of directorships both Executive and Non-Executive Directors are permitted to hold and no Directors exceed these guidelines, as outlined in the AGM Notice of Meeting. Our Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 104 to 105.

Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts; that the role will not breach the Company's overboarding limit; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a Director. Directors are required to obtain formal approval from the Board ahead of

undertaking any new external appointments and approval was sought during the year in relation to external appointments for both Executive and Non-Executive Directors. In each case, the Board determined that there would be no impact on the time commitment required for each Director, nor on the independence and objectivity required to discharge the agreed responsibilities of each role. The resultant position is believed to be consistent with applicable shareholder advisory groups' guidelines on overboarding. The Conflicts of Interest Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Group companies.

Schedule of Matters Reserved to the Board

To ensure the Board maintains oversight of the areas material to the delivery of the Group's Strategy and Purpose, the Board undertakes an annual review of the Matters Reserved to the Board. The latest review took place in March 2023 and the Board agreed that the Schedule contained areas appropriate to require Board involvement, including in relation to strategy, structure and capital, financial reporting, controls and communication with stakeholders. The Board also reviewed its skills matrix to determine whether any additional skills or development opportunities were needed in order for the Board to discharge its duties effectively. The Schedule of Matters Reserved to the Board is available on the Severn Trent Plc website.

Strategy

Appropriately evaluated strategic decisions are crucial to help us to deliver our Strategy and achieve our Purpose of 'taking care of one of life's essentials'. Responsibility to all of our stakeholders for the approval and delivery of the Group's Strategy and for creating and overseeing the framework to support its delivery sits with the Board. During the year, the Board considered and approved the Group's new Corporate Strategy, further details of which can be found within the Strategic Report on pages 2 to 99. As well as standing strategic items at every Board meeting, the Board also holds a dedicated Strategy Day with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Group's Strategy and overall commercial objectives rests with the Chief Executive who is supported by the Executive Committee.

The Directors present their report and the audited Group financial statements for the year ended 31 March 2023. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Group, its Business Model and Strategy, the operation of its

businesses, future developments and the results and financial position for the year ended 31 March 2023.

Stakeholder engagement

Stakeholder engagement is central to our Strategy and, as such, a detailed disclosure setting out stakeholder engagement activity conducted during the year is included in our Strategic Report. The Board ensures that the Company engages effectively with its stakeholders and encourages a two-way dialogue in order that the decisions made by the Board take into account the views of, and potential impacts on, stakeholders. Our dedicated Stakeholder Engagement section and Section 172 Statement on pages 84 to 94 and 95 to 97 respectively set out how the Board has considered and contemplated the interests of stakeholders. A detailed overview of the Board's engagement with our workforce is set out on pages 89 and 90.

Annual General Meeting ('AGM')

Our 2022 AGM was held on 7 July 2022, at which 78.05% of our shareholders (by voting capital) voted in person, through the Chair of the AGM as their proxy or by submitting their proxy forms either electronically or by post. We were delighted to receive in excess of 95% votes in favour for all of our resolutions, including in relation to the Directors' Remuneration Report. Shareholders were invited to submit questions to a dedicated AGM mailbox in advance of the AGM and shareholders could also raise questions during the AGM via the virtual platform, or in the room if attending in person. No questions were posed to the Board in advance of the AGM, but one question was asked and responded to during the AGM.

This year's AGM is to be held on Thursday, 6 July 2023 at 10.00am. The AGM will be convened as a physical meeting, with an option for shareholders to follow the business of the meeting by virtual means as well as attend in person. Those joining virtually will be able to log into a live webcast and pose questions to the Board in real time, in accordance with the 2018 Code and the Annual General Meeting Guidance published by the FRC in October 2020. Shareholders are also able to submit questions in writing through our website in advance of the AGM. The physical location of the AGM will be the Severn Trent Academy, Hawksley Park, St. Martins Road, Finham, Coventry, CV3 6PR.

Full details of the resolutions being tabled for shareholder approval can be found in the Notice of Meeting on our website.



ANNUAL REPORT

Our Annual Report is available to all shareholders and we aim to make the document as accessible as possible. Shareholders can opt to receive a hard copy in the post, a PDF copy via email or download a copy from our website. Please contact the Group Company Secretary to request a copy.



CORPORATE WEBSITE

We continually monitor our website, severntrent.com, to ensure it is accessible for our stakeholders. The website has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our Annual Reports, and an investor news section containing information which may be of interest to our shareholders.

COMPOSITION, SUCCESSION AND EVALUATION

As at the date of this report, our Board comprised the Chair (who was independent on appointment), six Independent Non-Executive Directors and three Executive Directors. The details of their career backgrounds, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 104 to 105. Further detail on the role of the Chair and members of the Board can be found on page 109.

Board composition

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following consideration of the annual Board Effectiveness evaluation outputs. Directors serving over six years on the Board are subject to a particularly rigorous review. The current Letters of Appointment are available on the Severn Trent Plc website.

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

Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved for the Board).

The Board and the Nominations Committee have spent a significant amount of time considering Board composition during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity.

Further information on the work of the Nominations Committee can be found on pages 121 to 126.

Directors' skills and experiences

An effective Board requires the right mix of skills and experience and, as can be seen from the individual biographies on pages 104 to 105 and the Board skills matrix on page 106, our Board members contribute a diverse range of backgrounds, skill sets and experiences that, combined together, produce an effective team, focused on promoting the long-term success of the Group.

The skills matrix is reviewed at least annually to ensure that the right balance of skills and experience are in place to enable the effective oversight of the Company and execution of our Strategy.

Diversity

A diverse organisation benefits from differences in skills, regional and industry experience, background, ethnicity, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Board is pleased that Severn Trent is recognised as a leader in this area and remains focused on promoting broader diversity and creating an inclusive culture across the organisation and including on the Board itself. More details about the Board Diversity Policy and how the Company has performed against its Board

Diversity Targets in relation to membership of the Board and Executive Committee can be found in the Nominations Committee Report, from page 121.

Development, training and resources

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date, so the composition of the Board continues to operate effectively and support delivery of our long-term Strategy.

Our Board Effectiveness evaluation process includes training discussions with the Group Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, and environmental, sustainability, technological and social considerations. Our Group Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters.

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

During the year, the Board took part in a number of training and deep dive sessions including in relation to PR24, river quality, innovation, resilience in the round and talent management. Further details can be found on pages 112 to 113.

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, tailored training and development content, a Results Centre and Investor Relations section, and briefings on regulatory topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Board succession

Along with ensuring an appropriate mix of skills and experiences on the Board as a whole for the effective oversight of the Company's Strategy and operations, the composition of the Board is also informed by the need for orderly succession across key Board and Committee roles.

The Nominations Committee and Board have applied particular focus to this important area over the last 18 months and further detail can be found in the Nominations Committee Report on page 122.

Induction

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. One-to-one meetings are also arranged with the CEO, CFO and the Group Company Secretary, along with other members of the Executive Committee and Senior Management Team. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses, and have a chance to experience our unique culture first hand. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat ahead of their formal appointment.

We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation, for example, the introduction of the Board buddy scheme.



My Severn Trent Board induction has been an incredibly thorough and well thought-out journey. **I have experienced both the Group's operations and its culture, and have met some wonderful people along the way.**



SARAH LEGG'S INDUCTION

MEMBER OF:

- Audit and Risk Committee
- Corporate Sustainability Committee
- Nominations Committee
- Treasury Committee

The Board welcomed Sarah Legg during the year, and her extensive induction programme covered a range of areas across the business. Along with a detailed overview of the water sector and the regulatory requirements we operate under, Sarah attended a number of sessions covering topics including governance, stakeholder engagement and the environment. The sessions were a mix of virtual and physical meetings, including visits to a range of operational sites.

Additional areas of focus for Sarah's induction were matters pertinent to her role on the Board Committees. For her role on the Audit and Risk Committee, this included receiving an overview of the current risks faced by the Group, regulatory finance model, risk management framework, Internal Audit programme and internal control processes, and an overview of the Group's AMP7 funding strategy in relation to her role on the Treasury Committee. In relation to her membership of the Corporate Sustainability Committee, Sarah undertook a series of deep dives in relation to the Group's Sustainability Strategy and net zero commitments. A high-level overview of the induction process is set out below.



Induction process

UNDERSTANDING THROUGH

INTRODUCTORY MEETINGS

Sessions held in the first few days and weeks to ensure that new Directors are able to gain a **real understanding of our Strategy and Purpose, the regulatory regime and our core business activities**.

COMPLEMENTED WITH

SPECIFIC DEEP DIVE SESSIONS

Deep dive sessions enable **Directors to explore in detail the areas of focus for the Group over the short, medium and long term, and deepen their understanding of the Group**.

KNOWLEDGE REINFORCED BY

SITE VISITS

Site visits allow Directors to observe the Group's **operations in action and meet colleagues** to gain further insight into our culture and enhance their understanding of the Group's operations.

EVALUATION

Our annual Board evaluation provides the Board, and its Committees, with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance.

This year, the review was facilitated internally by the Group Company Secretary, who is well placed as an independent sounding board to the process. Meetings took place during February and March 2023, and key themes were shared with the Board and Nominations Committee along with a 2023 action plan.

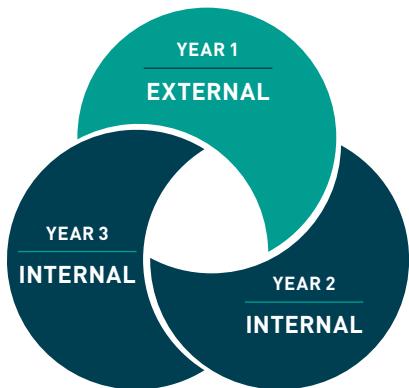
An externally-facilitated evaluation was conducted by Independent Board Evaluation in 2020/21 and the next externally-facilitated evaluation will be scheduled for 2023/24 in accordance with the 2018 Code provision that the Company should undertake an externally-facilitated Board Effectiveness evaluation at least every three years.



BOARD EVALUATION REVIEW CYCLE

During the year, the Board reviewed the nature of its evaluation process and agreed to adopt a three-year assessment cycle moving forward, to build on momentum in prior years, whilst also ensuring a rigorous and balanced approach to implementing incremental improvements.

The cycle is set out below and 2023/24 will be the first year of a new three-year cycle, and therefore will involve an externally-facilitated evaluation exercise. The Nominations Committee has commenced the process to select a facilitator to conduct the 2023/24 evaluation.



YEAR 1 – 2023/24

Externally Led Comprehensive Evaluation: A detailed, independent assessment of the Board, Committees and individual Directors.

YEAR 2 – 2024/25

Internally Led Intermediate Level Evaluation: With a focus on Board dynamics, Board composition and succession.

YEAR 3 – 2025/26

Internally Led Lighter Touch Evaluation: With a focus on stakeholder engagement and Board contribution to strategy and organisational culture.



INTERNAL EVALUATION PROCESS FOR 2022/23

A description of the process followed for this year's review is detailed below.

STAGE 1 EVALUATION PROCESS PLANNING DECEMBER 2022 – JANUARY 2023	The Group Company Secretary undertook a detailed review of the 2021/22 Board Effectiveness evaluation process in order to develop the approach for 2022/23, incorporating recommendations from the 2018 Code, Parker Review, FRC Guidance on Board Effectiveness and Ofwat's Board leadership, transparency and governance principles. A focused questionnaire was designed to gather individual Directors' perceptions of the effectiveness of the Board and its operations, including in relation to accountability, oversight, strategy, value creation, culture, ethics, behaviours, stakeholder engagement and information flows to the Board and its Committees.
STAGE 2 QUESTIONNAIRE RESPONSES AND ONE-TO-ONE MEETINGS FEBRUARY – MARCH 2023	The questionnaires were issued and each Director was also asked to complete an updated entry for the Board skills matrix, taking into consideration skills that had been strengthened through training and development over the previous year. Directors were also asked to highlight any additional skills that they felt may be beneficial for the Board to have amongst its members in order to discharge its duties effectively. Board members participated in comprehensive one-to-one meetings with the Chair and Group Company Secretary, with additional input from the Senior Independent Director, to allow reflection on their personal responses to the questionnaire and discussion of matters relevant to boardroom culture, process and development. Separate discussions were held to consider the effectiveness of the CEO, CFO and Group Company Secretary, led by the Chair. The Chair's performance evaluation was led by the Senior Independent Director.
STAGE 3 EVALUATION AND REPORTING MARCH 2023	The Group Company Secretary collated the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation, was provided to the Chair for consideration. The Group Company Secretary and Chair met to discuss the findings, with the resulting report being tabled to the Nominations Committee and Board in March 2023.
STAGE 4 CONSIDER RESULTS AND AGREE ACTIONS MARCH 2023	The findings of the evaluation exercise were fully considered when making recommendations in respect of the appointment and reappointment of individual Directors, and included an assessment of their independence, time commitment and individual performance. The respective proposed 2023 AGM Resolutions were considered and agreed by the Board. The proposed actions arising from the evaluation were thoroughly discussed and agreed for implementation and monitoring.
STAGE 5 MONITOR PROGRESS APRIL 2023 ONWARDS	The Board will continue to oversee the progress made in relation to the agreed actions to ensure their timely completion. The Nominations Committee will also continue to play a key role in monitoring the actions relating to Board succession, composition, recruitment and induction.



EVALUATION 2022/23 FINDINGS

RECOMMENDATION	INITIAL PROGRESS
SUCCESSION PLANNING AND BOARD COMPOSITION	
Ensure process to enable the smooth succession of Non-Executive Directors, including the Senior Independent Director, commences well in advance of scheduled retirements.	Succession planning continues to be a key focus of the Board and a standing item on the agenda for Nominations Committee meetings. Robust succession plans are in place for all roles.
BOARD AGENDA	
Notwithstanding the well-structured agendas which comprise an optimal mix of strategic and operational items, consideration should be given to:	The Board forward agenda has been reviewed to ensure that: <ul style="list-style-type: none"> - All matters are appropriately scheduled for discussion at future Board meetings; and - Sufficient time is devoted to the discussion of strategic and innovative topics.
<ul style="list-style-type: none"> - Scheduling key strategic and complex regulatory topics earlier on the Board agenda to ensure sufficient time for discussion and debate; and - Allocating more time on the Board agenda to discuss strategic developments and opportunities, as well as innovation initiatives, both within and outside of the utilities sector. 	
BOARD REPORTS	
Notwithstanding the high quality of Board reporting, there was an opportunity to enhance executive summaries and articulate key takeaways within Board reports to facilitate focus of Board discussions.	Feedback on Board reporting has been incorporated into the Group's suite of report writing training.



EVALUATION RECOMMENDATIONS FROM 2021/22

The internally-facilitated board effectiveness process also provided an update on the recommendations identified in the 2021/22 review. The report concluded that good progress had been made in relation to the recommendations from the 2021/22 evaluation. Further details are set out in the table below.

RECOMMENDATION	ACTION TAKEN
BOARD AGENDA	
Notwithstanding the well-structured agendas which comprise an optimal mix of strategic and operational items, more opportunity could be afforded to allow the Board to discuss bolder strategic moves and opportunities, future likely trends and developments outside of the utilities sector, and potential areas of differentiation.	The Board developed and agreed a set of Board objectives for 2022/23, which were reviewed at its meetings in March and April 2022. The Board forward agenda was also reviewed to ensure that all matters were appropriately scheduled for discussion at future Board meetings.
In addition to the informative oral reports provided to the Board by the Chair on her meetings with shareholders, consideration should be given to include dedicated time on the agenda for all Directors to provide feedback on engagement with stakeholders.	The Board agenda allows time for Directors to provide individual feedback on their engagement activity with all stakeholders.
ENGAGEMENT OUTSIDE MEETINGS	
Non-Executive Directors should continue to be invited to additional site visits outside the Board meeting rhythm to further build relationships with each other and gain an even deeper understanding of the business.	Alongside the regular programme of Board meetings being held at operational sites, a number of additional site visits were scheduled, covering the full range of the Group's operations. See page 110 for further details.
'Teach in' sessions for non-Treasury Committee members should be established to provide other Non-Executive Directors with additional knowledge and experience of this technically complex area.	A programme of 'teach in' sessions was developed, including Treasury-related topics and other technical matters.
BOARD COMMITTEES	
Nominations Committee – consideration should be given as to whether the Committee's remit should be expanded to cover wider talent development, below Executive Committee level.	The Committee's remit was considered during the review of its Terms of Reference undertaken in March 2023 and it was determined that these remained appropriate and reflective of the requirements outlined in the 2018 Code. The Board participated in a Group-wide succession planning and talent management session during the year. Read more in the Nominations Committee Report on pages 121 to 126.
Remuneration Committee – consideration should be given as to whether there should be an additional Non-Executive Director on the Committee.	As part of its ongoing succession planning activity, the Board continues to consider the composition of all Committees, including that of the Remuneration Committee.

Chair's performance

The Senior Independent Director, Kevin Beeston, carried out a review of the performance of the Chair, which included meeting with the Non-Executive Directors without the Chair being present. The consolidated feedback, which was wholly positive in nature, was discussed with the Chair and subsequently reported to the Nominations Committee and Board. The review confirmed that the Chair continued to demonstrate strong leadership and commitment, highlighting her expert management of the Board succession process during the year. It was concluded that the Chair promoted a culture of inclusivity, openness and debate, ensuring that views from others were sought before expressing her own perspective. As such, meetings were constructive and focused, and Directors received accurate, timely and clear information in advance. Board members confirmed that the Chair devoted sufficient time to the role, including in relation to building good relationships with key stakeholders, and in all respects met the requirements of the 2018 Code.

John Coghlan's independence

John Coghlan will have served on the Board for nine years in May 2023. The Board is satisfied that John continues to demonstrate independent character, judgment and objectivity. Continual monitoring of his independence and performance will be undertaken over his remaining tenure.

The Board, taking into account the provisions set out in the 2018 Code, considered that John remained independent notwithstanding the fact he would be serving for a period of more than nine years and concluded that there were no relationships or circumstances likely to impair his judgment. This was based on a number of factors, including:

- John's strong record in making objective decisions and holding management to account, and remaining willing and able to do so;
- His clear independence demonstrated in terms of his participation at meetings with management and his interactions with stakeholders including the External Auditor;
- His arm's-length approach to dealing with Executive Directors and continued challenge of management where appropriate;
- The fact that none of John's external directorship appointments conflicted or potentially conflicted with those of the Company; and
- The broader composition of the Board, including the fact that no other Non-Executive Director had a tenure in excess of nine years.

Effectiveness of Board Committees

The Board places significant reliance on its Committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective links are maintained between the Committees and the Board, not least as it is impracticable for all Independent Non-Executive Directors to be members of all the Committees. Mechanisms are in place to facilitate these links, including ensuring that there are no gaps or unnecessary duplications between the remit of each Committee and overlapping membership between Board Committees where necessary. Each Committee has its own Terms of Reference, which are reviewed annually, and the Board receives a written summary of each of the Committee's meetings along with oral updates at the Board, where appropriate.

The effectiveness of the Board Committees is therefore an important part of the evaluation and, along with each respective Committee, the Board also monitors any Committee-related recommendations that arise from the review. Overall, Board members are fully satisfied that the governance and controls in place are working well and give the Board the visibility it needs to carry out its oversight duties. Each Committee remains effective in providing the Board with the support it has requested. Further details on each Committee, including its oversight and focus during the year, can be found in the Committee reports starting on page 121.

External appointments

It is imperative that Directors have sufficient time to meet their responsibilities of providing constructive challenge and strategic guidance, and holding management to account. Approvals were sought from the Board during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Plc before consent was granted.

A further review of each Director's time commitment was undertaken as part of the evaluation, with full consideration given to the number of external positions held by the Executive and Non-Executive Directors, including the time commitment required for each. The Nominations Committee, in considering the Continuing Office of Directors, did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as Directors of Severn Trent Plc. The full list of key external appointments held by our Directors can be found in their biographies on pages 104 to 105.

NOMINATIONS COMMITTEE REPORT



Christine Hodgson
Chair



The evolution of the Board and succession planning for the Executive Committee have been key areas of focus for the Committee this year and **we believe we have the right team in place to deliver our Strategy** into the next AMP and beyond.



All members of the Committee are Independent Non-Executive Directors of the Board, with the exception of Christine Hodgson (who was independent on appointment). Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Chief Executive, the Director of Human Resources and other senior management and external advisers, may be invited to attend meetings as and when appropriate. None of these attendees are members of the Committee.



Documents available at severntrent.com

Board Diversity Policy

'Wonderfully You', our Diversity and Inclusion Strategy

Charter of Expectations

Committee Terms of Reference

Dear Shareholder

This report details the role of the Nominations Committee and the important work it has undertaken during the year. It highlights the vital part played by the Committee to ensure that the Board has the appropriate balance of skills, experience, knowledge and diversity to provide the Company with the strong leadership required to support its workforce and deliver long-term sustainable success.

The Committee also ensures there is a high-quality, stable Executive Team in place, focused on the long term but adaptive to the changing world around us in order to deliver for all of our stakeholders.

This year has seen a number of significant changes to the composition of the Board, following the retirement of Philip Remnant, former Chair of the Remuneration Committee, in November. I would like to convey my thanks to Philip for his dedication and significant and impactful contributions to the Board and Committee discussions. Sharmila Nebhrajani has taken on the role of Remuneration Committee Chair and, as such, will introduce her first Directors' Remuneration Report to shareholders this year.

We also welcomed Sarah Legg as an Independent Non-Executive Director of the Board from 1 November 2022. Given her strong financial background and deep interest in sustainability matters, Sarah joined our Audit and Risk, Treasury and Corporate Sustainability Committees, in addition to the Nominations Committee. Details of her ongoing induction programme can be found on page 117.

During the year, we also announced the planned retirement of James Bowling, our Chief Financial Officer of eight years, and Bronagh Kennedy, our Group General Counsel and Company Secretary of nearly twelve years. The Committee was delighted that, following rigorous internal and external search and selection processes, the appointments in relation to both these roles, and the subsequent opportunities they created on

the Executive Committee, were largely made from existing talent within our business, helping us preserve the incredible knowledge and experience we possess and help drive us forward over the coming years. As a result of the Committee's positive action, the Group's succession readiness has been strengthened and the Committee considers that all key roles have credible succession plans in place. You can read more about these appointments on pages 123 and 124.

Following the implementation of these changes, the Committee has been focused on planning for the transition of our long-standing Non-Executive Directors, ensuring that the Board remains well balanced, with a strong pipeline of candidates with the appropriate skill sets, experience and capabilities.

During the year, the Committee also considered the Board Diversity Policy (the 'Policy') and reviewed progress made against the agreed objectives set out in the Policy. The importance of the Policy aligning with the diversity of our region, specifically in respect of gender, social and ethnic backgrounds, skills and experience, was paramount. The Committee also considered the new Listing Rule requirements in relation to diversity and inclusion, and progress in achieving the individual targets. Following its review, the Committee recommended to the Board that the Policy was amended to cover a broader range of diversity characteristics and facilitate the open and transparent reporting by Directors. Read more on page 125.

I am pleased to report that the Company complies with the targets outlined within the Listing Rules, with 60% of the current Board Directors being women, two of the senior positions currently held by women (Chair and Chief Executive) – moving to three following Helen Miles' appointment as Chief Financial Officer in July 2023 – and two members of our Board from non-White Ethnic Minority backgrounds. We have developed a refreshed disclosure this year, which can be found on page 126, and we welcome feedback on this.

Committee members	Member since	Meetings attended
Christine Hodgson (Chair)	January 2020	6/6
Kevin Beeston	June 2016	6/6
John Coghlan	May 2014	6/6
Tom Delay	January 2022	6/6
Sarah Legg	November 2022	1/1
Sharmila Nebhrajani	May 2020	6/6
Philip Remnant	March 2014 until November 2022	5/5
Gillian Sheldon	January 2022	6/6

NOMINATIONS COMMITTEE REPORT CONTINUED

As part of the Committee's governance oversight role, the Committee also assists the Board in its consideration of conflicts of interest and independence issues. As part of its recommendation to the Board in respect of the Continuing Office of Directors, the Committee conducted its annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. When reviewing conflict authorisations, the Committee considered any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation.

Following the review, the Committee recommended to the Board that each conflict authorisation remained appropriate and that there were no business or other circumstances that were likely to affect the independence of any Non-Executive Director. As such, the Committee determined that all Non-Executive

Directors continued to demonstrate independence and I am pleased to report that the Board concurred with our conclusion.

In accordance with the 2018 Code, all the Directors will retire at this year's AGM and, with the exception of James Bowling, submit themselves for appointment, in the case of Sarah Legg and Helen Miles, or reappointment by shareholders. Each of the Non-Executive Directors seeking appointment or reappointment are considered to be independent in judgment and character.

Finally, in what has been a very busy year for the Committee, we also paid significant attention to enhancing the effectiveness of the Board and its Committees. An internally-facilitated Board Effectiveness evaluation was conducted earlier this year, which concluded that the Board continues to operate effectively while also signalling minor areas for improvement, details of which can be found on page 119.

I would like to thank the members of the Committee for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

Christine Hodgson

Chair of the Nominations Committee

23 May 2023



KEY AREAS OF FOCUS IN 2022/23

The Committee has responsibility for keeping the size, structure and composition of the Board and its Committees under review and is responsible for ensuring that there are formal plans in place for an orderly succession to both Board and senior leadership positions. The Committee also oversees the development of a diverse pipeline for succession. The composition of the Board is reviewed and refreshed on a regular basis and there is a rigorous and transparent procedure for the appointment of Directors. The Committee leads the process for Board and Board Committee appointments and makes recommendations to the Board. The Committee reports to the Board on its key areas of focus following each Committee meeting.

Key areas of focus for the Committee this year included the following:

- Consideration of the composition of the Board and Committees and the succession of Non-Executive Directors and the skills, knowledge, experience, diversity and attributes required of current and future Non-Executive Directors. In considering Board succession, the Committee took into account the length of tenure of the Non-Executive Directors and the importance of the progressive refreshing of Board membership.
- Review of individual Director independence through the established Conflicts of Interest and Persons Closely Associated declaration process and concluded that there were no concerns as regards the composition of the Board, or the contribution or commitment of any of the Directors.
- Review of the search firm providers for the next stage of the Board's succession planning and engaged the executive search firms Hedley May¹ and Spencer Stuart².
- Oversight of the succession plans in place for the Executive Committee and other members of senior management, including consideration of the Group's talent development programmes to build technical and leadership capability.
- Oversight of the Board Effectiveness evaluation and discussion of the feedback, observations and recommendations from

the review of the Board and Committees, including the 2023 action plan for approval by the Board.

- Reviewed the Board Diversity Policy to ensure it remained aligned with the requirements of the Listing Rules and incorporated any other best practice.
- Continued application of the Board Diversity Policy and initiatives, and reviewed progress made against the agreed objectives set out in the Board Diversity Policy.
- Discussion of the role of the Board Diversity Policy in advancing the composition and effectiveness of the Board and Executive Committee.

The Committee also reviewed and approved its Terms of Reference, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit but did not need to do so during the year.

1 Hedley May is a signatory to the Voluntary Code of Conduct for Executive Search Firms and has no other connection with the Company or individual Directors.

2 Spencer Stuart is a signatory to the Voluntary Code of Conduct for Executive Search firms. Christine Hodgson acts as an External Board Adviser to Spencer Stuart Management Consultants NV. This is the only connection between the two companies. Read more on page 124.



NON-EXECUTIVE DIRECTOR SUCCESSION PLANNING

1 ENHANCED REVIEW OF INDEPENDENCE	<p>Whilst we see long service on the Board as a positive characteristic, the Board is mindful that the 2018 Code indicates that Non-Executive Directors should not serve for more than nine years and Non-Executive Directors that have served over six years should be subjected to a particularly rigorous review.</p> <p>Such reviews, in line with the requirements of the 2018 Code, had been undertaken in relation to the independence and commitment of the following Non-Executive Directors since reaching their six-year tenures:</p> <ul style="list-style-type: none"> – Philip Remnant – John Coghlan – Kevin Beeston 	<p>In all cases, the Board remained satisfied that Philip, John and Kevin continued to act with the utmost independence and considered that their continued appointment was in the long-term best interests of shareholders. The length of service, independence and potential for conflicts of interest of John and Kevin were also considered as part of our internally-facilitated Board Effectiveness evaluation conducted this year, further details of which are set out on pages 118 to 119.</p>
2 PREPARATION FOR RECRUITMENT	<p>In preparation for two of its longest-serving Independent Non-Executive Directors, Philip Remnant and John Coghlan, approaching their maximum tenures of nine years, the Committee was tasked with reviewing the succession plans in place and recruiting additional Independent Non-Executive Directors, where appropriate, to ensure the optimum balance of skills and experience on the Board. During 2021/22, the Committee appointed an independent search firm, which is a signatory to the Voluntary Code of Conduct for</p>	<p>Executive Search Firms, to support with the evolution of the Independent Non-Executive membership of the Board over the next two to three years.</p> <p>Both Philip and John held Committee Chairships and therefore tailored recruitment criteria and role specifications were developed to outline the appropriate skills and experience required to ensure the Board continued to comprise members who were qualified to carry out these vital roles.</p>
3 SHORTLIST AND SELECTION	<p>The Committee ensured that the recruitment process was conducted in line with the Board Diversity Policy, in particular that diverse candidates from a wide variety of backgrounds and those with non-listed company experience were included within the respective shortlists. Read more about our Board Diversity Policy on page 125.</p>	<p>Interviews were conducted by the Chair, Senior Independent Director and Chief Executive, with support from the Group Company Secretary. Once a preferred candidate had been selected, a pre-appointment meeting with Ofwat was arranged ahead of the proposed Non-Executive Director being formally appointed to the Board of Severn Trent Water Limited.</p>
4 APPOINTMENTS	<p>Since 2021, the Committee has recommended the following appointments to the Board:</p> <ul style="list-style-type: none"> – Gillian Sheldon – as an Independent Non-Executive Director and member of the Audit and Risk, Remuneration and Nominations Committees, and Chair of the Treasury Committee. – Tom Delay – as an Independent Non-Executive Director, Chair of Corporate Sustainability Committee and member of the Nominations Committee. – Sarah Legg – as an Independent Non-Executive Director and member of the Audit and Risk, Nominations, Corporate Sustainability and Treasury Committees. 	<p>The Committee had also recommended to the Board the appointment of Sharmila Nebhrajani, an existing Independent Non-Executive Director, to the Remuneration Committee in anticipation of her succeeding Philip Remnant as Chair of the Remuneration Committee.</p> <p>The Committee also considered succession plans for the Chair of the Audit and Risk Committee, John Coghlan, who will have served on the Board for nine years in May 2023. The Committee and Board are satisfied that John continues to demonstrate independent character, judgment and objectivity.</p>
5 SUCCESSION AND INDUCTION	<p>All newly appointed Directors undertook thorough, tailored induction programmes, overseen by the Committee, which included specific focus on key aspects of their roles on the Board Committees. Further details on Non-Executive Director induction programmes can be found on page 117.</p>	
FUTURE PLANNING	<p>The Committee is satisfied that all key roles have credible succession plans in place. Notwithstanding this, the Committee considers succession planning at each of its meetings and will continue to make appropriate recommendations to the Board as necessary.</p>	



EXECUTIVE COMMITTEE SUCCESSION PLANNING

THE NOMINATIONS COMMITTEE ALSO CONSIDERED SUCCESSION PLANNING FOR MEMBERS OF THE EXECUTIVE COMMITTEE DURING THE YEAR, INCLUDING IN RELATION TO THE BELOW ROLES.

CHIEF FINANCIAL OFFICER	<p>The Company announced on 1 February 2023 that James Bowling, Chief Financial Officer ('CFO') and Executive Director, intended to retire from the Severn Trent Board following the conclusion of the AGM on 6 July 2023, having served the Company for over eight years.</p> <p>Following a rigorous internal and external search and selection process, led by the Committee, it was announced that Helen Miles, the Group's then incumbent Director of Capital and Commercial Services, would be appointed as an Executive Director and the CFO Designate with effect from 1 April 2023.</p>	<p>The Chair and the CEO led the process to identify suitable candidates for the CFO role and the executive search firm Spencer Stuart¹ was engaged as part of the recruitment process, having demonstrated, of the executive search firms considered, that it had the best understanding and knowledge of the Group and its culture. Having been provided with a role specification and detailed brief of the desired candidate profile, Spencer Stuart undertook the initial independent appraisal process and identified a number of potential internal and external candidates for the Committee to consider. Those shortlisted were then interviewed by members of the Committee.</p> <p>The Committee was pleased to recommend to the Board the appointment of Helen Miles given her highly experienced and commercial background along with a detailed understanding of the water sector and proven track record of exceptional delivery.</p> <p>Furthermore, the Committee was particularly pleased that Helen would have the opportunity to work alongside James prior to his retirement to ensure an effective and orderly handover.</p> <p><small>¹ Spencer Stuart is a signatory to the Voluntary Code of Conduct for Executive Search Firms. Christine Hodgson acts as an External Board Adviser to Spencer Stuart Management Consultants NV. The decision to appoint Spencer Stuart was first discussed with John Coghlan, Chair of the Audit and Risk Committee, before the Board considered the matter and determined that the engagement of Spencer Stuart would present no conflict of interest.</small></p>
GROUP GENERAL COUNSEL AND GROUP COMPANY SECRETARY	<p>The Company announced on 13 September 2022 that Bronagh Kennedy, Group General Counsel and Company Secretary, intended to retire from Severn Trent on 2 December 2022, having served the Company for nearly twelve years.</p> <p>Following a rigorous internal and external search and selection process, the Committee considered that the role should be split into two roles – Group General Counsel and Group Company Secretary –</p>	<p>with the following two candidates recommended for appointment:</p> <ul style="list-style-type: none"> - Didar Dhillon was appointed as the Company's new Group General Counsel with effect from 2 December 2022, having joined the Group in October 2022. - Hannah Woodall-Pagan was appointed as Group Company Secretary with effect from 2 December 2022, having joined the Group in October 2015.
DIRECTOR OF CAPITAL AND COMMERCIAL SERVICES AND DIRECTOR OF CUSTOMER OPERATIONS	<p>Further to Helen Miles' appointment as CFO Designate, the Committee oversaw the succession plans in place for the Executive Committee.</p> <p>The Committee recommended to the Board the following:</p> <ul style="list-style-type: none"> - Director of Capital and Commercial Services – Appointment of James Jesic, who previously served as Director of Customer Operations since 2020 and has been with the Group since 2003. 	<ul style="list-style-type: none"> - Director of Customer Operations – Appointment of Steph Cawley, who has held a number of senior roles since joining the Group in 2018. <p>The Committee was particularly pleased to appoint internal candidates to these roles, as it demonstrates the strength and talent of the Senior Management Team within the business.</p>

Diversity on our Board and Committees

The Committee and Board continue to drive the agenda of diversity across the Group in setting the right tone from the top and are proud of the progress being made to date. Whilst Severn Trent has long been an advocate of a diverse workforce and the huge advantages that this brings teams across the business, the Committee acknowledges that there is more to be done to encourage greater diversity, so that all companies can experience the benefits of wide-ranging experience and backgrounds.

We welcome the Financial Conduct Authority's ('FCA') policy statement, published in April 2022, regarding changes to the Listing Rules in relation to diversity and inclusion on company boards. This section of the Annual Report addresses the FCA's requirements in relation to diversity and inclusion disclosures set out in Listing Rule 9.8.6R(9).

The Nominations Committee reviews the Board Diversity Policy (the 'Policy') on an annual basis and makes recommendations to the Board where it identifies changes that can be made to further contribute to improving the diversity of the Board and Executive Committee.

This year, the Policy was updated to include reference to the Board Committees required to be considered under the 2018 Code and in consideration of how wider diversity characteristics can be addressed. The main objectives contained in the Policy are set out below, alongside an overview of the action taken to implement the Policy. The full Policy is available on the Severn Trent Plc website.

BOARD POLICY OBJECTIVES	IMPLEMENTATION	PROGRESS MADE
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition by the Nominations Committee with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considered the composition of the Board and the contribution, commitment and independence of individual Directors.	At its March 2023 meeting, the Committee formally reviewed the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board and the balance of skills, experience and knowledge on the Board as a whole. All Board succession discussions took place in consideration of the Policy.
Ensure consideration is given to diverse candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience. Ensure Board appointment 'longlists' include candidates with a diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself. On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.	Sarah Legg was appointed to the Board as an Independent Non-Executive Director on 1 November 2022. Following the end of the financial year, Helen Miles was appointed to the Board as an Executive Director and the CFO Designate on 1 April 2023. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, the 2018 Code and additional relevant guidance. The Committee ensured that Hedley May and Spencer Stuart, the executive search firms engaged for these appointments, presented a diverse potential candidate list, including candidates with no listed company experience.
Ensure focus is given to the development of a pipeline of diverse, high-calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board and Nominations Committee consideration of the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Group's talent pipeline and on the Board itself.	At its April 2023 meeting, the Board considered diversity and inclusion within the Group. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board and Executive Committee succession planning discussions that took place during the year.

NOMINATIONS COMMITTEE REPORT CONTINUED

Annual Statement on Board Diversity Targets

On behalf of the Board, the Nominations Committee is pleased to confirm that as at 31 March 2023, all three of the targets set out within the Board Diversity Policy, which align with the diversity and inclusion targets set out in the Listing Rules, have been met. A summary of the Board Diversity Targets is set out in the table below.

BOARD DIVERSITY TARGET	TARGET MET?	BOARD DIVERSITY AS AT 31 MARCH 2023
At least 40% of the individuals on the Board of Directors are women.	<input checked="" type="checkbox"/>	– 56% of the individuals on the Board of Directors are women
At least one of the senior positions (Chair, Chief Executive, Senior Independent Director, Chief Financial Officer) on the Board of Directors is held by a woman.	<input checked="" type="checkbox"/>	– The Chair is a woman – The Chief Executive is a woman
At least one member of the Board of Directors is from a non-White Ethnic Minority background (as referenced in categories recommended by the Office for National Statistics ('ONS')).	<input checked="" type="checkbox"/>	– Two members of the Board of Directors are from non-White Ethnic Minority backgrounds

Detailed numerical information on the gender and ethnicity representation on the Board and Executive Committee is set out below.

Data concerning gender and ethnicity representation is collected directly from all the individual Board and Executive Committee members through a Diversity and Inclusion Monitoring Form (the 'Form') which is issued for completion on an annual basis. The Form asks individuals to disclose their gender and ethnicity using the options included on the Form, which align with the detail in the left-hand columns of the tables below and therefore includes the option to not specify an answer. This data is collated by the Company Secretariat Team and held securely and in accordance with the Group's data protection processing and retention guidelines.

Gender Representation as at 31 March 2023		Severn Trent Plc Board		Severn Trent Plc Executive Committee		
		Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
Men		4	44%	2	6	67%
Women		5	56%	2	3	33%
Not specified/prefer not to say		-	-	-	-	-

Ethnicity Representation as at 31 March 2023		Severn Trent Plc Board		Severn Trent Plc Executive Committee		
		Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in Executive Management	Percentage of Executive Management
White British or other White (including minority-white groups)		7	78%	4	8	89%
Mixed/Multiple Ethnic Groups		1	11%	-	-	-
Asian/Asian British		1	11%	-	1	11%
Black/African/Caribbean/Black British		-	-	-	-	-
Other ethnic group, including Arab		-	-	-	-	-
Not specified/prefer not to say		-	-	-	-	-

As discussed on page 100, since 31 March 2023, there have been changes to the membership of both the Board and the Executive Committee. The Nominations Committee confirms that these appointments have not affected the attainment of any of the Board Diversity Targets and neither the Board nor the Committee foresees any risks in not being able to continue to meet the Board Diversity Targets during the current financial year.

AUDIT AND RISK COMMITTEE REPORT



John Coghlan
Chair



Against the backdrop of upcoming audit and corporate governance enhancements, the **Committee's contribution to ensuring that reporting is fair, balanced and understandable is increasingly vital for shareholders** and other stakeholders who want to assess the Company's performance and hold the Board to account.



All members of the Committee are Independent Non-Executive Directors of the Board. The Board considers that all members of the Committee have recent and relevant financial experience and competence relevant to the sector, with the Chair and the majority of the Committee members being qualified accountants. Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings at the invitation of the Committee include the Chair of the Board, the Chief Executive, the Chief Financial Officer ('CFO'), the Group Company Secretary, the Group General Counsel, the Group Financial Controller, the Head of Internal Audit, other members of senior management, representatives from the External Auditor, Deloitte, and non-financial regulatory performance and data assurers, Jacobs. None of these attendees are members of the Committee.

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



Documents available at severntrent.com

Non-Audit Services Policy
Anti-Bribery and Anti-Fraud Policy
Charter of Expectations
Committee Terms of Reference

Dear Shareholder

I am pleased to present this report, which aims to give shareholders a clear insight into the work we have done as a Committee to provide challenge and assurance on the integrity of the 2022/23 Annual Report and Accounts and the Group's regulatory reporting requirements.

The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives.

Throughout the year, I maintained regular dialogue with other members of the Committee, the Chief Financial Officer and other members of management, including presenters of upcoming agenda items prior to meetings, to ensure the Committee was provided with the necessary information to enable it to guide, challenge and advise and, when required, make informed decisions. I also met privately with the Head of Internal Audit and representatives from the External Auditor and External Assurer, both to discuss any issues that may have arisen and as part of my ongoing assessment of their effectiveness.

Much of the Committee's work relates to the regulated activities of Severn Trent Water, which represent over 91% of Group turnover. The Committee's vital contribution to our Purpose of 'taking care of one of life's essentials' ensures that the interests of shareholders and other stakeholders, particularly our customers and regulators, are properly protected, by overseeing the Group's financial reporting and internal control arrangements. The Committee uses its collective expertise, with input from the External Auditor, to provide challenge to the approach and judgments made by management in the treatment of financial matters and the resulting disclosures within the financial statements.

Transparency and openness are fundamental to the relationship between management and the Committee, which is further reinforced through our culture of Doing the Right Thing. As such, one of our key roles is to advise the Board that we are satisfied that the Annual Report and Accounts are fair, balanced and understandable, and provide the information necessary for shareholders to assess the

Company's position, performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail, or challenge them to explain and justify their interpretation and, if necessary, re-present the information. The Committee has spent considerable time reviewing and scrutinising the Group's financial results, and details of the significant issues we considered can be found on page 134.

The External Auditor performs its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 168 to 175.

The Financial Reporting Council's Audit Quality Review ('AQR') team selected for review the audit of the Severn Trent Plc financial statements for the year ended 31 March 2022 as part of its annual inspection of audit firms. As Chair of the Audit and Risk Committee, I received a full copy of the findings of the AQR and have discussed these with Deloitte. The findings were largely positive, with no significant areas for improvement identified within the report. The Committee is also satisfied that there is nothing within the report which might have a bearing on the audit appointment. Based on consideration of the responses to our internal effectiveness review, and taking into account the AQR report, the Committee remains satisfied with the efficiency and effectiveness of the audit.

We were pleased to advise the Board that the 2022/23 Annual Report and Accounts are fair, balanced and understandable, and that the Directors have provided the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. Our review process is described in further detail on page 131.

During the year, the Committee reviewed and agreed with management's proposal for the Company's long-term Viability Statement to continue to cover a seven-year period (see pages 80 to 83). It was agreed that this was appropriate, given the nature of the regulatory framework in the water sector and Ofwat's statutory duty to ensure that companies can finance the proper carrying out of their functions.

The increasing focus of stakeholders on the impact of climate change and other environmental issues has become evident in the Committee's workload. The Committee plays a key role in the governance of environmental and climate-related reporting,

Committee members

	Member since	Meetings attended
John Coghlan (Chair)	May 2014	5/5
Kevin Beeston	September 2016	5/5
Sarah Legg	November 2022	2/2
Sharmila Nebhrajani	May 2020 until September 2022	2/2
Philip Remnant	March 2014 until September 2022	2/2
Gillian Sheldon	January 2022	5/5

including overseeing, in conjunction with the Corporate Sustainability Committee and supported by independent third-line assurance by Jacobs, the Group's Task Force on Climate-related Financial Disclosures ('TCFD').

The Committee has also spent a considerable amount of time reviewing the Group's risk management processes and procedures, with good progress made in enhancing their effectiveness during the year. You can read more about our approach to risk on pages 73 to 74.

You will see that this report contains an overview of the Company's whistleblowing arrangements. The Board has previously agreed that the responsibility for oversight of whistleblowing arrangements should continue to be delegated to the Audit and Risk Committee and not be a matter reserved solely to the Board. However, the Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing

arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement. The Audit and Risk Committee continues to receive reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

The annual Board Effectiveness evaluation, which was conducted internally this year, assessed our performance as a Committee, and I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range of financial experience across various industries and

all members have competence relevant to our sector, with significant recent and relevant financial experience. Further information about each Committee member is contained in their individual biographies, which can be found on pages 104 to 105.

I would like to thank the members of the Committee, the management team, Internal Audit, Deloitte and Jacobs for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

John Coghlan

Chair of the Audit and Risk Committee

23 May 2023



KEY AREAS OF FOCUS IN 2022/23

The Committee has an extensive agenda focusing on the audit, risk and assurance processes within the business which it deals with in conjunction with management, the External Auditor, Internal Audit and the Finance and Regulatory Compliance and Assurance teams.

Internal Audit and assurance

- Considered Internal Audit reports presented to the Committee and satisfied itself that management had resolved or was in the process of resolving any outstanding issues or actions.
- Reviewed and approved the Internal Audit plan and approach for 2023/24.
- Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.
- Considered the findings of the assurance that had been undertaken as part of regulatory submissions for the Drainage and Wastewater Management Plan, Water Resources Management Plan, Water Industry National Environment Programme and Strategic Resource Options.
- Reviewed the detailed assurance plan and approach for the Severn Trent Water PR24 submission.

Internal controls and risk management

- Reviewed the effectiveness of the Group's ERM processes and procedures and internal control systems, and integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board.
- Received updates on legal, regulatory and ethical matters, and monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the Group's whistleblowing processes and procedures, prior to reporting to the Board on this activity.
- Oversaw and monitored the Group's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).

External Audit

- Managed the relationship for the 2022/23 statutory audit, including the key audit risks and level of materiality applied by Deloitte, audit reports from Deloitte on the financial statements and the areas of particular focus for the 2022/23 audit.
- Considered the outcome of the FRC's Audit Quality Review of Deloitte's audit of the Company's 2021/22 financial statements.
- Assessed the effectiveness of the External Auditor and made a recommendation to the Board on the reappointment of Deloitte as the External Auditor.
- Agreed the statutory audit fee for the year ended 31 March 2023.
- Reviewed and approved the non-audit services, provided by the External Auditor and related fees for 2022/23.

Financial and regulatory reporting

- Reviewed and discussed reports from the Chief Financial Officer on the financial statements, considered management's significant accounting judgments and the policies being applied, and assessed the findings of the statutory audit in respect of the integrity of the financial reporting of full and half-year results.
- Reviewed the integrity of the regulatory reporting process relating to the Annual Performance Report, and other regulatory submissions, for Severn Trent Water as required to be submitted to Ofwat.
- Reviewed the 2022/23 Annual Report and Accounts, and provided a recommendation to the Board that, as a whole, they complied with the 2018 Code principle to be 'fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy'.
- Challenged and scrutinised management's detailed assessment of the Group's long-term viability and its ability to continue as a going concern. In doing so, the Committee took into account the risks facing the business, and its ability to withstand a number of severe but plausible scenarios. Having considered management's assessment, the Committee recommended to the Board the long-term Viability Statement set out on pages 80 to 83.
- Considered the Company's proposals to address the response to the Government's call to strengthen the audit, corporate reporting and corporate governance regime in the United Kingdom. Read more on page 129.

The Committee also reviewed and approved the Committee's Terms of Reference, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit but did not need to do so during the year.



SPOTLIGHT ON CORPORATE REFORM

The quality and accuracy of reported information has always been a key focus of the Committee's work. As such, the Committee welcomed the response from the Department of Business, Energy and Industrial Strategy ('BEIS') on proposals to strengthen the UK's audit, corporate reporting and corporate governance systems, which was published during the year. Whilst the timelines and final conclusions of the reforms are uncertain, the Committee requested from management a

summary of the measures that the Financial Reporting Council ('FRC') and the Audit Reporting and Governance Authority ('ARGA', the successor to the FRC) intend to progress, an initial assessment of how the changes could impact the Group and any proactive action that could be taken in the interim period ahead of formal legislation being passed.

The review undertaken by the Finance and Company Secretariat teams concluded that the Group's existing governance framework

and internal control system in relation to financial reporting was strong and, as a result, many of the proposed reforms were expected to be implemented efficiently and effectively. A number of action points were considered by the Committee for the short to medium term, whilst clarity was awaited on potential amendments to the 2018 Code and the enactment of relevant legislation.

A summary of the Committee's considerations is set out below.

PUBLICATION OF AN AUDIT AND ASSURANCE POLICY EVERY THREE YEARS AND AN IMPLEMENTATION REPORT ANNUALLY

By virtue of the Group's existing regulatory requirements, a robust audit and assurance framework and system are already in place. Details of our current audit and assurance framework and systems are reported externally through the Annual Report and Annual Performance Report. We welcome further guidance and look forward to publishing our Audit and Assurance Policy in due course.

STRENGTHENING OF INTERNAL CONTROL PROVISIONS IN THE 2018 CODE

The Committee oversees the annual review of the Group's systems, processes and procedures in order to provide assurance to the Board that the Group's internal control systems continue to operate effectively. As such, the Committee noted that there will be future changes to the 2018 Code which will require a formal statement regarding the effectiveness of controls and the basis of the assessment that has been completed. The Group will continue to review any proposed changes in relation to internal control to ensure compliance to future changes.

PROVISION OF A RESILIENCE STATEMENT TO REPORT ON MATTERS THAT THE COMPANY CONSIDERS WILL RESULT IN A MATERIAL CHALLENGE TO ITS RESILIENCE OVER THE SHORT AND MEDIUM TERM

Given the existing risk, going concern and viability requirements and disclosures, the Group is well positioned to address developments relating to the introduction of a formal Resilience Statement. The Group will continue to comply with current requirements and will review any amendments to legislation and the 2018 Code to ensure readiness ahead of changes coming into effect.

REQUIREMENT FOR DIRECTORS TO MAKE A STATEMENT ON STEPS THE COMPANY HAS TAKEN TO PREVENT AND DETECT MATERIAL FRAUD

To ensure the Group has an appropriate and effective fraud risk management framework in place, during the year an initial review of our existing framework was undertaken. As a result of the review, minor amendments have been implemented, including training staff to recognise common forms of bribery and corruption, and ensuring Group Authorisation Arrangements remain appropriate.

DISCLOSURE AND AUDIT OF DISTRIBUTABLE RESERVES

We currently disclose the amount of reserves that are distributable and we publish the Group's approved Dividend Policy. Once further guidance has been made available, a review of the reporting requirements will be undertaken and any additional detail relating to dividends and capital maintenance will be included to ensure compliance.

INCREASED TRANSPARENCY OVER EXECUTIVE PAY

The Government has proposed changes to the provisions of the 2018 Code, including greater transparency of the conditions under which Executive pay can be withheld or recovered and provisions in relation to minimum malus and clawback conditions which should be applied by remuneration committees. Once guidance has been published, a review of the updated requirements will be undertaken and the Committee will work alongside the Remuneration Committee to ensure the necessary disclosures are made.

ENGAGEMENT OF SMALLER CHALLENGER AUDIT FIRMS TO CONDUCT A MEANINGFUL PORTION OF SUBSIDIARY AUDITS

We await further guidance on the definition of a 'meaningful portion'. Once the guidance is available, an assessment will be undertaken to consider how the appointment of a challenger audit firm could be implemented and how this might impact our next external audit tender process, which we anticipate will be conducted no later than 31 March 2024.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

INTERNAL AUDIT

Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Group's corporate governance framework.

Support is provided by four main co-sourcing partners: PwC, EY, KPMG and BDO. Co-source arrangements are reviewed annually and we believe this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently. Co-source specialists continue to bring expertise to support the team and delivery of the audit plan where relevant.

INTERNAL AUDIT PLAN AND ACTIONS

The role of Internal Audit is to provide independent and objective 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.

A three-year strategic audit planning approach is applied, from which Internal Audit develops an annual risk-based audit plan; this facilitates an efficient deployment of resource in providing assurance coverage over time across the whole business. The Committee's role is to review and challenge the plan, specifically whether the key risk areas identified as part of our ERM process are being audited with appropriate frequency and depth. Individual Committee members also bring an external view of risks the Company may be exposed to. Once approved by the Committee, regular reporting enables the Committee to monitor delivery of the audit plan and ensure that Internal Audit performs its work in accordance with the mandatory aspects of the International Professional Practice Framework of the Chartered Institute of Internal Auditors (the 'CIIA'), with integrity

(honestly, diligently and responsibly) and objectively (without conflicts of interest).

Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified in the course of the review of internal control systems, management puts in place robust actions to address these on a timely basis. No material weaknesses were identified during the year. Action closure is reported to, and monitored by, the Committee and we are pleased to confirm that our review established that management places a strong focus on closing audit actions and ensuring timely completion.

The Internal Audit function also liaises with the External Auditor, discussing relevant aspects of their respective activities which ultimately supports the assurance provided to the Committee and Board.

EFFECTIVENESS

We undertake an annual review of the effectiveness of the Internal Audit function in line with the CIIA Internal Audit Code of Practice and the FRC Guidance on Audit Committees. The CIIA guidance states that Audit Committees should obtain an independent and objective external quality assessment at least every five years. However, we consider it prudent to carry out external effectiveness reviews every three years. The last external review of the effectiveness of the Internal Audit function was undertaken in December 2021. The review was carried out by BDO, which concluded that the Internal Audit function remained fit for purpose, was operating efficiently and effectively, and in line with good practice.

BDO's findings also highlighted clear evidence that the Internal Audit function operated with strategic alignment, a focus on risk and an emphasis on quality and continuous improvement, all underpinned by objectivity and integrity. The minor areas of improvement raised by BDO have been incorporated into an action plan which was shared and agreed with the Chair of the Committee. All actions were completed in line with the proposed timescales.

Taking all these elements into account, the Committee concluded that the Internal Audit function was an effective provider of assurance over the Group's risks and controls, and appropriate resources were available as required.

INTERNAL CONTROLS AND RISK MANAGEMENT

The 2018 Code sets out requirements in relation to companies' internal controls and risk management and, as such, throughout the year, the Committee receives and reviews regular management reports and updates in relation to internal controls and risk management to assure itself that the processes in place remain effective.

INTERNAL CONTROLS

An internal control system can provide reasonable but not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. The Committee reviews the Group's internal control systems and receives updates on the findings of Internal Audit's investigations at every meeting, prior to reporting any significant matters to the Board, which retains overall responsibility for the effectiveness of the full suite of internal controls across the Group.

As set out on page 130, the Audit and Risk Committee has oversight of the Group's preparations to enact early recommendations that have arisen from the BEIS consultation on 'Restoring trust in audit and corporate governance'. We are fully committed to ensuring that the Group's audit and governance arrangements reflect best practice and address any new requirements within the expected timeframes.

As part of this, during the year a detailed review of the Group's systems, processes and procedures was undertaken by the Committee in order to provide assurance to the Board that the Group's internal control systems, including those which cover financial reporting, continue to operate effectively.

Further to the reports received by the Committee, which set out the Group's processes, systems and assurance procedures, the Committee has concluded that it has complied with its obligations under the 2018 Code in relation to the assessment of risk and the monitoring and review of the effectiveness of internal controls and risk management. The Committee is pleased to confirm that it was able to provide the Board with assurance that the Group's internal control systems and risk management procedures are effective, efficient and operating as required.

INTERNAL CONTROLS AND RISK MANAGEMENT CONTINUED

RISK MANAGEMENT

The Group has an ERM process in place through which our Principal Risks and related controls are identified and assessed. The Board has overall responsibility for setting the Group's risk appetite and ensuring that there is an effective risk management framework in place, and has delegated responsibility for review of the risk management methodology and effectiveness of internal controls to the Audit and Risk Committee. The Committee reviews the processes for, and outputs from, the Group's ERM activity, through which our Principal Risks and related controls are identified. It also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which the control and assurance arrangements can be enhanced. The Audit and Risk Committee is complemented by a Strategic Risk Forum which assists the Committee in reviewing the risk management system, internal controls that mitigate risks and undertaking reviews of assurance risk reports prior to Audit and Risk Committee meetings. The Central ERM Team also undertook a review of the integration of the components of the risk framework into Board and Committee reporting, prior to making a recommendation to the Board.

This year, the Committee spent a considerable amount of time reviewing the Group's ERM processes and procedures, with good progress made in enhancing its effectiveness during the year. The Committee also reviewed the Group's Risk Appetite Statement and recommended this for consideration and approval by the Board. You can read more about this important work on pages 73 to 74.

The Committee received half-yearly reports from the Head of Risk, detailing the significant risks and uncertainties faced by the Group. Each risk submitted for review includes an assessment of the overall risk status, status of the control environment and a summary of the risk mitigation plan to take the risk to the target risk position, which needs to be in line with the risk appetite. The risk mitigation plan covers action plans to improve controls where this has been assessed as necessary and assesses whether actions are on target, with the correct prioritisation in place. Further details of the Group's risk management systems and controls and Principal Risks can be found in the Strategic Report on pages 73 to 79.

WHISTLEBLOWING

The Group has established procedures by which all employees may, in confidence, report any concerns. Our Whistleblowing Policy, 'Speak Up', sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline and online channel, 'Safecall'. All investigations are carried out independently with findings being reported directly to the Audit and Risk Committee.

The Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has

sufficient oversight of whistleblowing to support its work on assessing culture, risk and stakeholder engagement. The Audit and Risk Committee receives reports on investigations and all significant whistleblowing matters are reported directly to the Board. The Board also receives regular updates from the Committee and the Board completes an assessment of the effectiveness of the Group's whistleblowing procedures. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

FAIR, BALANCED AND UNDERSTANDABLE REPORTING

At the request of the Board, the Committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is 'fair, balanced and understandable' ('FBU') and whether it provides the 'information necessary for shareholders to assess the Company's position, performance, business model and strategy'.

The following process was followed by the Committee in making its assessment.

1 REGULAR DISCLOSURE COMMITTEE REVIEW

The Disclosure Committee reviewed the Annual Report and Accounts throughout the drafting process and undertook a detailed FBU assessment ahead of tabling a detailed report to the Audit and Risk Committee.

2 REGULAR AUDIT AND RISK COMMITTEE REVIEW

The Audit and Risk Committee reviewed the Annual Report and Accounts at an early stage, and throughout the drafting process, to enable sufficient time for review and comment, and to ensure overall balance and consistency between the narrative sections and the financial statements.

The Audit and Risk Committee was supported in its review by the Disclosure Committee, whose appraisal of the Annual Report and Accounts is undertaken by members of the Executive Team who are not directly involved in drafting any content.

3 INTERNAL AUDIT VERIFICATION AND OVERSIGHT

Internal Audit reviewed the Annual Report and Accounts, and oversaw the verification process for all factual content and reported back to the Audit and Risk Committee on its assessment findings.

4 FBU ASSESSMENT

The Audit and Risk Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. The Audit and Risk Committee was satisfied that all the key events and issues reported to the Board by management (both positive and negative) had been adequately referenced or reflected within the Annual Report and Accounts.

5 EXTERNAL AUDITOR REVIEW

The External Auditor is required to consider whether there are any material inconsistencies between information presented in different sections of the Annual Report and Accounts, taking into account the Auditor's knowledge obtained during the audit and the Auditor's understanding of the legal and regulatory requirements applicable to the narrative.

The External Auditor presented the results of its audit work. The significant issues the Audit and Risk Committee considered were consistent with those identified by the External Auditor in its report (see pages 168 to 175 for more detail).

6 RECOMMENDATION TO THE BOARD

The Board approved the Audit and Risk Committee's recommendations that the FBU statement could be made in the Annual Report and Accounts. A declaration to this effect is included within the Directors' Responsibility Statement on page 167.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR

The Committee has primary responsibility for overseeing the relationship with the External Auditor, including assessing its performance, effectiveness and independence annually, and making a recommendation to the Board in respect of its reappointment or removal.

TENDER AND APPOINTMENT

Following a formal tender process in 2015/16, Deloitte LLP was reappointed as External Auditor at the 2016 AGM. Following the rule that the audit engagement partner must change every five years, Jacqueline Holden became the senior statutory auditor and has overseen the audit of the Severn Trent Group since 2020/21. Other senior audit staff also rotate at regular intervals.

The Committee anticipates that the next competitive tender will be conducted no later than 31 March 2024, in accordance with current regulation that requires a tender every ten years. Deloitte will not be able to participate due to mandatory rotation requirements.

The proposed tender date is in the best interests of shareholders and the Company as Deloitte has a detailed knowledge of our business, an understanding of our industry and continues to demonstrate that it has the necessary expertise and capability to undertake the audit.

The Company has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review in respect to audit tendering and the provision of non-audit services.

EFFECTIVENESS AND COMPETENCE

The Committee considers audit quality to be the principal requirement of the annual audit process and, as such, a full effectiveness review is conducted annually. This year, it involved assessment of the External Auditor by the Committee, key Executives and relevant senior management, including an evaluation of whether the External Auditor met the minimum standards of qualification, independence, expertise, effectiveness and communication. All members of the Committee, as well as key members of management and those who have regular contact with the External Auditor, completed a feedback questionnaire focusing on the following areas:

- Robustness of the external audit process, 'professional scepticism' of the External Auditor and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of the Group's business.

- Expertise of the audit team conducting the audit.
- Independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

Feedback was collated and presented to the Committee in March 2023, without the External Auditor present. The Committee discussed the conclusions and any opportunities for improvement, which were brought to the attention of the External Auditor. The Committee also considered the outcome of the FRC's Audit Quality Review into the External Auditor's audit of Severn Trent Plc's financial statements for the year ended 31 March 2022. No significant issues were reported as part of either the internal or external review processes, and it was concluded that the external audit process and services provided by Deloitte were satisfactory and effective.

INDEPENDENCE

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The Committee recognises that independence is also a key focus for the External Auditor, and Deloitte has confirmed that it has complied with its own ethics and independence policies, which are consistent with the FRC's Revised Ethical Standard (2019). This includes the External Auditor's assurances that all of its partners and staff involved with the audit are independent of any links to the Group and that none of its employees working on our audit hold any shares in Severn Trent Plc.

Deloitte provides confirmation of independence during the planning stage of the audit, disclosing matters relating to its independence and objectivity. There were no independence issues raised in respect of the 2022/23 audit.

The Committee also develops and recommends to the Board the Group's policy on non-audit services and associated fees paid to Deloitte, to ensure the External Auditor is not providing any additional services which could impede its independence. You can read more on this policy on page 133.

STATUTORY AUDITOR REAPPOINTMENT FOR THE YEAR ENDING 31 MARCH 2024

The Committee has recommended to the Board that Deloitte LLP be proposed for reappointment for the year ending 31 March 2024 at the forthcoming AGM on 6 July 2023. There are no contractual obligations that restrict the Committee's choice of auditor; the recommendation is free from third party influence and no auditor liability agreement has been entered into.

NON-AUDIT SERVICES

To preserve objectivity and independence, the External Auditor is not asked to provide other services unless it is in the best interests of the Company that these are provided by Deloitte rather than another supplier, in accordance with our Non-Audit Services Policy (the 'Policy').

We reviewed and updated the Policy during 2019/20 to reflect the FRC's Revised Ethical Standard and the more restrictive list of services that are now permitted, and the Policy was subject to a further review during the year. The Policy requires Committee approval for all such non-audit services. The Policy also prohibits aggregate fees for non-audit services in excess of 70% of the average audit fee for the previous three financial years. Non-audit services for which the External Auditor may be used include audit-related services required by statute or regulation and other audit or assurance services as set out in the Ethical Standard.

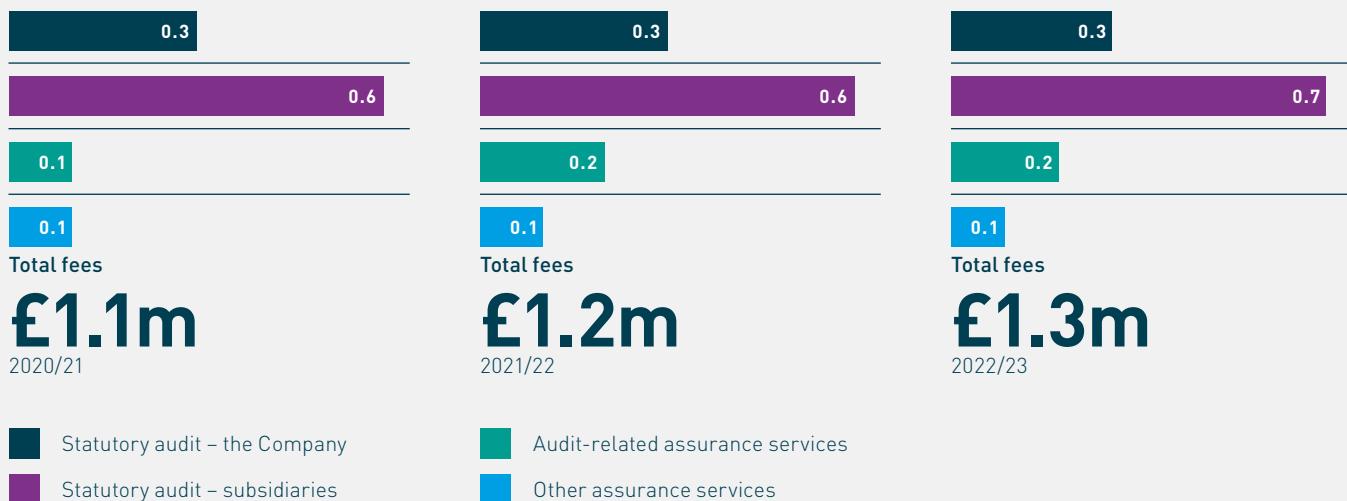
During the year, Deloitte received £1.3 million in fees for work relating to the audit services it provides to the Group. Non-audit-related work undertaken by Deloitte amounted to fees of £0.3 million this year,

which is 23.1% of the total audit fees paid to it (as shown in the chart below). The more significant non-audit services provided by Deloitte were the audits of the financial information contained within the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports and the independent review of the Company's half-yearly financial report.

Audit and non-audit fees paid to Deloitte are set out in note 7 to the financial statements on page 192. In approving these non-audit fees, we considered the overall ratio of non-audit fees to audit fees and, given the scope of work, considered that Deloitte was best placed to perform these services. Where Deloitte was chosen, this was as a result of its detailed knowledge of our business and understanding of our industry, as well as demonstrating that it had the necessary expertise and capability to undertake the work cost effectively whilst maintaining its objectivity and independence.

Details of audit and non-audit fees and the significant non-audit work undertaken during the year are set out below.

AUDIT AND NON-AUDIT FEES (£M)



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.	90
ASSURANCE OF REGULATORY RETURNS	Audit of sections 1 and 2 of the Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports is closely related to the External Auditor's statutory audit work and the two assignments are performed in parallel.	89
SUBTOTAL	179	
OTHER ASSURANCE SERVICES		
REPORTING UNDER GROUP FINANCING DOCUMENTS	These documents require reports and it is normal practice for the External Auditor to provide these.	93
OTHER ASSURANCE	This is mainly assurance of the Sustainable Finance Framework allocation report.	42
SUBTOTAL	135	
TOTAL 2022/23 NON-AUDIT FEES	314	

SIGNIFICANT ISSUES CONSIDERED AND ADDRESSED IN RELATION TO THE FINANCIAL STATEMENTS

The Committee looked carefully at those aspects of the financial statements that required significant accounting judgments or where there is estimation uncertainty. These areas are explained in note 4 to the Group financial statements. The Committee also considered the accounting treatment for revenue and accrued income. It received

detailed reports from both the CFO and the External Auditor on these areas and on any other matters which they believed should be drawn to the Committee's attention.

The draft External Auditor's report on the financial statements was also reviewed, with particular reference to those matters reported as carrying risks of material misstatement.

The Committee discussed the range of possible treatments both with management and with the External Auditor, confirming that the judgments made by management were robust and supportable. For all the matters described below, the Committee concluded that the treatment adopted in the Group financial statements was appropriate.

SIGNIFICANT ISSUE	HOW THE ISSUE WAS ADDRESSED BY THE COMMITTEE
GOING CONCERN BASIS FOR THE FINANCIAL STATEMENTS AND LONG-TERM VIABILITY STATEMENT	<p>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.</p> <p>In particular, the Committee considered severe but plausible scenarios modelled in relation to the Company's Principal Risks, noting the stress tests performed by management and the potential mitigating actions identified.</p> <p>Our Business Model can be found on pages 4 to 5. Principal Risks and uncertainties can be found on pages 75 to 78. The Viability Statement can be found on pages 80 to 83 and the Going Concern Statement on page 83.</p>
DETERMINATION OF THE PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES IN SEVERN TRENT WATER LIMITED	<p>The Committee challenged management's assumptions regarding historical cash collection and the impact of the cost of living pressures on Severn Trent Water's customers on the expected credit losses for trade receivables existing at 31 March 2023, noting the independent forecasts of the likely economic impacts and the recent evidence of a link between macroeconomic conditions and the Group's bad debt experience.</p> <p>The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>
THE PROPOSED CLASSIFICATION OF COSTS BETWEEN OPERATING EXPENDITURE AND CAPITAL EXPENDITURE IN SEVERN TRENT WATER LIMITED	<p>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.</p> <p>The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>
DETERMINATION OF THE AMOUNT OF THE GROUP'S RETIREMENT BENEFIT OBLIGATIONS	<p>The Committee scrutinised the assumptions underlying the valuation of the obligations and obtained explanations for the significant reduction in the deficit recorded. The Committee considered whether the assumptions, taken as a whole, were appropriate, taking into account the work of the External Auditor and the benchmark information provided. The Committee also scrutinised the methodologies applied in assessing the fair values of the schemes' assets and considered the estimation techniques used for assets for which an up-to-date valuation was not available.</p> <p>The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements.</p> <p>The Committee further considered the accounting treatment for the bulk annuity buy-in for the Dee Valley Water Section of the Water Companies Pension Scheme and, in particular, management's conclusion that this transaction did not represent a settlement under IAS 19. The Committee noted that the Group retained the legal obligation to pay the member benefits as they fall due and discussed this conclusion with the External Auditor.</p> <p>The Committee determined that no adjustment to the amounts recorded was required.</p>

TREASURY COMMITTEE REPORT



Gillian Sheldon
Chair



Effective treasury management is an essential contributor to the successful delivery of the Group's Strategy, through ensuring the Company's long-term investment needs and financial resilience are maintained throughout the remainder of the AMP7 regulatory period and into a high-investment AMP8.



All members of the Committee are Independent Non-Executive Directors of the Board. Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings at the invitation of the Committee include the Chair of the Board, the Chief Financial Officer, the Group Treasurer, the Group Financial Controller and representatives from the Group's debt advisers, Rothschild & Co. None of these attendees are members of the Committee.



Documents available at severntrent.com

Sustainable Finance Framework
Sustainable Bond Allocation Report
Charter of Expectations
Committee Terms of Reference

Dear Shareholder

I am delighted to introduce my first report as Chair of the Treasury Committee and would like to convey my thanks to John Coghlan for his leadership of the Committee over the previous seven years and for the significant time he has invested in ensuring a smooth and effective handover to me.

The Committee continues to oversee the Group's funding requirements and financing risks and opportunities and, in doing so, assists the Board in the effective discharge of its responsibilities in relation to treasury management.

The Committee plays a key role in ensuring that the Group remains in a strong financing position and, in recognition of the importance of its work, feedback from the 2021/22 Board evaluation led to a dedicated 'teach-in' session on Treasury matters being held during the year for Directors who were not members of the Committee.

Future funding is an important part of the normal business planning process and the Committee provides regular updates to the Board in respect of funding, solvency and liquidity matters so that the Group can respond quickly to any opportunities.

This year the Committee spent a large amount of time considering the impact of the external economic environment on the Group, including the growing cost of energy, the impacts of the rise in interest rates and increasing inflation, and the ongoing effects of geopolitical events. The Committee also continually reviews financial counterparty risk. Against this tumultuous backdrop and resulting uncertainty, it was crucial that the Group continued to develop and maintain a diverse range of funding sources and access to a range of global debt markets.

During the year, the Group refinanced £979 million of its debt and issued £1,351 million of new debt. The Treasury Team has been active in diversifying its sources of funds, promoting the Group in new global markets. This comprehensive activity ensured that the Group remained in a strong liquidity position and in compliance with its Liquidity Policy. At the balance sheet date, the Group had sufficient liquidity to meet its forecast cash flow requirements in line with the Group's treasury policies.

Of the total debt raised, Severn Trent Water issued a further £600 million under the European Medium Term Note Programme, providing cost-effective liquidity, whilst continuing to maintain diversity in the Company's sources of funding. This comprised a £400 million sustainable GBP fixed-rate bond and £100 million CPIH debt issue, which provides a hedge against the Company's index-linked revenues and Regulatory Capital Growth ('RCV'),

and fixed-rate Private Placements totalling £100 million. In addition, Severn Trent Water raised a further £350 million through bank loans and £200 million from US Private Placements.

In common with many other companies, we closely monitored the volatile energy market during the year and the effect that the rapid rise of energy costs was having on inflation. The Group's Hedging Policy was reviewed to ensure it remained appropriate in consideration of market volatility being observed. In line with its Terms of Reference, the Committee proposed to the Board that amendments were made to the Group Authorisation Arrangements to enable management to act swiftly in relation to future hedging opportunities.

Sustainable finance remained a core element of the Group's funding strategy and an updated Sustainable Finance Framework was published in July 2022. The Group closely monitors developments in sustainable finance through its Sustainable Finance Committee, which reports to the Treasury Committee on at least an annual basis.

During the year the Dee Valley Pension Scheme completed a bulk annuity buy in with Just Retirement Limited, effectively de-risking the scheme from future interest rate, inflation and longevity risk. The UK Gilt market also saw unprecedented volatility, which affected many pension schemes. The Treasury Team, with the oversight of the Treasury Committee, worked closely with the Trustee of the Severn Trent Pension Scheme to review its risk management controls and procedures and ensure continued liquidity throughout the market volatility.

The annual Board Effectiveness evaluation, which was conducted internally this year, assessed our performance as a Committee and I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range of financial experience across various industries and all members have competence relevant to our sector, with significant recent and relevant financial experience. Further information about each Committee member is contained in their individual biographies, which can be found on pages 104 to 105.

I would like to thank the members of the Committee, the management team and our debt advisers, Rothschild & Co, for their continued commitment throughout the year, for the open discussions that take place at our meetings, and for the contribution they all provide in support of our work.

Gillian Sheldon
Chair of the Treasury Committee

23 May 2023

Committee members

	Member since	Meetings attended
Gillian Sheldon (Chair from November 2022)	January 2022	5/5
Kevin Beeston	March 2021	5/5
John Coghlan (Chair to November 2022)	May 2015	5/5
Sarah Legg	November 2022	3/3
Philip Remnant	May 2015 until September 2022	1/1



KEY AREAS OF FOCUS IN 2022/23

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

- Execution of the Group's financing plan and evaluation of funding opportunities, in consideration of the external operating environment, including entering new financial markets.
- Consideration of the Group's Liquidity Policy and confirmation that a 15-month Policy remained appropriate.
- Review of the Group's treasury policies in relation to hedging of market risks (including energy, interest rates, inflation and currency), and financial counterparty credit risk and credit ratings.
- Annual update of the Group's European Medium Term Note Programme and approval for bonds to be issued pursuant to that Programme during the year, including a £400 million Sterling Bond completed in November 2022.
- Review of the Group's Sustainable Finance Framework and associated governance.
- Regular review of the Group's Funding Strategy, including interest rate strategy to support the Group in consistently outperforming the cost of debt allowance.

The Committee also reviewed and approved its Terms of Reference, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit but did not need to do so during the year.

Sustainable Finance Framework

Our financing strategy recognises that a strong liquidity position and the availability of committed funding are essential to meeting the Group's objectives and obligations. It is also imperative that we achieve these aims in a responsible and sustainable way.

The Sustainable Finance Framework (the 'Framework') was first established in 2019 to enable Severn Trent Plc and its subsidiaries to raise debt in support of the financing and/or refinancing of assets and expenditure of a sustainable nature across the Group's activities. The Framework was updated during the year to align to the latest market standards.

Under the Framework, we report on a range of environmental and social impacts resulting from the investments and the eligible projects funded by the proceeds. To date, around £3 billion of finance has been raised under the Framework and these proceeds have been allocated to the areas listed below.

Environmental:

- Generating energy from renewable sources for use on site.
- Reducing Scope 1 and 2 emissions.
- Reducing leakage.
- Increasing biodiversity by planting trees and ensuring sustainable land and water resources management practices.
- Improving the quality of our rivers in the Severn Trent region.

Social:

- Supporting vulnerable customers struggling to pay their bills.
- Providing free employability training under our Employability Scheme.

More information on how proceeds from the Framework have been used to progress our eligible projects can be found in the dedicated Allocation Reports on our website.

We are committed to applying the most up-to-date standards and methodologies to measure and report on the impact of future issuances. All reporting under the Framework is available to investors via our website in line with the reporting requirements.

Ahead of the updated Framework being published, independent assessors, DNV, provided a Second Party Opinion on the accuracy and integrity of the Framework to give investors confidence that the Framework was aligned to accepted market principles. A copy of DNV's opinion confirming the Framework's compliance with the required standards and protocols can also be found on our website.



Scan or click to read more

CORPORATE SUSTAINABILITY COMMITTEE REPORT



Tom Delay
Chair



Sustainability is not a new or separate direction for us. **Our drive to deliver outstanding performance in a way that has a positive sustainable impact is what makes Severn Trent so unique**, guiding our purpose of 'taking care of one of life's essentials'.



All members of the Committee are Independent Non-Executive Directors of the Board, with the exception of Christine Hodgson (who was independent on appointment). Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Chief Executive, the Director of Human Resources and other senior management and external advisers, may be invited to attend meetings as and when appropriate. None of these attendees are members of the Committee.



Documents available at severntrent.com

- Anti-Slavery and Human Trafficking Statement
- Charter of Expectations
- Sustainability Report
- Committee Terms of Reference

Dear Shareholder

I am delighted to introduce my second report as Chair of the Corporate Sustainability Committee. The following pages describe the activities of the Committee and provide an overview of the topics addressed during the year.

The Corporate Sustainability Committee has a key role in supporting the Board by providing guidance and direction on the Company's sustainability ambitions. The Committee provides Board oversight for elements of the Group's Strategy that relate to the environment and also social and economic priorities in accordance with the Company's Sustainability Framework, ensuring the Company can demonstrate that it lives through its Purpose and Values, and acts responsibly in its engagement with all stakeholders.

Sitting alongside me on the Committee are Christine Hodgson, Sharmila Nebhrajani and Sarah Legg, and Liv Garfield attends each meeting, with an open invitation, to bring the benefit of her expertise in sustainability matters. Our collective experience and capability lead to insightful and passionate debate around a wide range of existing and emerging sustainability topics. The Committee's discussion is then presented to the Board at the beginning of every meeting to ensure that its oversight of Environmental, Social and Governance ('ESG') matters remains strategic, current and effective.

I would like to extend a personal welcome to Sarah Legg, who joined the Board as an Independent Non-Executive Director from 1 November 2022 and as a member of the Corporate Sustainability Committee. In addition to a strong financial background, Sarah has a wide range of experience having been heavily involved in community work and diversity initiatives during her career. I know that sustainability is a topic of particular interest to her and we are delighted to have her as a member.

Following the refresh of the Group's Strategy, the Committee reviewed and approved its Terms of Reference during the year before getting the approval of the Board. In its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties. Additional duties were introduced to strengthen the role of the Committee in advising the Severn Trent Plc Remuneration Committee on the Group's performance against sustainability metrics and on the setting of sustainability-related targets.

READ MORE: OUR CORPORATE STRATEGY

See pages 2 to 3

Global sustainability agenda

The turbulence of the last year has led to many of the long-term challenges around sustainability being accelerated. From a climate resilience perspective, we have seen extremes from across the globe that bring into sharp focus the real-life impact behind the climate science, such as water scarcity, extreme heat and rainfall intensity. At the same time, geopolitical unrest has created unprecedented supply pressures, and subsequent price volatility across a range of commodities, including energy and chemicals. These have created significant cost pressures for both businesses and individual households, our customers. Inflationary increases are putting pressure on household income, further exacerbated by interest rate rises, recession, and potential job losses.

While the evidence continues to build that systemic change is needed to address these issues that the world is facing, there are divided opinions on how change should happen and who should deliver it. Severn Trent continues to take a pragmatic approach, maintaining a balance between the needs of our stakeholders, the drive for sustainable change and the needs of the communities we serve.

Committee members

Tom Delay (Chair)

Member since

January 2022

Meetings attended

5/5

Christine Hodgson

January 2020

5/5

Sharmila Nebhrajani

May 2020

5/5

Sarah Legg

November 2022

3/3

Sustainability led culture

Sustainability is not a new or separate direction for us. Acting in a responsible manner is integral to our Purpose of 'taking care of one of life's essentials' and our culture reflects the social challenges that we face. We developed our Sustainability Framework to draw together our ESG ambitions, which form an integral part of our business plan that is deeply embedded within the organisation. Performance against the Sustainability Framework is reported on a quarterly basis to the Committee, in our Annual Report and Accounts, on our website and through selected ESG indices. You can read more in our standalone Sustainability Report, which will be available on the Severn Trent Plc website in June.

The Group's Remuneration Policy is designed with all stakeholders in mind and incentivise service delivery for our customers, society and the environment.

In 2021, the Company agreed the development of sustainability performance measures in the Long-Term Incentive Plan ('LTIP') with a weighting of 20%. In March 2022, we announced our commitment to 'Get River Positive' and directly linked our river pledges to our remuneration structures through including them in our Annual Bonus Plan for 2022/23. This year, the Board approved two new equally-weighted carbon measures for the 2023-26 LTIP aligning more closely to internationally recognised mechanisms such as the Science Based Target Initiatives for Scope 1, 2 and 3. These are: 'Direct Contributors to Carbon Reduction' and 'Innovation and Engagement for Carbon Reduction'. For the 2023 award, each of these has two components.

READ MORE: REMUNERATION

See pages 159

More information on how our Sustainability Framework and employee rewards are linked can be found on page 157 of the Directors' Remuneration Report.

Our culture ensures that we care about our customers and the broader communities that we serve. Many of our people live in these communities, which is why we are so committed to our new Societal strategy announced in November 2022. Our ambitious ten-year plan aims to address the underlying causes of poverty across the Midlands in a landmark scheme designed to help 100,000 people out of poverty. The scheme supports more people to help themselves and improve their life chances, through initiatives such as work experience, training and employability skills development, partnerships, mentoring and more.

READ MORE: SOCIETAL STRATEGY

See pages 32

This year we continued to test, at scale, how innovation can drive the reduction of our carbon footprint. Recognising the importance of early action, we recently announced an exciting partnership with Melbourne Water and Aarhus Vand Partners, working collaboratively to develop and test technologies that could reduce the carbon footprint of waste water treatment sites, share existing expertise, and establish new international standards for measuring and reporting emissions. This joint commitment looks to reduce carbon emissions by over a million tonnes and aims to lead the green transformation of the sector. I am encouraged by this collaborative approach to support our transition to net zero and embed circular economy principles so we can maximise the value from the material that is in our waste.

READ MORE: CASE STUDY

See pages 139

The Committee recognises that our sustainability ambitions are deeply rooted and owned across the whole Company. We are proud that our affordability approach won ESG Initiative of the Year at the Corporate Governance Institute Awards 2022, and were delighted to have been placed 58th by Corporate Knights as one of the world's most sustainable companies. In August 2022, we also achieved the 'Advancing' tier of Carbon Trust Route to Net Zero, a new certification that we piloted last year. These achievements underline our commitment to delivering excellence on the sustainability agenda. The Committee has a clear view of the focus areas for our sustainability journey, and both the Committee and Board are confident that we have the right aims and approach in place.

The Committee is authorised to seek external legal or other independent professional advice as it sees fit, but did not need to do so during the year.

The Committee is proud of the Company's many achievements over the last year, described within the Strategic Report on pages 2 to 99, and the work we have undertaken to positively impact communities within our region. Further detail on key matters, ambitions and achievements that the Committee has considered during the year are set out on the pages that follow, in addition to the areas of focus for 2023/24.

The increasing focus of stakeholders on the impact of climate change and other environmental issues has become evident in the Committee's workload. The Corporate Sustainability Committee plays a key role in the governance of environmental and climate-related reporting, including overseeing, in conjunction with the Audit and Risk Committee and supported by independent third-line assurance by Jacobs, the Group's TCFD disclosure.

I would like to thank the members of the Corporate Sustainability Committee for the open, constructive, ambitious and progressive discussions that take place at our meetings, and for their passion and personal commitment to our wide-ranging and purposeful agenda.

Tom Delay

Chair of the Corporate Sustainability Committee

23 May 2023



OUR TCFD DISCLOSURE

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business.

Our fifth TCFD disclosure can be found on pages 39 to 56.



NET ZERO HUB AT STRONGFORD



[WATCH OUR VIDEO](#)

Process emissions contribute significantly to our reduction challenge, accounting for around 83% of operational emissions. We aim to convert a large number of our sites to low carbon works, necessitating scale deployment of new technologies and alternative processes to reduce our process emissions. Our first pilot project in this area is to deliver a Net Zero hub at Strongford, working in partnership with others in the UK and internationally. Proving the value of this concept now will provide the basis for wider roll-out across our region in coming years.

Human rights and modern slavery

We are committed to protecting the human rights of our employees and contractors, as outlined in our Code of Conduct, Doing the Right Thing.

We have a responsibility to understand our potential impact on human rights and to mitigate potentially negative impacts. Whilst not having a specific human rights policy, we have a range of Group policies on Human Resources, Anti-Bribery and Anti-Fraud, Whistleblowing ('Speak Up') and Procurement, as well as a Modern Slavery Escalation and Remediation Policy and a separate Anti-Slavery and Human Trafficking Statement. We consider this approach goes above and beyond a human rights policy. Additionally, our Group policies are well embedded across the Group.

We know modern slavery is a growing global issue and our customers and other stakeholders share our concern, which is why we remain fully committed to protect against modern slavery in our business and supply chain. Our highest risk is within our supply chain and, as such, we work closely with our suppliers to ensure they operate to the same standards we set ourselves and ensure the risks involved in their own supply chains are understood and mitigated. All suppliers are required to sign up and operate in line with our Code of Conduct, which clearly sets out a zero-tolerance approach to modern slavery, and this requirement is built into our procurement tender process.

Our commitment to training colleagues, senior managers and Board members remains as strong as ever, and our partnerships with Slave-Free Alliance, the Supply Chain Sustainability School and Utilities Against Slavery help support this. We provide our employees with access to a wide range of learning resources, including dedicated modern slavery awareness training for all organisations within the Group's supply chain. Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website.

Freedom of association and collective bargaining

We recognise the right of all employees to Freedom of Association and Collective Bargaining. We seek to promote co-operation between employees, our management team and recognised Trade Unions. We meet with our Trade Unions on a quarterly basis at the Company Forum and see mutual benefit in sharing information with our colleagues and seek their feedback and suggestions. We believe this fosters a common understanding of business needs and helps to deliver joint solutions aimed at making our business successful. The Company Forum also provides an invaluable opportunity for engagement with the whole workforce to ensure their views are taken into account.

Responsible business practices are an integral part of our business strategy. Performance against our sustainability commitments is reported throughout our Annual Report and Accounts, reflecting their embedded nature in our Governance Framework. You can read more in our standalone Sustainability Report and on our dedicated sustainability webpages, which will be available on the Severn Trent Plc website in June.



KEY AREAS OF FOCUS AGAINST OUR SUSTAINABILITY FRAMEWORK IN 2022/23

COMMITTEE ACTIVITIES DURING 2022/23

SUSTAINABILITY ACHIEVEMENTS DURING 2022/23

LOOKING AHEAD TO 2023/24

TAKING CARE OF THE ENVIRONMENT

- Enhancing our natural environment
- Mitigating and adapting to climate change

- Oversaw environmental initiatives, including mitigating climate change through our Triple Carbon Pledge and Science-Based Targets.
- Agreed the approach to the Scope 3 Science-Based Target relating to supplier engagement and monitored its progress.
- Reviewed the Group's Modern Slavery Statement (the 'Statement'), including an updated risk assessment ahead of recommending the Statement for approval by the Board.
- Agreed the approach to our TCFD disclosure and updated our Net Zero Transition Plan.
- Oversaw publication of our Sustainability Report.

- Ensuring a sustainable water cycle
- Making the most of our resources

- Publish a short statement in the 2023 Sustainability Report of our intention regarding the Taskforce on Nature-related Financial Disclosures ('TNFD').
- Update our greenhouse gas reporting and Net Zero Transition Plan following substantive updates to national and international guidance.
- Review our wider Sustainability Report in light of the soon to be published Sustainability Standards Disclosure.
- Review our land strategy.
- Inclusion of key sustainability performance targets within PR24 plans.
- Evolution of Scope 3 Strategy.
- Further progression of delivery against our Net Zero Transition Plan.
- Consolidation of our approach to climate adaptation.

HELPING PEOPLE TO THRIVE

- Making a positive difference in the community
- Delivering an affordable service for everyone

- Engaged with Business in the Community, which provided external insight into emerging social inequality trends and challenges.
- Reviewed the Severn Trent Community Fund's progress since its launch in early 2020.
- Discussed our diversity and inclusion ambition and priorities for the next part of our journey. Read more about our Diversity and Inclusion Advisory Groups on pages 26 and 27.

- Investing in skills and knowledge
- Providing a fair, inclusive and safe place to work

- Continued support for our affordability schemes during the cost of living crisis.
- Greater level of customer insight to provide understanding of how we can best support their needs.
- Build on our Societal Strategy work, by working closely with schools and communities in hot spot areas.
- Leverage more support from partnerships.

BEING A COMPANY YOU CAN TRUST

- Living our Values
- Balancing the interests of all our stakeholders

- Reviewed sustainability performance reports – a quarterly update on all strategic elements to monitor our progress.
- Oversaw the Sustainability Framework and the external sustainability landscape to ensure sustainability-related risks are identified and appropriately mitigated. Read more about our Principal Risks on pages 75 to 78.
- Approved the approach to sustainability reporting to ensure that the sustainability ambitions we have embedded in our wider organisation strategy are shared with stakeholders.
- Approval of the Committee's Terms of Reference, along with a discussion on the purpose and expected remit of the Committee.
- Reviewed the Group's Governance Strategy ahead of recommending the Strategy for approval by the Board.

- Running our Company for the long term
- Being open about what we do and sharing what we know

- Ensure our PR24 submission reflects the growing needs of all our stakeholders.

DIRECTORS' REMUNERATION REPORT



Sharmila Nebhrajani
Chair



The Committee is fully aware of the unique nature of our business, being both a regional monopoly and an essential public service. We strive to ensure management is held to account through setting stretching targets and assessing performance in the round and over time, with **incentives that can only be achieved through the delivery of value for our stakeholders.**



All members of the Committee are Independent Non-Executive Directors of the Board, with the exception of Christine Hodgson (who was independent on appointment). Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Chief Executive, the Director of Human Resources, the Chief Financial Officer, other senior management and external advisers, may be invited to attend meetings as and when appropriate. None of these attendees are members of the Committee.



Documents available at severntrent.com
Gender and Ethnicity Pay Gap Report
Remuneration Policy
Charter of Expectations
Committee Terms of Reference

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Dear Shareholder

I am delighted to present my first Directors' Remuneration Report as Chair of the Remuneration Committee (the 'Committee'). I joined the Severn Trent Board in May 2020 and took over as Chair of the Committee from Philip Remnant in December 2022. On behalf of the Committee, I am pleased to provide an overview of both Executive Director and wider workforce remuneration for the financial year ended 31 March 2023.

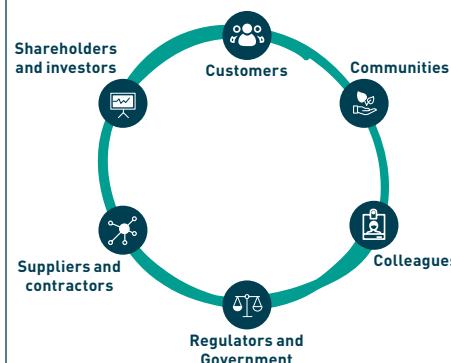
Over the next few pages, I set out how we are actively addressing and factoring in stakeholder expectations into our approach to Executive pay, for the benefit of our customers, colleagues, communities and shareholders alike.

In this letter, as well as setting out performance for the year under review and remuneration decisions for the year ahead, I focus on how the Committee takes into account broader stakeholder views when setting and determining our remuneration policy, structure and outcomes.

We are in no doubt that the issue of Executive pay has struck a powerful chord with the public and is understandably under scrutiny. There is also no doubt that water companies need to acknowledge this as a totemic issue and demonstrate robust principles and decision making on Executive pay.

REMUNERATION DESIGNED WITH STAKEHOLDERS IN MIND

OUR STAKEHOLDERS



Our Remuneration Policy is designed to deliver balanced outcomes for our stakeholders, driving long-term sustainable performance for the benefit of all groups. In overseeing remuneration outcomes, the Committee ensures that performance is assessed in the round and over time through a number of lenses, incorporating a variety of stakeholder perspectives. Page 148 provides more detail about how the Committee reviewed the formulaic bonus and Long-Term Incentive Plan ('LTIP') outcomes for 2022/23, taking into account broader aspects of the Company's performance.

Looking beyond the year in review, the Committee always considers the impact on broader stakeholder groups when making decisions on remuneration. The table overleaf shows the principles on which our Remuneration Policy is built to ensure stakeholders are considered.

Committee members	Member since	Meetings attended
Sharmila Nebhrajani (Chair from December 2022)	September 2021	5/5
Philip Remnant (Chair from March 2015 to November 2022)	March 2014 until November 2022	3/3
Kevin Beeston	November 2016	5/5
Christine Hodgson	January 2020	5/5
Gillian Sheldon	September 2022	3/3

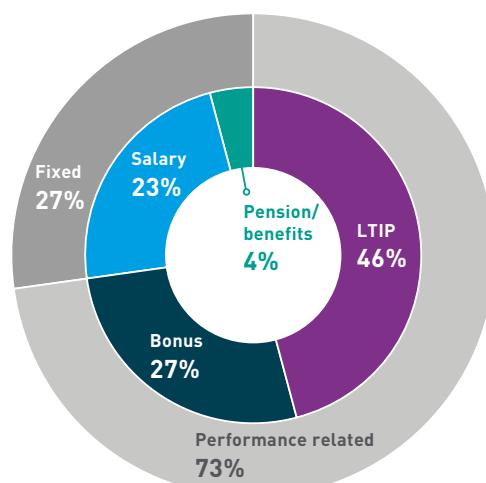
REMUNERATION DESIGNED WITH STAKEHOLDERS IN MIND

Remuneration Principle	How applied	Stakeholders who benefit
Strong alignment of remuneration	<ul style="list-style-type: none"> All of our people share in our success by participating in our all-employee bonus plan, ensuring employees are aligned with the same measures and rewarded for achieving our key objectives. The Company has real Living Wage employer accreditation and reviews salaries in this context. As of April 2022, Executive Director employer pension contributions are fully aligned to those of the wider workforce. All employees can participate in the Save As You Earn scheme, Sharesave, which attracts significant take-up rates with 73.4% of employees actively participating. All employees are eligible to participate in our flexible benefits scheme, which we believe is one of the best in the industry and is designed to support all aspects of physical, mental and financial wellbeing. See page 24 for our range of benefits. 	 
Health and safety	<ul style="list-style-type: none"> We take our commitment to keeping our employees safe and well very seriously and as a result we set stretching targets for this via a Lost Time Incidents ('LTI') measure which comprises 8% of the annual bonus. In 2022/23, the Company delivered its best ever health and safety performance, with a world-leading LTI rate of 0.11. 	  
Focus on long-term performance	<ul style="list-style-type: none"> 50% of Executive Directors' annual bonuses are awarded in shares that are deferred for three years and 100% of the LTIP is awarded in shares, which are subject to a two-year holding period post-vesting. All of the Company's incentive scheme rules contain malus and clawback provisions, allowing the Committee to reduce or recoup any past incentive payments from individual Executives if we later learn of information that was material to the incentive scheme outcome after the time of the award. Use of deferral mechanisms aids our ability to operate malus and clawback as required, though neither have been deemed necessary to date. Post-cessation shareholding requirements were introduced as part of the 2021 Remuneration Policy (the 'Policy') to reinforce the importance of sustainable long-term performance. 	  
Proportionate base pay	<ul style="list-style-type: none"> The Committee regularly assesses the position of base pay against other water and sewerage companies ('WaSCs') and similar listed companies with benchmark data provided by our external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). Cumulative Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') pay increases have been below both inflation every year since appointment and the cumulative increases applied to the wider workforce during the same period. Three-quarters of potential CEO pay is variable in nature (see chart below), based on stretching targets that are reviewed annually by the Committee. 	 
Assessment of performance in the round	<ul style="list-style-type: none"> When determining Executive pay outcomes, we do not simply follow the formulaic outcome of each performance measure but also undertake a thorough assessment of 'performance in the round' through several lenses. This assessment examines whether formulaic outcomes are appropriate in the context of overall business performance and service delivery for customers, the environment and wider stakeholders. 'Performance in the round' is also assessed by an independent market assessment report prepared for the Committee by PwC. 	     
Stretching targets	<ul style="list-style-type: none"> LTIP maximum outturn can only be achieved if Severn Trent's Return on Regulated Equity ('RoRE') performance is upper quartile ('UQ') relative to other WaSCs. We set stretching targets on the profitability component of the Annual Bonus Scheme ('ABS'), and the degree of stretch is shown by the fact that the overall outturn for this measure has only paid out once in full during AMP6 and AMP7. Customer Outcome Delivery Incentives ('ODI') bonus measures are split into three buckets to ensure the Company focuses on performing well across all measures, rather than prioritising a few. The Committee's insistence on stretching targets means that we have not paid out the maximum possible bonus during AMP7 to date, despite delivering sector-leading ODI performance. 	   
Focus on the environment	<ul style="list-style-type: none"> In 2021, we introduced a sustainability-based performance measure within the LTIP, with a weighting of 20%, with targets aligned to our Triple Carbon Pledge. In 2022, we created a specific section of the annual bonus for measures and targets linked to river health equating to 8% of the total bonus. This took the overall weighting of environmental measures from 12% to 20%. In 2023/24, the weighting of environmental measures in the bonus has been increased again from 20% to 30%. This was done primarily by increasing the river health weighting from 8% to 12%, and introducing a new EPA 4* measure worth 5%. 	  

Stakeholders key

-  Customers
-  Colleagues
-  Communities
-  Shareholder and investors
-  Suppliers and contractors
-  Regulators and Government

MAXIMUM CEO PAY UNDER THE REMUNERATION POLICY



Performance for the year under review

This year has been a challenging one for most businesses in the UK, and Severn Trent is no exception. Rising energy and chemical costs, coupled with one of the hottest summers on record, has tested the Company both financially and operationally. Notwithstanding the challenging backdrop, the Company has delivered a resilient set of results and maintained its focus on delivering for customers, caring for communities and colleagues, and nurturing the environment.

There can be no doubt that the cost of living crisis has affected many employees. The Committee was pleased to see the Company continuing to prioritise its duty of care to employees throughout the year. As well as being a real Living Wage employer, employees have access to a wide range of services and benefits designed to take care of all aspects of wellbeing; physical, mental and financial. For more details of how we are helping colleagues through the cost of living crisis, see the case study on page 157.

2022/23 bonus outcome

A consistent bonus design is operated throughout the organisation. When implementing the 2022/23 scheme, the Committee determined that it would continue to use the measures and weightings agreed with shareholders. Page 146 sets out details of the 2022/23 annual bonus outturn, which will pay out at 38.5% of maximum opportunity, compared to 81% in 2021/22. The payout for 2022/23 is equivalent to 46.2% of salary for both the CEO and CFO, versus 97.2% in 2021/22. The lower outturn is driven largely by lower performance against the PBIT measure, reflecting a significantly tougher operating environment, particularly the impact of higher energy and chemical costs. Whilst the overall outcome of our Customer and Environment ODI measures is below target and lower than last year, c.80% of measures are green, and we performed well against our health and safety targets, with a formulaic outcome just below maximum performance. 2022/23 was the first year of operation of our river health bonus measure and we achieved full vesting following excellent performance against our reduction in Combined Sewer Overflows ('CSO') activations and reduction in Reasons for Not Achieving Good Status ('RNAGS') targets.

LTIP vesting

The standard element of the 2020 LTIP award measures the Company's performance against RoRE set by Ofwat's Final Determination ('FD'). Over the three-year performance period of the 2020 LTIP, the Company achieved a RoRE of 1.95x against the target of 1.39x the base RoRE return.

This results in full vesting of the standard element of the 2020 LTIP award, which is equivalent to 75% of maximum for the total 2020 LTIP award for the CEO, and 66.7% of maximum for the CFO. The Committee has

reviewed the vesting of the award to consider potential windfall gains and concluded that, subject to final share price on vesting, there has not been any windfall gain. For more details on how the Committee assessed this, please see page 148.

Vesting under the UQ element of the 2019 LTIP award was only known at the end of July 2022 when comparable statistics for the other WasCs were published. This meant that the LTIP single figure value reported for 2021/22 did not include the UQ element of the 2019 LTIP award. We now know that Severn Trent achieved UQ performance, and therefore the UQ element of the 2019 LTIP award is included in the 2022/23 single figure for the CEO and CFO.

Assessment of performance in the round

In overseeing remuneration outcomes, the Committee ensures that performance is assessed in the round through a number of lenses, to incorporate a variety of stakeholder perspectives. This assessment examines whether formulaic incentive outcomes are appropriate in the context of overall business performance for customers, the environment and wider stakeholders. It also considers other factors, including regulatory investigations, environmental compliance beyond the measures contained in the incentive schemes, health and safety performance, treatment of the wider workforce and societal matters such as support for our local communities.

We have demonstrated again this year that we are one of the sector's leading performers:

- We are highly confident in achieving EPA 4* in the Environment Agency's annual assessment for the fourth consecutive year.
- c.80% of our ODI measures are green, including those that measure leakage, pollutions and water quality complaints.
- In November 2022 we launched our Societal Strategy, with the objective of helping up to 100,000 people in our region, giving them improved chances in life and tackling the underlying causes of poverty.

Further detail on the Committee's assessment of performance in the round is set out on page 148.

Following the Committee's assessment of these factors in the performance in the round, no discretion has been exercised to override the formulaic outturn of either the 2022/23 annual bonus or the standard element of the 2020 LTIP award.

The Committee believes that the outcomes of the annual bonus and LTIP are both appropriate and reflective of the Company's broader performance over their respective performance periods, and that the Policy has operated as intended.

Remuneration for the year ahead

The Committee considers all elements of Executive Director pay as well as reviewing wider workforce implications. Looking ahead

to 2023/24, the Committee has made the following decisions for the coming year:

Base salaries and fees

The Executive Director base salaries, Chair's fee, and Non-Executive Director base fees will increase by 3.0% in July 2023. Although negotiations with our Trade Unions for the wider workforce pay increase are ongoing at the time of publication, these rises are less than half of the current offer that has been tabled.

2023/24 bonus

Over the last year the focus on environmental performance of water companies has intensified, particularly in relation to how it links to Executive pay outcomes. Whilst the Committee is confident that we already have strong links between environmental performance and pay, with 20% of the existing annual bonus linked to environmental measures, we believe it is appropriate to go further and make the link between environmental performance and remuneration even stronger and more direct.

In April 2023, the Committee approved an increase to the weighting of the river health element from 8% to 12% and the creation of a specific section of the annual bonus for the 4* Environmental Performance Assessment ('EPA') rating equating to 5% of the total. This means that, from 2023/24, 30% of the annual bonus will be linked to measures relating specifically to environmental measures and river health.

The Committee shared these proposals with 30 of our largest shareholders, which are aligned with the Policy and will apply to our bonus structure from the 2023/24 financial year onwards. More detail can be found on page 157.

The maximum bonus opportunity will be 120% of salary for the Executive Directors, with performance conditions continuing to be consistent throughout the organisation.

2023 LTIP grant

The Committee has determined to make the grant on the normal timetable and to retain the existing RoRE and sustainability performance elements, with updated measures and targets for the sustainability element [see box on the next page, and page 151]. In April 2023, we shared these proposals with 30 of our largest shareholders to inform them of the evolution of the sustainability measures. These changes are within the remit of the current Policy, which will be reviewed and tabled for shareholder approval at the 2024 AGM.

The Committee will assess the value of the 2023 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

LTIP sustainability

As part of the 2021 Policy, we introduced a sustainability-based performance measure within the LTIP, with a weighting of 20%. The first LTIP awards with this measure were granted in June 2021.

Our LTIP sustainability framework focuses on two equally weighted areas, 'Direct Contributors to Carbon Reduction' and 'Innovation and Engagement for Carbon Reduction', and for the 2023 award each of these measures has two components, as follows:

Direct Contributors to Carbon Reduction

Scope 1 & 2 reduction

A Scope 1 & 2 reduction target is a natural evolution from measuring process emissions to delivering actual reduction. It continues the activity previously incentivised through the LTIP, including improving emissions measurement and electric or low-carbon vehicles. These actions and subsequent reductions will directly contribute towards our committed 46% reduction Science-Based Target ('SBT').

Self-generation of renewable energy

In light of the renewed ambition to push further on renewable energy investment for both economic, resilience and environmental purposes, this measure remains a fundamental driver of our credible carbon reduction journey.

Innovation and Engagement for Carbon Reduction

Roll-out of Net Zero hub

Process emissions contribute significantly to our reduction challenge, accounting for around 80% of operational emissions. Our aim is to turn a large number of our sites into net zero works, which will require new technologies and alternative processes.

We have made a commitment to deliver a Net Zero hub at one of our largest sites as a pilot project. The successful delivery of this will underpin the future roadmap to Net Zero by 2030 for the business and will lead the sector in delivery of scale improvements in process emissions in AMP8 and beyond.

Scope 3 supply chain engagement

Aligned to our own SBT, we have committed to engage a percentage of our suppliers to have set a SBT themselves by 2026. This engagement target for the supply chain is a key staging post on the journey to set that reduction pathway by 2026.

 For more detail on these measures, see page 151

Board changes

In February 2023, Severn Trent announced James Bowling's intention to retire as CFO and Executive Director. James has been instrumental in driving the success of Severn Trent since his appointment in 2015, and I know how much the Board and wider Company have valued his experience and counsel over the last eight years. I'd like to thank James on behalf of the Committee, and I wish him well for the future.

It was also announced that, following a rigorous internal and external search and selection process, our Capital and Commercial Services Director Helen Miles would succeed James as CFO. Helen was appointed as Executive Director of the Company on 1 April 2023, with the title of CFO Designate. James will remain an Executive Director and the CFO until the conclusion of the AGM on 6 July, at which point Helen, having completed a full handover process, will take on the responsibility. The Committee has determined that James will leave with 'good leaver' status, and is being treated in line with the Policy, as set out in more detail on page 151. The Committee considered the status of ongoing regulatory investigations and noted its ability to exercise its powers of malus and clawback if appropriate, once concluded.

Helen has been appointed on a salary of £480,000, and her wider remuneration package is in line with that of her predecessor, and the shareholder-approved Policy. Helen is a CFO of exceptional calibre, with a detailed understanding of the water sector, and I am delighted that she was appointed as James' successor.

Further detail on implementation of remuneration for all Executive Directors for 2023/24 can be found on pages 149 to 150.

We remain committed to maintaining an ongoing and transparent dialogue with our major shareholders and we will actively engage with each of them individually as the formal Policy review commences later in 2023. I hope that we can rely on your vote in support of our approach to remuneration. If you would like to discuss any aspect of this Report, I would be happy to hear from you. You can contact me through our Group Company Secretary.

Sharmila Nebhrajani OBE
Chair of the Remuneration Committee



KEY AREAS OF FOCUS IN 2022/23

Our workforce

- Considered Severn Trent Plc's 2022 gender and ethnicity pay gap statistics.
- Approved the outturn of the 2021/22 all-employee Annual Bonus Scheme.
- Reviewed and approved the 2022/23 all-employee Annual Bonus structure and targets.
- Conducted its annual assessment of the Company's workforce policies and practices and satisfied itself that these support its long-term sustainable success. The Committee reported to the Board on this matter.
- Considered the 2023/24 all-employee annual bonus structure.

Executive and senior management

- Approved the outturn of the LTIP awards granted in July 2019.
- Reviewed and approved the LTIP awards granted in July 2022.
- Considered the structure of the LTIP award to be granted in 2023.
- Reviewed and approved the remuneration package for Helen Miles, CFO Designate.
- Reviewed and approved the remuneration package for Steph Cawley, Director of Customer Operations.
- Reviewed and approved the remuneration package for Hannah Woodall-Pagan, Group Company Secretary.
- Reviewed and approved the leaver treatment for James Bowling, CFO.

Committee governance

- Reviewed and approved the 2021/22 Directors' Remuneration Report and agreed the framework for the 2022/23 Report.
- Considered Severn Trent's 2021/22 reward and performance alignment compared with WaSC peers.
- Considered an independent update, provided by PwC, on current market practice and future remuneration trends.
- Reviewed the expenses claim procedure for the Chair and CEO.
- Reviewed and approved the Committee's Terms of Reference, prior to making a recommendation to the Board. In completing its review, the Committee concluded that the Terms of Reference remained appropriate and reflected the manner in which the Committee was discharging its duties.

REMUNERATION AT A GLANCE

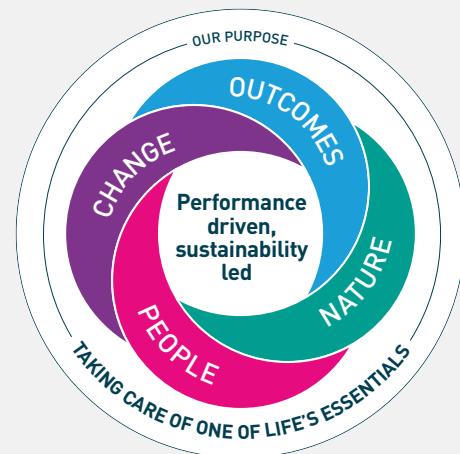
Strategic alignment of remuneration

The approach to remuneration across the Group is to ensure all our employees are rewarded and incentivised to deliver Severn Trent's performance driven, sustainability-led strategy. Delivering against this Strategy is critical to the creation of long-term value for our stakeholders: customers, communities, employees, shareholders, suppliers and contractors, and our regulators.

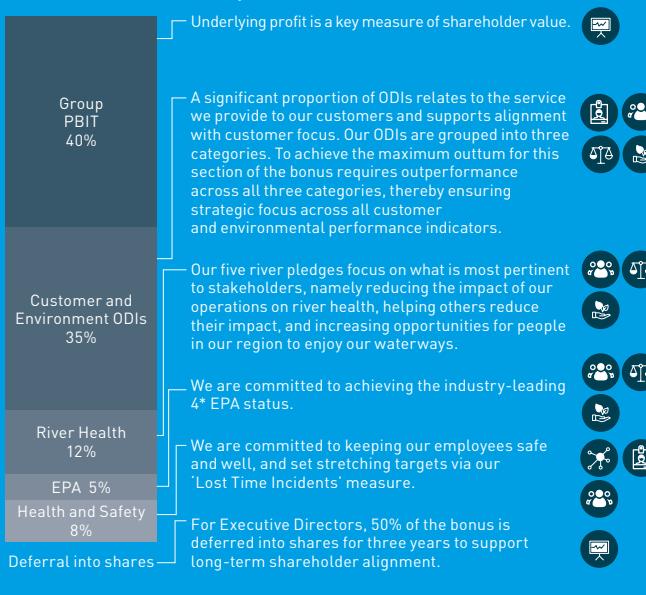
In determining the right performance measures for our incentive plans, the Committee seeks to strike a balance between short- and long-term financial, operational

and sustainability goals. As we are a long-term business, actions taken in a single year flow through to longer-term performance. We operate an Annual Bonus Scheme across the Group, which reflects our belief that all our employees play a part in the creation of value for our stakeholders.

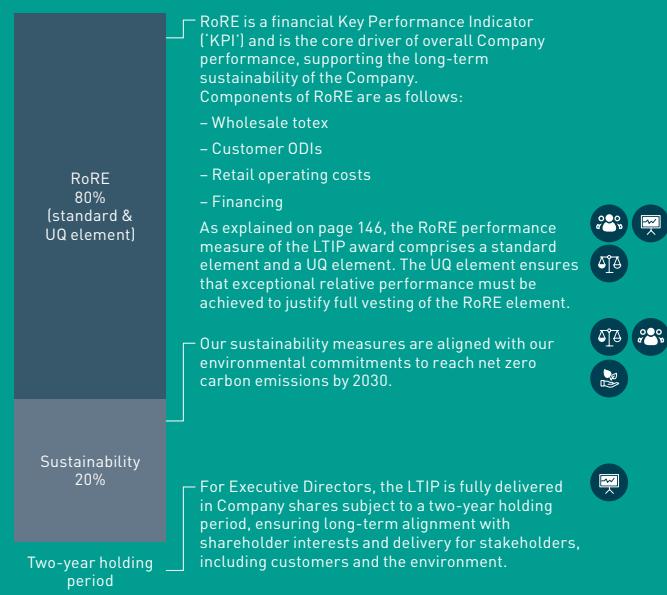
The diagrams below illustrate the performance measures that we use within our incentives and explain how the measures, together with the overall structure of incentives, help deliver the Group's financial, operational and sustainability goals.



2023/24 annual bonus plan



LTIP



Aspects of our Sustainability Framework	Link to ESG	Link to reward
Taking care of the environment	<ul style="list-style-type: none"> Ensuring a sustainable water cycle Enhancing our natural environment Making the most of our resources Mitigating and adapting to climate change 	<ul style="list-style-type: none"> E E E E <p>Annual bonus includes River Health measure, environmental ODIs and EPA rating</p> <p>Financing/Totex/ODI within RoRE in the LTIP</p> <p>Sustainability measure within the LTIP</p> <p></p>
Helping people to thrive	<ul style="list-style-type: none"> Delivering an affordable service for everyone Providing a fair, inclusive and safe place to work Investing in skills and knowledge Making a positive difference in the community 	<ul style="list-style-type: none"> S S S S <p>Alignment of Executive pension contributions</p> <p>All-employee bonus scheme</p> <p>Flexible benefits programme</p> <p>Sharesave scheme</p> <p>Gender and ethnicity pay gap reporting </p> <p></p>
Being a company you can trust	<ul style="list-style-type: none"> Living our Values Balancing the interests of all our stakeholders Running our Company for the long term Being open about what we do and sharing what we know 	<ul style="list-style-type: none"> G G G G <p>Purpose and Values co-created with employees</p> <p>Rewarding UQ RoRE performance in the LTIP</p> <p>Linking bonus and LTIP (RoRE) measures directly to Ofwat definitions</p> <p>Deferral of annual bonus into shares</p> <p>Malus/clawback provisions within variable pay</p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p>

REMUNERATION FOR THE YEAR IN REVIEW

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related and aligned to targets that deliver value for stakeholders.

The following section highlights the performance and remuneration outcomes for our Executive Directors for the year ended 31 March 2023, starting with the total single figure outcomes.

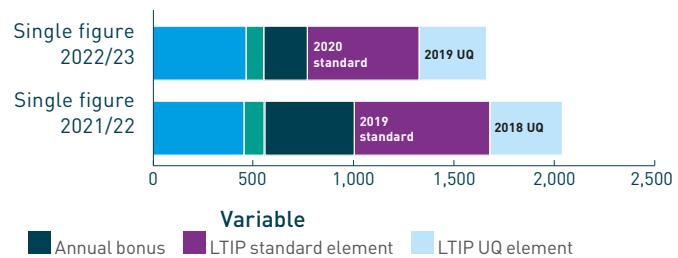
2022/23 single figure outcomes £'000

The graphs below show how the successful delivery of our Strategy has flowed through to the rewards provided to our Executive Directors. The full explanatory notes for each element of remuneration are detailed on page 160 in the Annual Report on Remuneration.

Liv Garfield – CEO



James Bowling – CFO



The single figure amounts in 2022/23 are 18.7% and 18.5% lower than 2021/22 for the CEO and CFO respectively, mainly due to the lower bonus outcome in 2022/23.

As part of the 2018 Policy review, the maximum potential remuneration of the Executive Directors was increased through the introduction of a new stretch UQ element within the LTIP. This change, which received overwhelming support from shareholders, saw the maximum LTIP opportunity increase from 150% to 200% of salary for the CEO and 100% to 150% of salary for the CFO.

In order to determine if the Company has achieved the stretch LTIP target, comparative data for the other WaSCs needs to be collated, verified and published by Ofwat. This process concludes in July each year, which is after the publication date of the Directors' Remuneration Report. The outcome of the LTIP UQ element will therefore always be published one year in arrears.

Comparative data published by Ofwat in July 2022 confirmed that the Company achieved UQ status and therefore the UQ element of the 2019 LTIP award vested, and is reported in the 2022/23 single figure as shown above.

For more detail on the single figure value, see page 160.

Annual bonus 2022/23 outturn

A summary of business performance is set out on pages 14 to 38 within the Strategic Report.

Bonus element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Outturn	Weighting	Outcome achieved
Group PBIT						
	£497.0m	£522.0m	£547.0m	£508.8m	49%	11.5%
Customer and Environment ODIs						
	£45.0m	£55.0m	£65.0m	£35.5m ⁽ⁱⁱ⁾	35%	12.0%
Health and Safety⁽ⁱⁱⁱ⁾						
	0.18	0.14	0.10	0.11	8%	7.0%
River Health⁽ⁱⁱⁱ⁾						
	0%	50%	100%	100%	8%	8.0%
Total					100%	38.5%

(i) Our ODIs are grouped into categories as detailed on page 157. The outcome achieved reflects in-year performance across all three ODI categories, and the outturn represents significant outperformance in one of the three categories. Total reported ODIs of £53m also include £17.5m of end of AMP ODIs for work and milestones already delivered.

(ii) Measured as number of Lost Time Incidents divided by number of hours worked multiplied by 100,000.

(iii) Measured by specific River Health deliverables, see below for more detail.

River Health

The below chart is a breakdown of the River Health element of the bonus, shown in the chart above.

River Health element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Outturn	Weighting	Outcome achieved
Reduction in Combined Sewer Overflows ('CSO') activations	24.4	23.7	23.0	18.4	4%	4.0%
Reduction in Reasons for Not Achieving Good Status ('RNAGS')	50	70	90	90	4%	4.0%

The 4% relating to RNAGS is underpinned by a binary bathing river quality milestones measure. This was achieved in full.

Bonus opportunity and outcome

Performance measures and weightings in the annual bonus arrangements at Severn Trent are consistent throughout the organisation. Following the Committee's assessment of performance in the round, no discretion has been exercised by the Committee to override the formulaic outcomes of the 2022/23 annual bonus, and therefore will pay out at 38.5% of maximum opportunity, compared to 81% in 2021/22. This is equivalent to 46.2% of salary for both the CEO and CFO, compared to 97.2% in 2021/22.

	2022/23 salary (£'000) ⁽ⁱ⁾	Bonus opportunity (% salary)	Bonus outcome (% max)	Annual bonus (£'000)	Value of cash bonus (£'000)	Value of deferred shares (£'000) ⁽ⁱⁱ⁾
CEO	776.3	120%	38.5%	358.8	179.4	179.4
CFO	467.8	120%	38.5%	216.2	108.1	108.1

(i) Bonus calculated using salary as at 31 March 2023.

(ii) Value of bonus deferral shares is 50% of the total bonus value.

2019 and 2020 LTIP award vesting for performance levels (as a % of salary)

RoRE, which captures a range of measures such as totex, financing and Customer ODIs, continues to be our primary LTIP measure, with a weighting of 80%. RoRE is assessed over a three-year period so that the focus is on long-term performance.

The table below shows the 2019 and 2020 LTIP award vesting schedule for performance levels as a percentage of salary:

	Threshold FD	1.39x FD	UQ RoRE performance relative to WaSCs
CEO	37.5%	150.0%	200.0%
CFO	25.0%	100.0%	150.0%

2020 LTIP standard element

The standard element of the 2020 LTIP award measures the Company's performance against RoRE set by Ofwat's FD. Over the three-year period of the 2020 LTIP, the Company achieved a RoRE of 1.95x against the target of 1.39x the base RoRE return.

Based on the performance levels set out above, this results in full vesting of the standard element of the 2020 LTIP award, which is equivalent to 75% of maximum for the total 2020 LTIP award for the CEO, and 66.7% of maximum for the CFO.

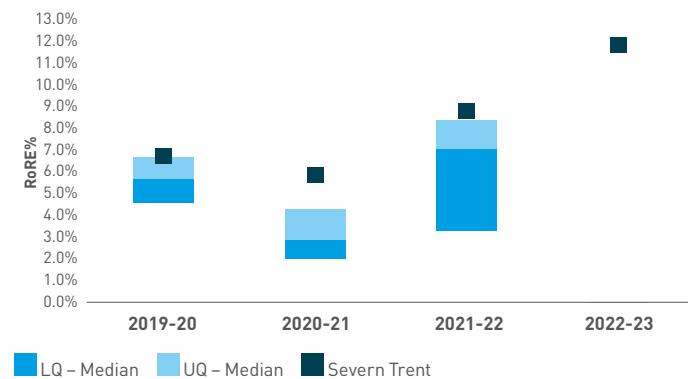
The graph below sets out Severn Trent's RoRE performance relative to the other WaSCs across the performance period of the 2019 LTIP, as well as Severn Trent's 2022/23 performance.

2019 LTIP UQ element

Vesting under the UQ element of the 2019 LTIP award was only known at the end of July 2022 when comparable statistics for the other WaSCs were published and provided to Ofwat. We now know that Severn Trent achieved UQ performance, and therefore the UQ element of the 2019 LTIP award is included in the 2022/23 single figure for the CEO and CFO.

No discretion has been exercised by the Committee to override the formulaic outturns of either the 2019 LTIP award, or the standard element of the 2020 LTIP award.

Severn Trent RoRE performance



Breakdown of the LTIP single figure value

The LTIP single figure amounts include share price appreciation between grant and vesting, as well as any dividend equivalents.

For 2022/23, the reportable LTIP figures are the standard element of the 2020 LTIP award and the UQ element of the 2019 LTIP award. For 2021/22, the reportable LTIP figures are the standard element of the 2019 LTIP award and the UQ element of the 2018 LTIP award.

The table to the right shows the comparative value of the standard elements of the 2020 and 2019 LTIP awards, plus the value of the UQ element of the 2019 and 2018 LTIP awards included in the single figures:

	CEO		CFO	
	2021/22	2022/23	2021/22	2022/23
Standard element	1,679	1,385	675	557
UQ element	622	560	361	337
LTIP total in single figure values (£'000s)	2,301	1,945	1,036	894

For more detail on the share price appreciation and dividend equivalents, see page 162.

DIRECTORS' REMUNERATION REPORT CONTINUED

Assessment of performance in the round

In overseeing remuneration outcomes, the Committee ensures that performance is assessed in the round and over time through a number of lenses, incorporating a variety of stakeholder perspectives. In reviewing the formulaic bonus and LTIP outcomes, the Committee took into account the following broader aspects of the Company's performance:

- Environmental performance – we are highly confident in achieving EPA 4* in the Environment Agency's annual assessment, for the fourth consecutive year. We have also made excellent progress in the first year on our Get River Positive river pledges.
- Customer experience – there were two significant weather-related events, with the hot weather over the summer and the freeze-thaw event in December. Because of the learnings from events in 2018 and the proactive measures we put in place, we delivered a marked improvement in our performance.

- Societal impact – In addition to the launch of our Societal Strategy, in 2022/23, the Severn Trent Community Fund has awarded over £2m to good causes across our region, benefiting over one million Severn Trent customers. As part of the #10000BlackInterns programme, we had 61 placements last year, with 44% of those gaining employment following their placement with us.
- Wider workforce experience – Employee engagement increased to our highest ever score in November 2022, which now places us in the top 5% of energy and utilities companies globally. There have been no redundancy or furlough programmes in the year, and eligible employees will receive a bonus in 2022/23.
- Windfall gains – At the time of the 2020 LTIP grant, the Committee reviewed the grant price of £23.97 compared to that of the 2019 LTIP of £20.40, and was satisfied that no adjustments were required on grant for windfall gains due to the increase in share price since the 2019 LTIP grant, noting that the Company's share price

had been less impacted by COVID-19 than many other companies. The Committee also noted that it would assess the value of the 2020 LTIP at vesting to ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains. The Committee has reviewed the Company's share price performance over the performance period and is satisfied that, subject to the final share price on vesting, no windfall gains have occurred.

The Committee considered the status of ongoing regulatory investigations and noted its ability to exercise its powers of malus and clawback if appropriate, once concluded.

The Committee further confirms that it has considered the Company's wider performance in the round and has concluded that it would not be appropriate to override the formulaic outcomes of either the 2020 LTIP or the 2022/23 annual bonus.

Executive Director shareholdings

The CEO and CFO have exceeded the shareholding requirements applicable in 2022/23 of 300% and 200% of salary, respectively.

Shareholding requirement

The Executive Directors have built significant shareholdings during their employment with the Company and have retained (except in the case of statutory tax and National Insurance deductions) all Company shares acquired as a result of discretionary awards vesting or options being exercised under the Company's share plans. The Executive Directors have also increased their shareholdings further through personal share purchases.

The minimum shareholding requirement for Executive Directors, and the current share interests of the Executive Directors, take into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance. The chart below sets out the minimum shareholding requirements and the shareholdings of the Executive Directors. The shareholding requirement must be built up over five years and then subsequently maintained.

All calculations in the chart below use a closing share price on 31 March 2023 of £28.79.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 163.

Executive Director shareholdings % of base salary



(i) Represents beneficially owned shares as well as shares held in trust as part of the annual bonus deferred share awards (of which 47% are deducted to cover statutory deductions).

(ii) Represents 2020 LTIP shares (where the performance period is now complete) which are subject to an ongoing vesting period and a two-year holding period post-vesting, plus shares held as part of the Sharesave Scheme.

(iii) Represents the 2021 and 2022 LTIP awards which are subject to ongoing performance.

Overall link to remuneration and equity of the Executive Directors

As a Committee, we want to incentivise the Executive Directors to take a long-term, sustainable view of the performance of the Company. This is why, when we look at the remuneration paid in the year, we also look at the total equity they hold and its value based on the performance of the Company.

The table sets out the number of shares beneficially owned by the Executive Directors at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year.

	2022/23 single figure (£'000)	Shares held at the start of the year	Shares held at the end of the year	Value of shares at start of the year (£'000) ⁽ⁱⁱ⁾	Value of shares at end of the year (£'000) ⁽ⁱⁱⁱ⁾	Difference
CEO	3,209.3	283,423	332,898	8,723.8	9,584.1	860.4
CFO	1,662.3	98,901	122,579	3,044.2	3,529.0	484.9

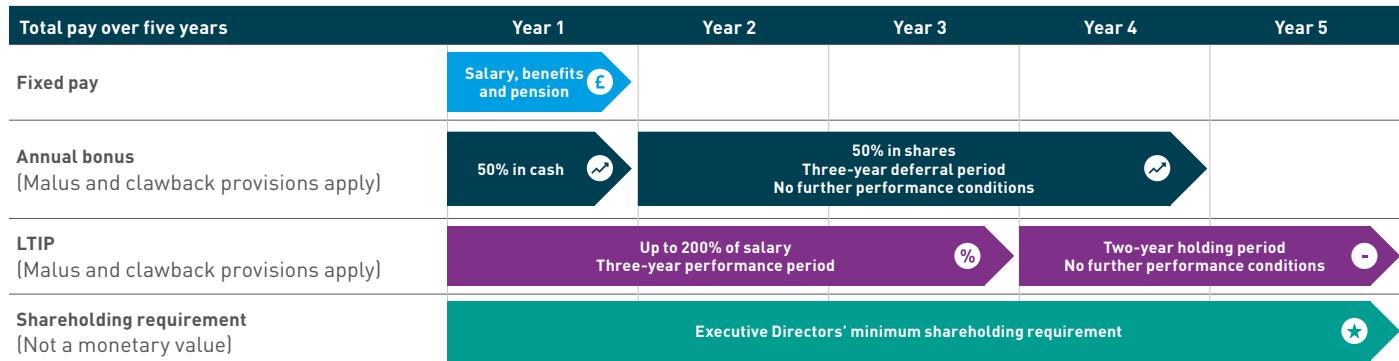
(i) Based on a closing share price on 31 March 2022 of £30.78.

(ii) Based on a closing share price on 31 March 2023 of £28.79.

SUMMARY OF REMUNERATION POLICY AND IMPLEMENTATION

The Company's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Severn Trent, aligned with stakeholder interests.

The tables below illustrate the balance of pay and time period of each element of the Policy for Executive Directors. In addition, the table below sets out how the Policy elements are aligned with the factors set out in Provision 40 of the 2018 UK Corporate Governance Code ('the 2018 code'). Full details of the 2021 Policy can be found on the Severn Trent Plc website or on pages 145 to 153 of the 2021 Directors' Remuneration Report.



Policy element	Purpose, operation and opportunity levels	How we plan to implement the Policy in 2023/24	Alignment with Provision 40 of the 2018 Code						
Fixed pay elements									
Base salary 	<p>To recruit and reward Executive Directors of a suitable calibre for the role and duties required. Salaries are normally reviewed annually and increases normally take effect from 1 July. Set with reference to:</p> <ul style="list-style-type: none"> - individual performance; - experience and contribution; - developments in the relevant employment market; - company performance and affordability; - wider economic environment; and - internal relativities. <p>Any increase will generally be no higher than the average increase for the workforce. Higher increases may be proposed in the event of a role change or promotion, or in other exceptional circumstances.</p>	<p>A salary increase of 3.0% will be applied at the salary review date, with the exception of the CFO Designate whose salary was set on appointment on 1 April 2023.</p> <p>From 1 July 2023, Executive Director salaries will be:</p> <table> <tbody> <tr> <td>CEO</td> <td>£799,600</td> </tr> <tr> <td>CFO</td> <td>£481,900</td> </tr> <tr> <td>CFO Designate</td> <td>£480,000</td> </tr> </tbody> </table> <p>Although negotiations with our Trade Unions for the wider workforce pay increase are ongoing at the time of publication, these rises are less than half of the current offer that has been tabled.</p>	CEO	£799,600	CFO	£481,900	CFO Designate	£480,000	<p>Proportionality There is a reasonable balance between fixed pay and variable pay, and variable pay is weighted to long-term performance.</p> <p>Clarity Base salaries are competitive against companies of a similar size and complexity.</p> <p>Alignment with culture Base salary increases generally aligned to the average increase for the UK wider workforce. Pension rates for Executive Directors are aligned with the rate offered to the majority of the wider workforce.</p>
CEO	£799,600								
CFO	£481,900								
CFO Designate	£480,000								
Benefits 	<p>To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors.</p> <p>Benefits typically include green travel allowance, family level private medical insurance, life assurance, personal accident insurance, health screening, an incapacity benefits scheme and other incidental benefits and expenses.</p> <p>The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.</p>	Normal Company benefit provision.							
Pension 	<p>To provide pension arrangements comparable with similar companies in the market to enable the recruitment and retention of Executive Directors.</p> <p>A defined contribution scheme and/or cash supplement in lieu of pension.</p> <p>For current Executive Directors, the Company contribution and/or cash allowance is 15% of salary. This aligns pension contribution quantum for all Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Personal Pension (the majority of the wider workforce).</p> <p>For any new recruit, the contribution will be up to a maximum of 15% of salary.</p>	<p>Executive Director pension arrangements are as follows:</p> <table> <tbody> <tr> <td>CEO</td> <td>15% of salary</td> </tr> <tr> <td>CFO</td> <td>15% of salary</td> </tr> <tr> <td>CFO Designate</td> <td>15% of salary</td> </tr> </tbody> </table>	CEO	15% of salary	CFO	15% of salary	CFO Designate	15% of salary	
CEO	15% of salary								
CFO	15% of salary								
CFO Designate	15% of salary								

SUMMARY OF REMUNERATION POLICY AND IMPLEMENTATION CONTINUED

Policy element	Purpose, operation and opportunity levels	How we plan to implement the Policy in 2023/24	Alignment with Provision 40 of the 2018 Code
Variable pay elements			
Annual bonus	To encourage improved financial and operational performance, and to align the interests of Executive Directors with shareholders through the partial deferral of payment into shares.	Performance measures (as a % of maximum): Group PBIT – 40% Customer and Environment ODIs – 35% River Health – 12% Health and Safety – 8% EPA – 5%	Clarity Variable remuneration is based on supporting the successful implementation of the Company's strategy measured through KPIs which are used for the annual bonus and LTIP.
Up to 120% of salary	Bonuses are based on financial, operational, customer, and environmental performance. Performance measures and targets are selected annually and no more than 20% of the bonus will relate to personal contribution. 50% of the bonus is paid in cash and 50% is deferred into 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. Malus and clawback mechanisms apply for three years from the payment of the cash bonus or the grant of deferred shares. Maximum award of 120% of salary for the CEO, CFO and CFO Designate. The CFO's 2022/23 annual bonus will be pro-rated for time in role. For threshold performance, 0% of maximum opportunity will be paid. For target performance 50% of maximum opportunity will be paid.	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 next year's Directors' Remuneration Report.	Simplicity Defined limits on the maximum awards which can be earned. Variable remuneration focuses on long-term sustainable performance, including the Company's environmental ambitions. Risk The Policy ensures there is sufficient flexibility to adjust bonus and LTIP payments through malus and clawback and an overriding discretion to depart from formulaic outcomes.
50% paid in cash			Predictability Shareholders are given full information on the potential values which can be earned under the annual bonus and LTIP.
50% deferred			Proportionality Incentive plans clearly reward the successful implementation of the Strategy and our environmental ambitions, and through deferral and measurement of performance over a number of years to ensure that the Executives have a strong drive to ensure that the performance is sustainable over the long term.
LTIP	To encourage strong and sustained improvements in financial performance, in line with the Company's Strategy and long-term shareholder returns. Awards are granted annually and are subject to one or more performance conditions assessed over a three-year performance period. Awards made to Executive Directors are subject to a two-year holding period post-vesting which continues to operate post-cessation of employment. Malus and clawback mechanisms apply within three years of vesting. The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting. Maximum award opportunity up to 200% of salary. Up to 25% of the LTIP award may vest for threshold performance.	Grant levels: CEO – 200% of salary CFO Designate – 150% of salary The 2023 LTIP awards will be based on the following performance measures: – 80% of the maximum LTIP award based on RoRE and will require the Company's RoRE to outperform the target set out in Ofwat's FD and, for full vesting, to deliver upper quartile relative performance compared with other WaSCs. – 20% of the maximum LTIP award based on measures relating to Severn Trent's sustainability framework. See page 151 for detail on LTIP awards to be granted.	Alignment with culture A key principle of the Company's culture is a focus on customers and their experience; this is reflected directly in the type of performance conditions used for the bonus. The focus on ownership and long-term sustainable performance is also a key part of the Company's culture.
Other policy elements			
All-employee share plans	To encourage widespread employee share ownership to enable employees to share in the success of the business. 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.	In line with all employees.	Alignment with culture All-employee share plans support a culture of share ownership and align employee interests with the long-term sustainable performance of the Company.
Up to £500 per month for 3 or 5 years			
Shareholding requirement	To encourage strong shareholder alignment both during and after employment with 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 requirement has been met. A post-employment shareholding requirement applies to Executive Directors who leave the Company. Leavers will have a requirement to maintain their in-employment shareholding requirement [or actual shareholding, if lower] for two years following cessation of employment. This requirement applies to shares acquired under share plan awards granted following approval of the 2021 Policy.	CEO – 300% of salary CFO – 200% of salary CFO Designate – 200% of salary Post-employment shareholding requirement applies. See pages 148 and 163 for further details on shareholding requirements and outstanding share awards.	Risk Incentives are primarily paid in shares which must be retained until minimum shareholding requirements have been met. Post-employment shareholding requirement further increases the exposure of Executive Directors to the share price after leaving the Company.

LTIP awards to be granted in 2023

The table below describes how the LTIP will be implemented in 2023. As per the 2022 award, 80% of the maximum LTIP opportunity will be based on RoRE and 20% will be based on sustainability measures. The awards will be 200% and 150% of salary respectively for the CEO and CFO Designate, in line with the awards made to the CEO and CFO in 2022. James Bowling will not be granted an LTIP award in 2023. Both the RoRE and sustainability performance conditions will be measured over three years, to 31 March 2026, and corresponding vesting (as a % of salary) will be:

Operation	Award recipient	RoRE measure		UQ RoRE performance relative to WaSCs (% salary)	Sustainability performance measure (% salary)	Max outturn (% salary)
		Threshold FD (% salary)	1.39x FD (% salary)			
Vesting for performance	CEO	30%	120%	160%	40%	200%
	CFO Designate	20%	80%	120%	30%	150%

The table below breaks the sustainability performance measure down into two equally weighted areas, 'Direct Contributors to Carbon Reduction' and 'Innovation and Engagement for Carbon Reduction', setting out the four components and corresponding vesting (as a % of salary).

	Direct Contributors to Carbon Reduction		Innovation and Engagement for Carbon Reduction	
	Scope 1 & 2 reduction (% salary)	Self-generation (% salary)	Roll-out of Net Zero hub (% salary)	Scope 3 supply chain engagement (% salary)
CEO	10%	10%	10%	10%
CFO Designate	7.5%	7.5%	7.5%	7.5%

The performance targets/milestones for the 2023 award will be as follows:

Direct Contributors to Carbon Reduction (10%)	
Scope 1 & 2 reduction	Achieving a cumulative reduction in our Scope 1 & 2 emissions of 30% against a 2019/20 baseline (of 508.4 kT) by 31 March 2026.
Self-generation	Achieving an outturn of 137 GWh additional generation from the 2019/20 baseline of 486 GWh, enabling a minimum total renewable generation of 623 GWh by 31 March 2026.
Innovation and Engagement for Carbon Reduction (10%)	
Roll-out of Net Zero hub	Achieving a cumulative reduction in Scope 1, 2 and 3 emissions by 15 kT by 31 March 2026.
Scope 3 supply chain engagement	To have suppliers representing 70% of our Scope 3 emissions committed to a Science-Based Target at 31 March 2026.

The Committee will assess the value of the 2023 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

Chair and Non-Executive Directors' fees (audited)

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders at the Annual General Meeting following the annual Board Effectiveness evaluation process. The current Letters of Appointment are available on the Severn Trent Plc website.

From 1 July 2023, Non-Executive Director fees will be increased by 3.0% from £60,460 to £62,300, and the Chair's fee will be increased by 3.0% from £314,000 to £323,500. Although negotiations with our Trade Unions for the wider workforce pay increase are ongoing at the time of publication, these rises are less than half of the current offer that has been tabled. The current fee levels, and those for the future financial year, are set out in the table below.

Operation	Fees 2022/23	Fees 2023/24	Increase %
Chair's fee	£314,000	£323,500	3.0%
Fee paid to all Non-Executive Directors	£60,460	£62,300	3.0%
Supplementary fees:			
- Senior Independent Director	£15,350	£15,815	3.0%
- Audit and Risk Committee Chair	£17,390	£17,920	3.0%
- Corporate Sustainability Committee Chair	£15,350	£15,815	3.0%
- Remuneration Committee Chair	£17,390	£17,920	3.0%
- Treasury Committee Chair	£16,370	£16,865	3.0%

CFO leaver treatment

James Bowling will be retiring from the Company in December 2023, and his remuneration arrangements will be treated in line with the shareholder approved Policy. He will not receive any compensation for loss of office, but as a retiree he will be treated as a good leaver in relation to his outstanding incentive awards. His bonus for 2023/24 will be pro-rated and paid in cash and he will retain original vesting dates for ABS deferred awards. He will not be awarded an LTIP in 2023, and his in-flight LTIP awards will vest in line with the normal timeline, pro-rated to his termination date and maintaining the two-year holding period. His two-year Post Employment Shareholding Requirement ('PESR') period will commence in July 2023, once he steps down from the Severn Trent Plc Board.

COMPANY REMUNERATION AT SEVERN TRENT

This section sets out the steps we take to make sure that our pay and reward framework is transparent and fair, beyond Executives and senior management, in a way that is meaningful and useful.

The table to the right sets out details of how the cascade of the reward framework applies across different levels within the organisation combined with a summary of the information which the Committee has received as part of its annual review process.

Pay and alignment across the business

Alongside our thriving culture and inclusive working environment, our reward framework is designed to attract, motivate and retain people who are inspired by Severn Trent's Purpose, and who live our Values every day.

Our reward package recognises the great performance of our employees, as we deliver our essential service to customers across the region, and is designed to reward all colleagues fairly throughout the organisation. The terms and conditions from which our employees benefit evolve in line with external practice and new initiatives from within Severn Trent. We pride ourselves on keeping pace with the focus on the future of work, talent management and acquisition, to motivate, develop and retain a positive working environment and culture.

This section of the report covers:

Pay and alignment across the business

Pay comparisons:

- CEO pay ratios; and
- Gender and ethnicity and pay gap reporting

Eligibility	Number of employees covered	Remuneration element
All employees		€
		Salary
		+
		Benefits
		+
		Pension
	7,939 <small>(as at 31 March 2023)</small>	↗
		Annual bonus
		Sharesave
Management and senior management	421	%
		LTIP A proportion of this population participate in the LTIP by annual invitation
Executive Directors and Executive Committee	9	Shareholding requirement as a % of salary CEO – 300% CFO – 200% Executive Committee – 100%
Our supply chain		

Details	Committee focus areas	Implementation at Severn Trent
Salaries are set to reflect the market value of the role, and to aid recruitment and retention. Employees who are not on a training rate of pay (such as apprentices) receive at least the voluntary real Living Wage. We also monitor closely the rates of pay of people who are training with us to make sure they remain fair and competitive.	<ul style="list-style-type: none"> - Date of annual increase across all employee groups. - Wider workforce increases versus the senior Executive population. - Differences across employee groups. 	<ul style="list-style-type: none"> - The average annual salary increase across the workforce in 2022/23 was 2.3%. - Annual pay reviews are effective in July for all employee groups. - The Company has real Living Wage employer accreditation and reviews salaries in this context. - Enhanced visibility on salary ranges within the organisation to enable fairness and transparency.
All employees are eligible to participate in our flexible benefits scheme which we believe is one of the best in the industry and is designed to support physical, mental and financial wellbeing.	<ul style="list-style-type: none"> - Types of benefits. - Eligibility across levels. 	<ul style="list-style-type: none"> - A consistent approach is applied across the business for benefits.
<p>We offer a market-leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary).</p> <p>When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives.</p> <p>We are proud that 99% of our employees are members of the pension scheme and of those, 60% pay contributions above the minimum of 3%.</p>	<ul style="list-style-type: none"> - Employer pension contributions across the workforce. - Comparisons of wider workforce pension to Executive pensions. 	<ul style="list-style-type: none"> - The majority of employees are eligible to participate in the Severn Trent Group Personal Pension. - Employer pension contributions for Executive Directors are aligned with the maximum 15% contribution available to members of the Severn Trent Group Personal Pension (the majority of the workforce).
All of our people share in our success by participating in our all-employee bonus plan, ensuring all employees are aligned with the same measures and rewarded for achieving our key objectives.	<ul style="list-style-type: none"> - Bonus design across different populations. - Details of performance measures and targets. - Outturn during the year. 	<ul style="list-style-type: none"> - A consistent design is operated throughout the business. - At all levels performance outcomes are measured against the same metrics (see page 145). - An individual performance multiplier is in place across management grades informed by our Inspiring Great Performance ('IGP') outcomes. - Our frontline colleagues and team managers benefit from an all-company fixed bonus payment. - Bonus opportunities vary by grade. - We also operate some sub-schemes in Business Services, to reflect specific business needs. - Malus and clawback provisions are in place.
<p>Offering the opportunity to participate in our Sharesave Scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also aligning participants with shareholder interests.</p> <p>Our Sharesave Scheme gives employees an opportunity to save from £5 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.</p>	<ul style="list-style-type: none"> - Participation rates. 	<ul style="list-style-type: none"> - All Severn Trent Plc employees can participate in the Save As You Earn scheme – Sharesave. - There is a significant take-up of this benefit with 73.4% of employees actively participating.
The LTIP reinforces delivery of long-term creation of value and sector outperformance and progress towards our net zero ambitions. The retention of shares by Executive Directors for the longer-term also supports a shared ownership culture in the Group.	<ul style="list-style-type: none"> - Eligibility. - Cost. - Dilution. - Details of performance measures and targets. 	<ul style="list-style-type: none"> - Eligibility is reviewed annually. - The LTIP is available to Executive Directors, the Executive Committee and some members of senior management. - The performance period is three years, with 80% based on RoRE performance and 20% on sustainability measures. The Executive Directors are subject to an additional two-year post-vesting holding period for awards granted from 2018 onwards. - LTIP opportunities vary by role from 25% of salary to 200% of salary. - Executive Directors have a UQ stretch performance target. - Malus and clawback provisions are in place.
Supports alignment of Executives' interests with shareholders.	<ul style="list-style-type: none"> - Eligibility. - Requirements versus actual shareholdings. 	<ul style="list-style-type: none"> - Shareholding requirements are in place for the Executive Directors and Executive Committee. - A post-employment shareholding requirement was introduced for Executive Directors as part of the 2021 Policy.
<p>All colleagues across Severn Trent are paid in line with the real Living Wage, for which we hold accreditation.</p> <p>We expect this of all new contracts within our supply chain and detail this within our Sustainable Supply Chain Charter.</p>		

COMPANY REMUNERATION AT SEVERN TRENT CONTINUED

The relationship between the remuneration of the CEO and all employees

The Company's approach to remuneration is consistent for all employees, as outlined on pages 152 and 153 and in our 2021 Policy, which can be found on the Severn Trent Plc website.

The table below shows how the CEO's total single figure of remuneration compares with the equivalent figures for employees occupying the 25th, 50th and 75th percentiles.

We have chosen Option A under the Regulations for the calculation, which takes into consideration the full-time equivalent basis of all employees and provides a representative result of employee pay conditions across the Company.

Total pay and benefits for all have been calculated as at 31 March 2023, in accordance with the single figure methodology, and are based on full-time equivalent pay and benefits. We have not omitted any pay elements from the calculation. The median CEO ratio is consistent with the pay and progression policies for the Company's UK employees as a whole.

CEO pay ratio

CEO	2020	2021	2022	2023 ⁽ⁱⁱⁱ⁾
Total single figure (£'000) ⁽ⁱ⁾	2,765.1	3,084.0	3,948.4	3,209.3
Annual bonus payment level achieved (% of maximum opportunity)	74.0%	63.8%	81.0%	38.5%
LTIP vesting level achieved (% of maximum opportunity) ⁽ⁱⁱ⁾	100%	100%	100%	75%
Ratio of CEO's single total remuneration figure shown:				
- To employee at the 25th percentile	84.5	92.8	116.0	93.7
- To employee at the 50th percentile	65.7	72.3	90.8	73.1
- To employee at the 75th percentile	53.9	59.8	75.3	60.7
Ratio of CEO's single total remuneration figure shown to the median Executive Committee member:				4.2

(i) Figures for 2022 have been restated to reflect the updated 2019 LTIP values based on the share price at the date of vesting and include dividend equivalents in respect of vested shares.

(ii) The value of the UQ element of the 2019 LTIP award for 2021/22 could not be measured until July 2022, and is therefore included in the total remuneration value for 2023. The value of the 2020 LTIP award for 2022/23 is based on the Committee's assessment of the standard element of the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD, plus the UQ element of the 2019 LTIP. The UQ element of the 2020 LTIP cannot be measured until the end of July 2023; such vesting, if any, will therefore be disclosed in the 2023/24 Directors' Remuneration Report.

(iii) The 2023 total remuneration figure includes £559.8k in respect of UQ performance for the 2019 LTIP, which is published one year in arrears as explained on page 147 and relates therefore to the 2022 remuneration figure.

The median CEO pay ratio has decreased from 90.8 to 73.1 year-on-year, mainly due to the lower bonus award in 2022/23, as well as a higher share price appreciation impact in 2021/22. More detail on the single figure amount is included on page 160.

The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies. Over the long term, it is reasonable to expect there to be a degree of volatility year-on-year in the CEO pay ratio given that the CEO's single figure is made up of a higher proportion of performance-related pay than that of our employees, in line with the expectations of our shareholders and the Company's remuneration approach. This introduces a higher degree of variability each year which affects the ratio. It should be noted that all employees in the Company who meet the service requirement are eligible to receive a bonus based on the same broad Company performance conditions. This ensures all employees share in the success of the Company.

The key factors to note for this year's CEO pay ratio are as follows:

- For 2022/23, the single figure includes the standard element of the 2020 LTIP award plus the UQ element of the 2019 LTIP award.
- Long-term incentives are provided in shares, and therefore any increase in share price over the three years, as has been observed when previous LTIP awards have vested, can magnify the impact of a long-term incentive award vesting in a year.
- None of the lower quartile, median or upper quartile employees identified this year are participants in the LTIP. If the value of the LTIP is excluded from the CEO total remuneration pay ratio calculation, the ratios would be as follows:
 - To employee at the 25th percentile: 36.9
 - To employee at the 50th percentile: 28.8
 - To employee at the 75th percentile: 23.9

The table sets out the base salary and total pay benefits details for the CEO and employees at the 25th, 50th and 75th percentiles.

	2023
CEO	
Base salary (£'000)	771.9
Total pay and benefits (£'000)	
Employees	
Base salary (£'000)	
- Employee at the 25th percentile	26.5
- Employee at the 50th percentile	32.3
- Employee at the 75th percentile	40.8
Total pay and benefits (£'000)	
- Employee at the 25th percentile	34.2
- Employee at the 50th percentile	43.9
- Employee at the 75th percentile	52.9

The CEO pay ratio is just one of many factors that we take into consideration in ensuring a just and fair reward framework for all our colleagues.

Percentage change in the remuneration of the Executive Directors and Non-Executive Directors

The Committee looks to ensure that the approach to fair pay is implemented in practice throughout the Group, and monitors year-on-year changes between the movement in salary, benefits and annual bonus for the CEO between the current and previous financial year compared with that of the average employee.

The Committee has elected to use the average earnings per employee as this avoids the distortions that can occur to the Group's total wage bill as a result of the movements in the number of employees.

The Committee monitors this information carefully to ensure that there is consistency in the fixed pay of the Executive Directors and Non-Executive Directors compared with the wider workforce. Also, this information demonstrates the Company's approach to having an all-employee bonus throughout the organisation with employees and the CEO benefiting when the Company does well.

	% change on last year for 2019/20			% change on last year for 2020/21			% change on last year for 2021/22			% change on last year for 2022/23		
	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees	Benefits	Bonus	Salary/ Fees ⁽ⁱⁱ⁾	Benefits ⁽ⁱⁱⁱ⁾	Bonus ⁽ⁱⁱⁱ⁾
Executive Directors												
Liv Garfield 11 April 2014 – present	2.4%	0.6%	29.5%	2.3%	[1.2)%	[11.8)%	2.3%	[3.1)%	30.0%	2.3%	5.3%	[51.3)%
James Bowling 1 April 2015 – present	2.4%	0.0%	29.5%	2.3%	0.0%	[11.8)%	2.3%	0.0%	30.0%	2.3%	3.4%	[51.4)%
Non-Executive Directors^(iv)												
Christine Hodgson^(v) 1 January 2020 – present	N/A	N/A	N/A	431.4%	N/A	N/A	1.7%	N/A	N/A	2.3%	N/A	N/A
Kevin Beeston 1 June 2016 – present	2.2%	N/A	N/A	1.5%	N/A	N/A	6.8%	N/A	N/A	4.9%	N/A	N/A
John Coghlan 23 May 2014 – present	13.3%	N/A	N/A	1.0%	N/A	N/A	3.5%	N/A	N/A	[3.5)%	N/A	N/A
Tom Delay 1 January 2022 – present	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19.3%	N/A	N/A
Sarah Legg 1 November 2022 – present	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sharmila Nebhrajani 1 May 2020 – present	N/A	N/A	N/A	N/A	N/A	N/A	8.7%	N/A	N/A	8.3%	N/A	N/A
Gillian Sheldon 1 November 2021 – present	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	12.6%	N/A	N/A
Former Directors												
Dominique Reiniche Resigned effective 8 July 2021	2.4%	N/A	N/A	1.7%	N/A	N/A	1.5%	N/A	N/A	N/A	N/A	N/A
Philip Remnant Resigned effective 1 November 2021	1.9%	N/A	N/A	1.4%	N/A	N/A	3.6%	N/A	N/A	2.6%	N/A	N/A
Angela Strank Resigned effective 31 March 2022	2.0%	N/A	N/A	1.4%	N/A	N/A	3.7%	N/A	N/A	N/A	N/A	N/A
Colleagues												
Average per employee^(vi)	3.7%	[5.5)%	21.8%	2.2%	[7.1)%	[13.7)%	2.1%	0.3%	9.9%	3.4%	2.8%	[41.6)%

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

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

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

(iv) Non-Executive Directors receive fees only and do not receive any additional benefits or bonus payments.

(v) 2020/21 reflects a change in rate from Non-Executive Director to Chair of the Board on 1 April 2020.

(vi) The average annual pay increase for the wider workforce during the year was 2.3%.

Please see page 144 of last year's Directors' Remuneration Report for historic details of events that impact the changes in remuneration, such as role changes, joiners and leavers.

GENDER AND ETHNICITY PAY GAP REPORTING

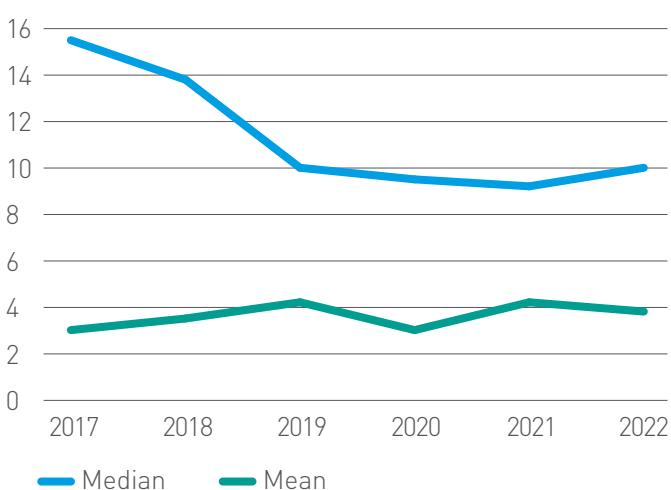
After five years of publishing our gender pay gap data, we are delighted to have published our first combined gender and ethnicity pay gap report.

Gender pay gap

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. We reported our gender pay gap in November 2022 in line with statutory requirements.

The data was based on figures from 5 April 2022 and showed a median gap of 9.4% (last year: 9.1%) and a mean gap of 2.9% (last year: 3.8%). Whilst the hourly rates for both male and female employees have increased, this year there has been a slight increase in the median gender pay gap due to a number of small fluctuations in the overall population. At the same time, there has been a decrease in the mean gender pay gap, mainly due to small changes within our executive population. These changes have a larger effect on the mean bonus gap, and so this, along with the effect of the UQ element of the LTIP, has increased the mean bonus gap even further in favour of females at -77%. Our mean gender bonus gap is as a result of the high percentage of women in our Executive and senior management population.

Gender pay gap %



The difference in hourly pay between male and female employees in 2022 is:

MEDIAN 9.4%	MEAN 2.9%
-----------------------	---------------------

The difference in annual bonus pay between male and female employees in 2022 is:

MEDIAN 0%	MEAN -77%
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Ethnicity pay gap

In our first year of publishing our ethnicity pay gap information, the median gap is 4.1% and the mean gap is 5.7%. Around 94% of our employees have shared their ethnicity information and we continue to actively encourage all employees to share their data. Of those who have declared themselves as being from an ethnic minority background, around two-thirds are Asian/Asian British.

The difference in hourly pay between white and ethnic-minority employees in 2022 is:

MEDIAN 4.1%	MEAN 5.7%
-----------------------	---------------------

The difference in annual bonus pay between white and ethnic-minority employees in 2022 is:

MEDIAN -1.4%	MEAN 50.4%
------------------------	----------------------

Pay distribution

Men Women

Top quartile	71%	29%
Upper middle quartile	80%	20%
Lower middle quartile	79%	21%
Lower quartile	56%	44%
Overall	71%	29%

White Ethnic minority

Top quartile	90%	10%
Upper middle quartile	91%	9%
Lower middle quartile	91%	9%
Lower quartile	87%	13%
Overall	90%	10%

The full gender and ethnicity pay gap report can be found online at severntrent.com, detailing the methodology and definitions, including case studies showcasing how our advisory groups are fostering a working environment where colleagues trust and know that opportunities are available to all, regardless of an individual's gender, ethnicity or background.



COST OF LIVING

As a company, we are acutely aware of the pressures that the cost of living crisis is causing to our customers. But we are also aware that those same challenges face our colleagues and the communities around them. That is why we regularly remind all of our colleagues of the free benefits that are available to all employees:

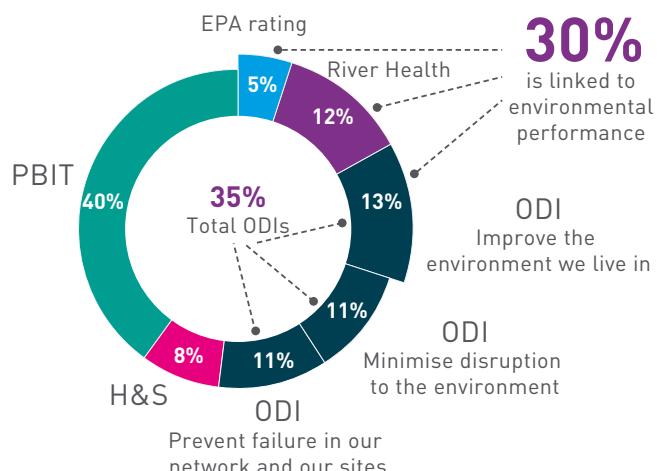
	Offer	Impact
Financial support	<ul style="list-style-type: none"> - Access to a range of financial wellbeing tools, calculators and advice. - Helping employees find long-term and emergency care solutions for elderly loved ones through our Seniorcare benefit - Discounts on nursery fees with one of the UK's largest nursery companies. - Providing Severn Trent scheme members with tailored financial advice at retirement. - Our daily savings website offers a wide range of discounts on food shopping, technology and entertainment at well-known retailers. 	<ul style="list-style-type: none"> - 16 colleagues saved up to £1,000 per year on their nursery fees. - 34 colleagues have engaged with the Seniorcare service to support elderly relatives. - Employees have saved £75,000 using our discount offers.
Caring about health and wellbeing	<ul style="list-style-type: none"> - We offer a great Employee Assistance Programme available 24/7, 365 days a year. - Our Elective Treatment Fund pays for 50% of the treatment costs for certain pre-existing conditions where the length of wait for NHS treatment had been negatively impacted by the COVID-19 pandemic. - We offer a free physiotherapy service of between four and eight sessions, to all colleagues. - Our wellbeing app brings a whole load of health and wellbeing benefits, deals and rewards, including unlimited 24/7 access to a GP for colleagues and their families. - We have trained nearly 3,000 of our employees in some form of Mental Health First Aid. 	<ul style="list-style-type: none"> - Nearly 400 active Mental Health First Aiders and Champions, who wear a yellow lanyard to be easily identifiable, able to provide in-the-moment support. - 488 physiotherapy referrals. - 50 enquiries to the Elective Treatment Fund, resulting in 28 applications. - 544 employees contacted the Employee Assistance Programme. - 911 uses of our virtual GP service. - 36% of our current workforce have received mental health training.
Focus on skills	<ul style="list-style-type: none"> - Our Societal Strategy aims to help change the lives of 100,000 people, by offering work experience placements, free skills and employability training in communities, and 'pop-up' academies reaching thousands of individuals. - Every employee can spend two days per year volunteering and learning new skills in the community. - We offer a huge range of technical training, such as water and waste treatment apprenticeships available for employees at any age, not just those who are fresh out of full-time education. - We have a huge library of digital resources, called LearnAnytime, with a catalogue of over 500 eBooks, videos, articles and podcasts. - Introduction of the Future Leaders Programme. - We offer one-to-one interview preparation sessions. - A new managers induction programme, aiming to help new managers navigate their way in their role. 	<ul style="list-style-type: none"> - 38% of people taking the Future Leaders Programme in the last year have since been promoted. - Over 1,100 internal promotions this year. - We have delivered over 71,000 hours against our 100,000 free employability training hours target.

A focus on environmental performance

In April 2023, the Committee approved a change to the bonus design for 2023/24, to make the link between environmental performance and remuneration even stronger.

- We have increased the weighting of the River Health element from 8% to 12%.
- We have introduced a new measure relating to our EPA rating, which will have a weighting of 5% of the bonus. This measure will only pay out if we achieve the highest EPA 4* rating.
- The weighting of environmental ODIs will increase from 12% to 13% of the bonus.
- The weighting of the Group PBIT element of the budget will be reduced from 49% to 40%.

In total the environmental performance element of the budget for 2023/24 is worth 30%.



COMMITTEE GOVERNANCE

The Committee's process

Each year, the Committee is presented with interim and annual updates that set out developments in Severn Trent's wider workforce pay policies and practices. The provision of these reports meets the requirements of the 2018 Code. The Committee continues to be engaged on the mechanisms for how the reward framework is applied across different levels within the organisation, which in turn has been shared with shareholders in this report.

How does the Committee set performance targets?

The Committee has a well-established process for setting stretching targets to ensure that incentives drive our strategic outcomes and deliver value for our stakeholders.

1. Review and approve targets

Management proposes targets for the bonus and the LTIP, taking into consideration the AMP7 Business Plan, long-term strategy (including our sustainability framework), the Board-approved budget, historical performance, consensus forecasts, stakeholder expectations and wider market/economic conditions. The Committee reviews the proposed targets (including the underlying assumptions) to ensure they are suitably stretching but also realistic. Following this review, the Committee approves the targets.

2. Assess performance

At the end of the performance period (one year for the bonus and three years for the LTIP), the formulaic outcomes of each performance measure are assessed on a standalone basis, including those that are independently verified by our external regulator, Ofwat. As stated on page 146, the UQ element for LTIP awards can only be measured once data for all WaSCs is available. A specific Committee meeting is scheduled for this purpose.

3. Determining final outcomes

The Committee assesses whether formulaic outcomes are fair in the context of overall business performance and service delivery for customers and the environment. The Committee has a well-established process to review formulaic outcomes and, as part of this process, independent external advice is sought whereby the Committee looks at 'performance in the round.' The Committee has the ability to exercise discretion to adjust formulaic incentive outcomes.

What the Committee has looked at in the past 12 months

The Committee carries out an annual review of remuneration elements, policies and processes. This process was introduced in 2019 for the Committee to expand its responsibility to oversee and review wider workforce pay and policies, and to ensure they are designed to support the Company's desired culture and Values.

The Committee believes that the context and knowledge shared is a useful underpin to ensure that our future decision making around Executive and senior management pay supports fair and equal remuneration throughout the entire workforce.

Activity	Focus Areas	Implementation at Severn Trent
Purpose and Values	Reflection on wider workforce policies and practices	<ul style="list-style-type: none">- We are a real Living Wage employer, which means we are committed to paying all of our direct employees and our supply chain a wage based on the cost of living today. In 2022/23, we implemented the increase early with effect from 1 October 2022, resulting in an uplift in salary for a number of our colleagues.- We launched two new employee benefits that help our colleagues care for their families, and assist with the cost of living: Seniorcare, and a discount with one of the UK's largest nursery companies.- This year we have continued to expand and develop our Academy, offering courses covering professional, technical and personal development.- We have introduced new supportive guides and training aiming to help both employees and managers to talk about difficult topics, such as bereavement.
Engagement	Sharing our guiding remuneration principles with the Company Forum	<ul style="list-style-type: none">- In December 2022, Christine Hodgson and Sharmila Nebhrajani attended the Company Forum, with Gillian Sheldon also attending in March 2023.- Topics discussed included the 2022 Gender and Ethnicity Pay Gap Report, Executive remuneration, our Societal Strategy, and employee engagement.
Focus on ESG measures	Bringing to life how sustainability is embedded in our remuneration framework	<ul style="list-style-type: none">- Review of carbon reduction measures in LTIP, with input from the Corporate Sustainability Committee.- Review of River Health measures in the bonus.- Review of environmental measures within the bonus structure, with the introduction of the EPA rating measure.

What the Committee will look at in 2023/24



REMUNERATION POLICY REVIEW

Work on the Remuneration Policy review will commence later in 2023 and will incorporate any changes arising as part of the Price Review. We will maintain an ongoing and transparent dialogue with our major shareholders and actively engage with each of them individually.



FAIR AND TRANSPARENT PAY

We will continue to monitor and evaluate developments in our pay framework and review Executive pay with respect to the wider workforce. We will continue to clarify the contribution of unique role types to ensure an equal and fair reward package that is representative of roles with similar skill types.



COST OF LIVING

As the external economic environment is expected to be challenging for some time, we will continue to review the support we provide to employees across all three pillars of wellbeing – physical, mental and financial.

Governance matters

The Committee's performance was assessed as part of the annual Board Effectiveness evaluation. I am pleased to report that the Committee is regarded as operating effectively and that the Board takes assurance from the quality of the Committee's work.

2022 AGM shareholder voting turnout

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Report	179,181,598 95.06%	9,316,047 4.94%	7,605,276

2021 AGM shareholder voting turnout

Our current Remuneration Policy received overwhelming shareholder support at the 2021 AGM held on 8 July 2021, with 99.66% approval. The full 2021 Policy can be found on the Severn Trent Plc website and on pages 145 to 153 of the 2021 Directors' Remuneration Report.

Resolution	Votes for	Votes against	Votes withheld
Approve Directors' Remuneration Policy	191,642,002 99.66%	662,228 0.34%	625,355

Committee advisers

To ensure that the Company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PwC. This appointment in 2017 followed a formal selection process. PwC attends meetings of the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the appointment of its advisers annually and is satisfied that the advice it receives is objective and independent. Fees, on a time-spent basis, for the advice provided by PwC to the Committee during the year were £92,985 excluding VAT (2021/22: £75,250). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. There are no connections between PwC and individual Directors to be disclosed.

The CEO, CFO, Director of Human Resources and the Head of Reward and HR Operations also attend meetings, by invitation, to provide advice and respond to specific questions. Such attendances specifically excluded any matter concerning their own remuneration. The Group Company Secretary acts as secretary to the Committee.

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 6 July 2023. The information on pages 160 to 163 is audited.

Total single figure of remuneration (audited)

The tables below and on the next page set out the total single figure of remuneration received by the Executive Directors for 2022/23 (or for performance periods ending in 2022/23 in respect of long-term incentives) and 2021/22 for comparison, and total fees received by Non-Executive Directors for 2022/23 and 2021/22, for comparison.

Where necessary, further explanations of the values provided are included below. The tables and the explanatory notes have been audited.

Executive Directors	Financial year ended 31 March	Salary (£'000) ⁽ⁱ⁾	Benefits (£'000) ⁽ⁱⁱ⁾	Pension (£'000) ⁽ⁱⁱⁱ⁾	Other (£'000) ^(iv)	Fixed pay and benefits sub-total (£'000)	Annual bonus (£'000) ^(v)	LTIP standard element (£'000)	LTIP UQ element (£'000)	LTIP total (£'000) ^(vi)	Variable remuneration sub-total (£'000)	Total remuneration (£'000) ^(vii)
Liv Garfield	2022/23	771.9	18.1	115.8	0.0	905.8	358.8	1,384.9	559.8	1,944.7	2,303.5	3,209.3
	2021/22	754.5	17.2	138.1	0.0	909.8	737.6	1,679.3	621.7	2,301.1	3,038.6	3,948.4
James Bowling	2022/23	465.2	17.6	69.8	0.0	552.5	216.2	556.6	337.0	893.6	1,109.8	1,662.3
	2021/22	454.7	17.0	83.2	4.5	559.4	444.5	674.9	361.5	1,036.3	1,480.8	2,040.2

- (i) Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions.
- (ii) Benefits include a green travel allowance of £15,000 p.a., family level private medical insurance, life assurance worth six times salary and participation in an incapacity benefits scheme. This also includes a benefit-in-kind relating to electric vehicles, which increased from 1% in 2021/22 to 2% in 2022/23.
- (iii) The Executive Directors' pension provision was equal to 18.3% of salary in 2021/22. As of 1 April 2022 their maximum contribution is aligned with the wider workforce at 15%. Neither Executive Director accrued benefits under any defined contribution pension plans during the year or has participated in a defined benefits scheme while an Executive Director.
- (iv) This figure relates to the difference between the market price and the discounted option price relating to an SAYE option granted during the financial year.

- (v) The annual bonus is paid 50% in cash and 50% in shares, with the portion deferred into shares subject to continued employment for three years but with no further performance conditions attached. See page 146 for further details of the annual bonus outturn for 2022/23.
- (vi) For 2022/23 the value of the LTIP is based on the outcome of the standard element of the total potential 2020 LTIP vesting, plus the UQ element of the 2019 LTIP. For 2021/22 the value of the LTIP is based on the standard element of the total 2019 LTIP vesting, plus the UQ element of the 2018 LTIP. The prior year LTIP figure has been restated using the share price at the date of vesting and includes dividend equivalents in respect of vested shares.
- (vii) The 2022/23 total remuneration figures include £559.8k for the CEO and £336.9k for the CFO in respect of UQ performance for the 2019 LTIP, which is published one year in arrears as explained on page 146 and relates therefore to the 2021/22 remuneration figure.

Total Non-Executive Directors' fees (audited)

	2021/22 (£'000)	2022/23 (£'000)
	Fees	Fees
Christine Hodgson		
1 January 2020 – present	305.2	312.2
Kevin Beeston		
1 June 2016 – present	72.0	75.5
John Coghlan⁽ⁱⁱ⁾		
23 May 2014 – present	100.8	97.3
Tom Delay		
1 January 2022 – present	14.8	71.6
Sarah Legg		
1 November 2022 – present	0.0	25.2
Sharmila Nebhrajani		
1 May 2020 – present	62.4	67.6
Gillian Sheldon		
1 November 2021 – present	24.6	66.9
Former Directors		
Dominique Reiniche		
Resigned effective 8 July 2021	15.8	0.0
Philip Remnant		
Resigned effective 30 November 2022	75.0	51.5
Angela Strank		
Resigned effective 31 March 2022	73.0	0.0

(i) Inclusive of a fee of £10,470 in relation to his Hafren Dyfrdwy Cyfyngedig Chair responsibilities in 2022/23 and £10,230 in 2021/22

Relative importance of spend on pay

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

Relative importance of the spend on pay	2021/22 £m	2022/23 £m	% change
Staff costs	366.5	382.3	4.3%
Dividends	254.5	261.3	2.7%

Annual bonus outturn for 2022/23 (audited)

Our all-employee Annual Bonus Scheme ensures that all of our people, from Executive Directors to our frontline employees, are aligned with the same measures and rewarded appropriately for achieving key objectives. Full detail on the Company's performance during the financial year can be found in the Strategic Report.

The performance outcomes in respect of financial performance conditions, and the overall bonus awarded to each Executive Director and our frontline employees, is set out in the Remuneration for the Year in Review section on page 146.

Remuneration of the CEO

The total remuneration for the CEO over the last ten financial years is shown in the table below. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

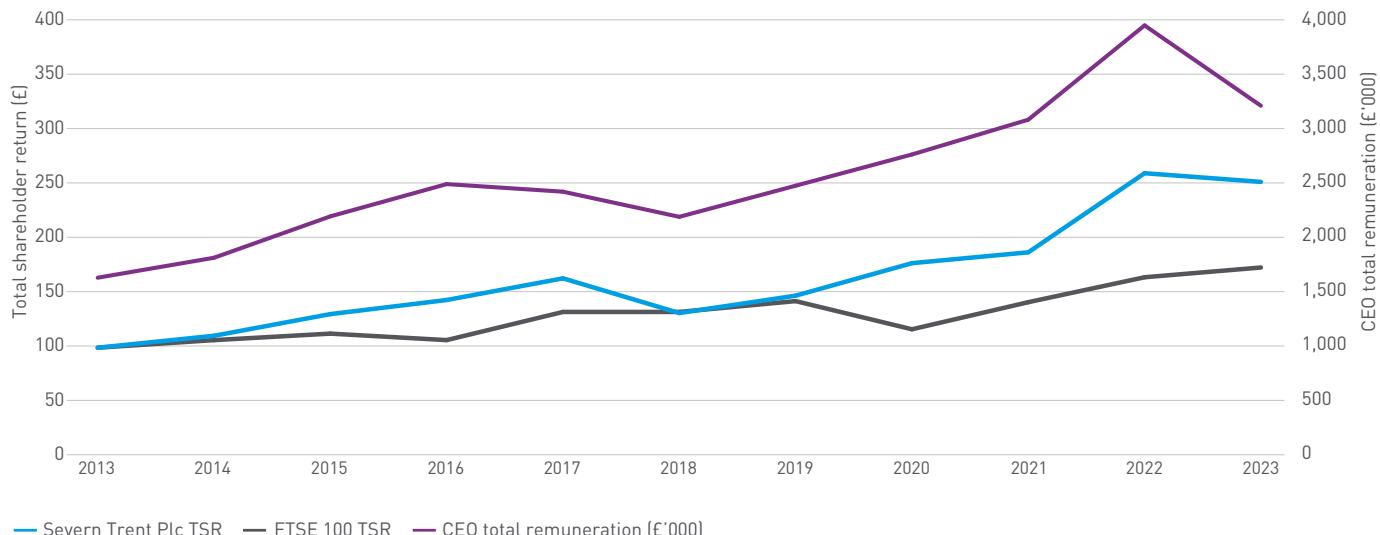
Year ended 31 March	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CEO	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield						
Total remuneration [£'000] ^[ii]	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,478.8	2,765.1	3,084.0	3,948.4	3,209.3
Annual bonus (% of maximum)	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	74.0%	63.8%	81.0%	38.5%
LTIP vesting (% of maximum)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0% ^[ii]	100.0% ^[iii]	75.0% ^[iii]
SMP vesting (% of maximum)	64.3%	N/A	N/A	N/A						

- (i) 2018 onwards includes any SAYE grants made during the year as well as dividend equivalents in respect of vested LTIP shares.
- (ii) The vesting of the 2019 LTIP award was reported in the 2021/22 Directors' Remuneration Report as 75% of maximum. In light of UQ performance being achieved, the UQ element of the 2019 LTIP award has since vested in full. To reflect this, the LTIP vesting percentage for 2022 has been restated. The additional LTIP value arising from the full vesting of the UQ element (£559.8k) is included in the total remuneration value for 2022/23.
- (iii) The value of the 2020 LTIP award for 2022/23 is based on the Committee's assessment of the vesting of the standard element of the LTIP. The UQ element cannot be measured until the end of July 2023; such vesting, if any, will form part of the total remuneration value for 2023/24.

CEO remuneration vs returns to shareholders

The graph below shows the value at 31 March 2023 of £100 invested in Severn Trent Plc on 1 April 2013 compared with the value of £100 invested in the FTSE100. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value of the intervening financial year ends.

Total shareholder return and total remuneration



Benefits for 2022/23 (audited)

The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically. In line with the Policy outlined on page 15, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2022/23 (audited)	Typical annual value 2021/22	Typical annual value 2022/23	Percentage increase/(decrease)
Green travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,493	£1,563	4.7%
Life assurance	Up to 6x salary	Up to 6x salary	0%
Personal accident cover	As per the Group-wide policy	As per the Group-wide Policy	0%
Biennial health screening	£671 per health screen	£671 per health screen	0%
Incapacity benefits	Worth 75% of salary for a period of five years (subject to qualifying criteria)	Worth 75% of salary for a period of five years (subject to qualifying criteria)	0%

LTIP awards vesting in relation to performance in 2022/23 (audited)

Under the 2018 Policy, which received very strong shareholder support, we implemented a UQ comparison against other WaSCs under the RoRE performance measure for all future LTIP awards made to the Executive Directors. This ensures full vesting is only achieved for UQ comparative performance and it aligns with the Company's aspirations to be an upper quartile performer.

The outcome of the 2020 LTIP is based on performance over the three-year period from 1 April 2020 to 31 March 2023. This is the third LTIP award vesting that includes a stretch measure relative to the UQ performance of the other WaSCs. The value set out below is based on achievement of the standard element against the total potential LTIP vesting, as this measures the Company's performance against the RoRE set by its FD. Achievement under the standard element was 1.95x and this was measured against the target that we set of 1.39x the base RoRE return. This results in a vesting equivalent to 150% of salary for the CEO and 100% of salary for the CFO. Full details are set out in the table below.

Standard proportion of 2020 award (up to 1.39x FD)										
Total number of shares granted	Value of award at grant (£'000)	End of performance period	Standard element of award vesting (% max)	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting ⁽ⁱⁱ⁾ (£'000)	Value of dividend equivalents due ⁽ⁱⁱⁱ⁾ (£'000)	Value of dividend due ⁽ⁱⁱ⁾ (£'000)	Value of standard element of LTIP (single figure) (£'000)
CEO	60,483	1,450.0	31/03/2023	75.0%	45,362	24/07/2023	180.8	1,268.3	116.6	1,384.9
CFO	27,336	655.3	31/03/2023	66.7%	18,233	24/07/2023	72.7	509.8	46.8	556.6

- (i) Based on the average share price over the final three months of the performance period of £27.96 as the awards will not be released until after the end of the closed period.
- (ii) Based on dividends paid in the period since the date of grant to 31 March 2023.

The vesting of the standard element of the 2019 LTIP award was reported in the 2021/22 Directors' Remuneration Report. The below reflects the vesting of the UQ element of the 2019 LTIP award (as a percentage of the maximum award). The 2019 LTIP vested at 100% of maximum when these two elements are combined.

UQ element of 2019 award										
Total number of shares granted	Value of award at grant (£'000)	End of performance period	Standard element of award vesting (% max)	Number of shares vesting	Vesting date	Value attributable to share price movement (£'000)	Value of LTIP shares vesting ⁽ⁱⁱ⁾ (£'000)	Value of dividend equivalents due ⁽ⁱⁱⁱ⁾ (£'000)	Value of dividend due ⁽ⁱⁱ⁾ (£'000)	Value of standard element of LTIP (single figure) (£'000)
CEO	69,411	1,416.0	31/03/2022	25.0%	17,353	23/07/2022	147.0	501.0	58.8	559.8
CFO	31,367	639.9	31/03/2022	33.3%	10,445	23/07/2022	88.5	301.6	35.4	337.0

- (i) Based on the three day average share price to 23 July 2023 of £28.87.

- (ii) Based on dividends paid in the period since date of grant to 23 July 2023.

The UQ element of the 2020 LTIP award cannot be measured, and so the associated vesting will not be known, until the end of July 2023 when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will therefore be disclosed in the 2023/24 Directors' Remuneration Report. The LTIP value in the 2023/24 single figure table will comprise the UQ element of the 2020 LTIP award (if any) plus the standard element of the 2021 LTIP award. For full transparency, we set out below the maximum number of additional shares that could vest if UQ performance relative to other WaSCs is achieved.

2020 LTIP – UQ element				
Maximum number of shares that could vest	Value based on share price at grant of £23.97 (£'000)	Value attributable to share price movement (£'000)	Value based on average share price of £27.96 (£'000)	Value based on average share price of £27.96 (£'000)
CEO	15,121	362.5	60.3	461.6
CFO	9,103	218.2	36.3	277.9

2022 LTIP award (awards granted during the year)

Basis of award (% of base salary)	Number of shares granted ⁽ⁱⁱ⁾	Grant date	Face value of award at grant (£'000)	End of performance period	Vesting date	3-day average share price used for grant calculations
CEO	200%	52,951	08/06/2022	£1,517.6	31/03/2025	24/07/2025
CFO	150%	23,934	£686.0 ⁽ⁱⁱ⁾			£28.66

- (i) LTIP awards are conditional share awards subject to performance conditions, as set out below.

- (ii) The in-flight awards for the CFO will vest in line with the normal timeline, pro-rated to his termination date and maintaining the two-year holding period.

2022 LTIP award	Threshold FD baseline 3.89% (% salary)	1.39x FD 5.41% (% salary)	UQ performance relative to WaSCs (% salary)	Sustainability performance measure (% salary)	Max outturn (% salary)
Vesting for CEO performance	30%	120%	160%	40%	200%
CFO	20%	80%	120%	30%	150%

Deferred shares under the Annual Bonus Scheme (including awards granted during the year)

One half of the bonus earned in respect of performance during 2021/22 was deferred into shares, as detailed below:

Award	Basis of award	Number of shares granted ⁽ⁱⁱ⁾	Grant date	Face value of award at grant (£'000)	Vesting date	3-day average share price used for grant calculations
2022 Annual Bonus	Deferred bonus	12,734	14/06/2022	368.8	14/06/2025	£28.96
Scheme relating to 2021/22		7,674		222.2		

- (i) Annual bonus shares are deferred shares which are subject to continued employment, but are not subject to further performance conditions.

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

Page 148 in the Remuneration for the Year in Review section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements. The shareholding requirements for the CEO and CFO remained unchanged in 2022/23.

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders, and this is evidenced by the number of shares held by both Executive Directors. The retention and build-up of equity is important in a long-term business such as Severn Trent as it encourages decisions to be made on a long-term, sustainable basis for the benefit of all stakeholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 23 May 2023.

Directors	Beneficially owned	LTIP shares ⁽ⁱ⁾⁽ⁱⁱ⁾	Annual bonus shares ⁽ⁱⁱⁱ⁾	SAYE options	Shareholding requirement as a % of salary	Current shareholding as a % of salary	% shareholding requirement achieved ^(iv)
Liv Garfield 11 April 2014 – present	332,898	168,895	37,619	967	300%	1,309%	436%
James Bowling 1 April 2015 – present	122,579	76,338	22,670	780	200%	828%	414%
Non-Executive Directors							
Christine Hodgson 1 January 2020 – present	5,161	–	–	–	–	–	–
Kevin Beeston 1 June 2016 – present	4,834	–	–	–	–	–	–
John Coghlan 23 May 2014 – present	2,670	–	–	–	–	–	–
Tom Delay 1 January 2022 – present	0	–	–	–	–	–	–
Sarah Legg 1 November 2022 – present	750	–	–	–	–	–	–
Sharmila Nebhrajani 1 May 2020 – present	231	–	–	–	–	–	–
Gillian Sheldon 1 November 2021 – present	350	–	–	–	–	–	–
Former Directors							
Philip Remnant Resigned effective 30 November 2022	1,969	–	–	–	–	–	–

(i) LTIP awards are conditional share awards subject to ongoing performance conditions.

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

(iii) Annual bonus shares are deferred shares which are not subject to further performance conditions.

(iv) The share price used to calculate the percentage of the shareholding guideline achieved was £28.79 (as at 31 March 2023). The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. She retains any fees in respect of her appointment for the year ended 31 March 2023. In December 2022, she also became a Non-Executive Director of Brookfield Asset Management Limited and retains any fees associated with this appointment.

Service contracts for Executive Directors

Copies of the service contracts of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours, and on the Severn Trent Plc website.

All Directors, with the exception of James Bowling, will retire at this year's AGM and submit themselves for appointment or reappointment by shareholders at the AGM on 6 July 2023. Liv Garfield, James Bowling and Helen Miles have service contracts which provide for a notice period of one year. Non-Executive Directors do not have service contracts, their Letters of Appointment can be found on the website.

Name	Date of service contract	Nature of contract	Notice period	Termination payments
Liv Garfield	10/04/2014			
James Bowling	01/04/2015	Rolling	12 months	Payments for loss of office comprise a maximum of 12 months' salary and benefits only
Helen Miles	01/04/2023			

Sharmila Nebhrajani OBE

Chair of the Remuneration Committee

23 May 2023

DIRECTORS' REPORT

The Directors' Report for the year ended 31 March 2023 comprises pages 164 to 166 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 100 to 163 is incorporated by reference into this report and, accordingly, should be read as part of this report. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 1 to 99, as the Board considers them to be of strategic importance.

Specifically, these are:

- the Performance Review on pages 14 to 38, which provides detailed information relating to the Group, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023;
- future business developments (throughout the Strategic Report);
- details of the Group's policy on addressing the Principal Risks and uncertainties facing the Group, which are set out in the Strategic Report on pages 73 to 79;
- information on the Group's greenhouse gas ('GHG') emissions for the year ended 31 March 2023 on page 61;
- how we have engaged with our people and stakeholders on pages 84 to 94;
- business relationships (throughout the Strategic Report); and
- the Section 172 Statement on pages 95 to 97.

Principal activity

The principal activity of the Group is to treat and provide water and remove waste water in the UK. Details of the principal joint venture, associated and subsidiary undertakings of the Group as at 31 March 2023 are shown in note 43 to the Group financial statements.

Areas of operation

During the course of 2022/23, the Group had activities and operations in the UK.

Directors and their interests

Biographies of the Directors currently serving on the Board are set out on pages 104 to 105.

As set out in the Notice of Meeting, all the Directors, with the exception of James Bowling, will retire at this year's AGM and submit themselves for reappointment or, in the case of Sarah Legg and Helen Miles, appointment, by shareholders. All Directors seeking reappointment were subject to a formal and rigorous performance evaluation, further details of which can be found on pages 118 to 120.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 163. The interests of the Directors in the shares of the Company are also shown on page 163 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

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

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

Employees

The average number of employees within the Group is shown in note 8 to the Group financial statements.

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our diversity and equal opportunities policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring that we do not discriminate in any way – we want to create and maintain an inclusive culture which reflects a diverse population. Severn Trent believes that no one should be hurt or made unwell by what we do. We did not experience any major safety incidents and there were no fatalities during the year.

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

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	Page 193
(4)	Details of long-term incentive schemes	Page 151
(2), (5), (6), (7), (8) – (14)	Not applicable	Not applicable

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules ('DTR') 4.1.8R. Information relating to financial instruments can be found on pages 215 to 222 and is incorporated by reference. For information on our approach to social, environmental and ethical matters, please refer to our Net Zero Transition Plan and TCFD disclosures on pages 39 to 63 and our separately published Sustainability Report, which will be made available at severntrent.co.uk.

All our training, promotion and career development processes are in place for all our employees to access, regardless of their gender, ethnicity, age or disability. The provision of occupational health programmes is of crucial importance to Severn Trent with the aim of keeping our employees fit, healthy and well. We also provide expert counselling support across a wide range of issues through our employee assistance programme.

Additional information on our diversity aims and progress can be found on page 126.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included the sections on our people on pages 22 to 28 of the Strategic Report, as the Board considers these disclosures to be of strategic importance and they are therefore incorporated into the Directors' Report by cross reference. Pages 84 to 85 and 89 to 90 demonstrate how the Directors have engaged with employees and how they have had regard to employee interests and the effect of that regard including the principal decisions taken by the Company during the financial year.

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

73% of Severn Trent's employees now participate in Sharesave, with 26% of participants saving the maximum of £500 per 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.

Business relationships

Pages 95 and 97 demonstrate how the Directors have had regard to key stakeholders and how the effect of that regard had influenced the principal decisions taken by the Company during the financial year. The Board considers its Section 172 Statement to be of strategic importance and is therefore incorporated into the Directors' Report by cross reference.

Research and development

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

Expenditure on research and development for the year totalled £3.0 million.

Internal controls

Further details of our internal control framework can be found in the Audit and Risk Committee Report on page 130 to 131.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's Review on pages 66 to 72.

Post balance sheet events

Details of post balance sheet events are set out in note 40 to the Group financial statements.

Dividends

An interim dividend of 42.73 pence per ordinary share was paid on 11 January 2023. The Directors recommend a final dividend of 64.09 pence per ordinary share to be paid on 14 July 2023 to shareholders on the register on 2 June 2023. This would bring the total dividend for 2022/23 to 106.82 pence per ordinary share (2021/22: 102.14 pence). The payment of the final dividend is subject to shareholder approval at the 2023 AGM.

Dividend Policy

Following publication of the Final Determination by Ofwat, in 2019/20 the Board approved its Dividend Policy for the period 2020-25. Dividends during the AMP7 period will increase by at least CPIH.

The Dividend Policy reflects our strong operational delivery and financial performance, the Final Determination and our robust balance sheet and financial resilience. When determining the Dividend 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 8 to the Company financial statements. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 36 to the Group financial statements. For shares held by the Severn Trent Employee Share Ownership Trust, the Trustee abstains from voting.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the 2018 Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document and the Articles, both of which can be found on our website.

Under the Articles, the Directors have authority to allot ordinary shares, subject to the aggregate nominal amount limit set at the 2022 AGM.

Change of control

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

Authority to purchase shares

The Company was given authority at its AGM in 2022 to make market purchases of ordinary shares up to a maximum number of 25,112,416 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 24,690,396 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 £5,662,557 (2022: £5,594,954). Donations are principally given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer-term partnerships. In addition, we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes.

We are also committed to supporting WaterAid, the UK's only major charity dedicated to improving access to safe water, hygiene and sanitation in the world's poorest countries. You can read more about the work of our Community Fund in our dedicated Community Fund Report, which can be found on our website.

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

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC') and, as such, prompt payment policies are reviewed on a regular basis.

The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the

prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

You can read more about how we have worked with our suppliers and contractors on page 33.

For the payment practices reporting period ended 31 March 2023, the average time to pay for Severn Trent Water Limited was 31 days.

Relevant audit information

The Directors confirm that:

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

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

External Auditor

Having carried out a review of its effectiveness during the year, details of which can be found in the Audit and Risk Committee Report on pages 132 and 134, the Audit and Risk 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 2023 AGM. Deloitte LLP indicated its willingness to continue as Auditor. The Audit and Risk Committee will also be responsible for determining the audit fee on behalf of the Board.

Carbon footprint

We have committed to achieving net zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available.

The Board considers environmental matters to be of strategic importance and therefore relevant information contained in our Net Zero Transition Plan and TCFD disclosure on pages 39 to 63 of the Strategic Report is incorporated into the Directors' Report by cross reference. Our TCFD disclosure includes our annual report on GHG emissions along with details of our energy consumption across the Group and how we manage energy use.

Accounts of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig

Separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig will be made available on their respective websites in due course.

Additionally, Annual Performance Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are prepared and provided to Ofwat. Copies will be made available on their respective websites in due course.

Annual General Meeting

A copy of the Notice of Meeting for the 2023 AGM can be found on the Severn Trent Plc website.

By order of the Board

Hannah Woodall-Pagan

Group Company Secretary

23 May 2023

Substantial shareholdings

As at 31 March 2023, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules of the following major shareholdings:

Name of holder	Number of ordinary shares	Voting rights held (%)
BlackRock	29,688,918	11.80
Lazard Asset Management	19,700,492	7.83
Qatar Investment Authority	11,599,565	4.61
Vanguard Group	11,416,035	4.54
Pictet Asset Management	9,837,307	3.91
Legal & General Investment Management	9,225,994	3.67
SSGA	8,236,864	3.27

As at 23 May 2023, the Company had been notified of the following holdings of voting rights in the ordinary share capital of the Company: BlackRock 29,002,992 shares (11.37%); Lazard Asset Management 18,946,162 shares (7.43%); Qatar Investment Authority 11,599,565 shares (4.55%); Vanguard Group 11,504,139 shares (4.51%); Pictet Asset Management 9,837,307 shares (3.86%); Legal & General Investment Management 8,741,868 shares (3.43%); and SSGA 8,199,986 shares (3.21%).

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.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year.

The Directors are required to prepare the Group financial statements in accordance with United Kingdom adopted International Financial Reporting Standards ('IFRSs'), and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'.

Under company law, the Directors must not approve the Annual Report and financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

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

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

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

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

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

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

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

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the 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 23 May 2023 and is signed on its behalf by order of the Board:

Liv Garfield
Chief Executive

23 May 2023

James Bowling
Chief Financial Officer

23 May 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN TRENT PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion:

- the financial statements of Severn Trent Plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated cash flow statement; and
- the related notes 1 to 43 of the consolidated financial statements and notes 1 to 16 of the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">- valuation of the provision for household trade receivables in Severn Trent Water Limited; and- classification of capital programme expenditure in Severn Trent Water Limited. <p>Within this report, key audit matters are identified as follows:</p> <p> Similar level of risk</p>
Materiality	The materiality that we used for the audit of the group financial statements is £18.5m (2022: £13.9m). This materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.7%) of profit before interest and tax.
Scoping	Our scoping has resulted in over 95% (2022: over 95%) of the group's net operating assets, 96% (2022: 97%) of revenue and 96% (2022: 100%) of profit before interest and tax, being subject to audit testing.
Significant changes in our approach	The materiality benchmark has been updated in the current year from profit before tax adjusted for gains/(losses) from financial instruments and exceptional items, used in the prior year. The change in the benchmark is reflective of the size and scale of the business.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the group's borrowing arrangements, in particular the assessment of level of committed undrawn facilities including the £1.3 billion revolving credit and bilateral facilities and the sufficiency of headroom available in the forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for AMP (Asset Management Plan) 7 and performing a sensitivity analysis relating to these assumptions;
- testing the arithmetic accuracy of the model used to prepare the cash flow forecasts and assessing the sophistication of the model used to prepare the forecasts;
- assessing the impact of risks and uncertainties on the business model and medium-term risks; and
- assessing the appropriateness of management's going concern disclosures in light of the above assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the provision of household trade receivables in Severn Trent Water Limited

Key audit matter description	Severn Trent Water supplies water to residential customers in the UK and the provision represents the portion of household customers who do not, or cannot, pay their bills. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. As at 31 March 2023, the provision recorded was £127.5m (2022: £128.2m) which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Severn Trent Water Limited. Provisions are made against Severn Trent Water Limited's trade receivables balance based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on whole population of household debtors. This historical collection performance is then adjusted for actual current cash collection. The final step is to adjust the provision for future economic conditions, for which management has considered the correlation between forecast cash collection and gross disposable household income (GDHI). The key audit matter is focussed on the appropriateness of the assumption that the experience of debt invoiced seven to nine years ago is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the impact of forecast decreases in GDHI on the expected credit loss are appropriate. Due to the high degree of estimation uncertainty associated with the recoverability of household trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance. The Audit and Risk committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 134. The bad debt provision is discussed in note 2 p) and note 21 to the financial statements. Management has included this as a source of estimation uncertainty in note 4 to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: <ul style="list-style-type: none"> – obtaining an understanding of relevant controls over the determination of the bad debt provision, including over the supporting data and assumptions; – testing the completeness and accuracy of the data included within the bad debt provision calculation; – testing the allocation of cash received in the current year to debt aged between seven and nine years; – use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; – evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performed a sensitivity analysis; – evaluating management's assumptions used in the calculation of the bad debt provision and challenged whether this represents lifetime expected credit loss, including review of cash collection data and historical trends; and – assessing the appropriateness of the disclosures provided relating to the key assumptions, and the range of sensitivities disclosed.
Key observations	We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Severn Trent Water Limited's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9.

5.2. Classification of capital programme expenditure in Severn Trent Water Limited 

Key audit matter description	<p>Severn Trent Water has a substantial capital programme which was agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.</p> <p>As the determination of whether expenditure is capitalised or expensed in the period directly affects the group's reported financial performance, we identified a key audit matter relating to the overstatement of capital expenditure, whether caused by changes to the group's capitalisation policy implementation guidance or by incorrect application of this guidance. Due to the level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.</p> <p>During the year, Severn Trent Water Limited has invested £868.2 million (2022: £689.3 million) in capital expenditure projects out of the total group additions of £898.9 million (2022: £714.3 million) disclosed in note 17. Severn Trent Water Limited spent a further £223.2 million (2022: £194.1 million) on infrastructure maintenance expenditure out of the total group expenditure of £238.4 million (2022: £198.2 million) disclosed in note 7.</p> <p>The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee report on page 134. Further details are included within the critical accounting judgements note in note 4 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>Our procedures to address the key audit matter included the following:</p> <ul style="list-style-type: none"> – assessing management's capitalisation and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; – testing the relevant controls related to classification of capital programme expenditure; – obtaining an understanding of, and testing, relevant controls over the application of the policy regarding expenditure incurred on projects within the capital programme during the year; and – for a sample of projects, assessing whether the capitalisation policy has been applied to the costs incurred by reviewing the business cases, making direct enquiries of project managers, and inspecting invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior financial year. We are satisfied that management has applied its capitalisation policy and implementation guidance appropriately in determining the expenditure to be capitalised.

6. Our application of materiality**6.1. Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the materiality of the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£18.5 million (2022: £13.9 million)	£17.6 million (2022: £13.2 million)
Basis for determining materiality	The current year materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.7%) of Profit before interest and tax.	We determined parent company materiality based on 3.0% (2022: 3.0%) of net assets and capped materiality at 95% (2022: 95%) of group materiality.
Rationale for the benchmark applied	<p>We consider Profit before interest and tax to be the most relevant benchmark to measure the performance of the group.</p> <p>The increase in materiality in 2023 represents a change from the 2022 benchmark to a measure which is reflective of the size and scale of the business.</p>	The parent company does not trade or exist for profit generating purposes, so materiality has been determined using net assets.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected undetected misstatements exceed the materiality for the financial statements as a whole.

Group financial statements	Parent Company financial statements
Performance materiality	70% (2022: 70%) of group materiality
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality at 70% of group and parent company materiality included: – The overall quality of the control environment and that we were able to rely on controls in certain of the group's businesses. – The small number and low value of uncorrected misstatements identified in previous audits.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee, all audit differences in excess of £0.9 million (2022: £0.7 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The Regulated Water and Waste Water segment is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £17.6 million (2022: £12.9 million). We have audited a further seven components using component materiality which range from £9.3 million to £17.6 million (2022: nine components using statutory materiality which range from £0.1 million to £13.2 million). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represented over 95% (2022: over 95%) of the group's net operating assets, 96% (2022: 97%) of revenue and 96% (2022: 100%) of profit before interest and tax, being subject to audit testing.

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2. Our consideration of the control environment

The group uses SAP, a financial accounting software platform, in all the eight components where we have performed a full scope audit.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the group's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We also tested and relied on the relevant controls in respect of household and non-household revenue and classification of capital programme expenditure which are supported by the group's financial accounting software platform. We tested the relevant controls on a sample basis by either observing or reperforming each step of the control and obtaining the relevant supporting evidence.

7.3. Our consideration of climate-related risks

The group has assessed the risk and opportunities relevant to climate change and has included the risk as a principal risk as set out on page 78, consistent with previous years. This included assessing the potential impact of the material risks and opportunities and its Net Zero Transition Plan on both the current balance sheet position and its accounting policies.

We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

With the involvement of our Environmental, Social and Governance ('ESG') specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether the information included in the narrative reporting is materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/ auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 20 February 2023;
- results of our enquiries of management, internal audit, the directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, treasury and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of the provision of trade receivables in Severn Trent Water Limited; and
- classification of capital programme expenditure in Severn Trent Water Limited.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

We identified the valuation of the provision of trade receivables in Severn Trent Water Limited and the classification of capital programme expenditure in Severn Trent Water Limited as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee, in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, and other regulatory authorities;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 83;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 80;
- the directors' statement on fair, balanced and understandable set out on page 167;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 75;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 130 to 131; and
- the section describing the work of the Audit and Risk Committee set out on pages 127 to 134.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the shareholders at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 March 2006 to 31 March 2023.

15.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

23 May 2023

GROUP FINANCIAL STATEMENTS

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2023 £m	2022 £m
Turnover	5,6	2,165.1	1,943.3
Other income		–	5.3
Operating costs before charge for bad and doubtful debts	7	(1,631.8)	(1,417.8)
Charge for bad and doubtful debts	7	(24.5)	(24.6)
Total operating costs		(1,656.3)	(1,442.4)
Profit before interest and tax		508.8	506.2
Finance income	9	84.1	54.7
Finance costs	10	(446.7)	(324.1)
Net finance costs		(362.6)	(269.4)
Reduction in expected credit loss on loan receivable		–	0.2
Net gains on financial instruments	11	21.7	39.3
Share of net gain/(loss) of joint ventures accounted for using the equity method	19	–	(2.2)
Profit on ordinary activities before taxation		167.9	274.1
Current tax	12	(0.2)	4.8
Deferred tax	12	(35.5)	(366.1)
Taxation on profit on ordinary activities	12	(35.7)	(361.3)
Profit/(loss) for the year		132.2	(87.2)

Earnings/(loss) per share (pence)

	Note	2023	2022
Basic	14	52.7	(35.2)
Diluted	14	52.5	(35.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Profit/(loss) for the year		132.2	(87.2)
Other comprehensive (loss)/income			
Items that will not be reclassified to the income statement:			
Net actuarial (losses)/gains	27	(252.2)	188.5
Deferred tax on net actuarial losses/gains	12	63.0	(47.1)
Deferred tax arising on rate change	12	–	8.4
		(189.2)	149.8
Items that may be reclassified to the income statement:			
(Loss)/gain on cash flow hedges		(2.5)	54.6
Deferred tax on losses/gains on cash flow hedges	12	0.6	(13.0)
Amounts on cash flow hedges transferred to the income statement	11	4.9	6.8
Deferred tax on transfer to the income statement	12	(1.1)	(1.7)
		1.9	46.7
Other comprehensive (loss)/income for the year		(187.3)	196.5
Total comprehensive (loss)/income for the year		(55.1)	109.3

GROUP FINANCIAL STATEMENTS CONTINUED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	Equity attributable to owners of the company				
		Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021		237.2	148.1	101.7	651.7	1,138.7
Loss for the year		–	–	–	(87.2)	(87.2)
Net actuarial gains	27	–	–	–	188.5	188.5
Deferred tax on net actuarial gains	12	–	–	–	(47.1)	(47.1)
Deferred tax arising from rate change	12	–	–	–	8.4	8.4
Gains on cash flow hedges		–	–	54.6	–	54.6
Deferred tax on gains on cash flow hedges	12	–	–	(13.0)	–	(13.0)
Amounts on cash flow hedges transferred to the income statement	11	–	–	6.8	–	6.8
Deferred tax on transfer to the income statement	12	–	–	(1.7)	–	(1.7)
Total comprehensive income for the year		–	–	46.7	62.6	109.3
Proceeds from equity placing	29,30	10.2	235.1	–	–	245.3
Share options and LTIPs						
– proceeds from shares issued	29,30	0.7	11.2	–	–	11.9
– value of employees' services	36	–	–	–	8.3	8.3
Deferred tax on share based payments	12	–	–	–	4.9	4.9
Dividends paid	13	–	–	–	(254.5)	(254.5)
At 1 April 2022		248.1	394.4	148.4	473.0	1,263.9
Profit for the year		–	–	–	132.2	132.2
Net actuarial losses	27	–	–	–	(252.2)	(252.2)
Deferred tax on net actuarial losses	12	–	–	–	63.0	63.0
Loss on cash flow hedges		–	–	(2.5)	–	(2.5)
Deferred tax on losses on cash flow hedges	12	–	–	0.6	–	0.6
Amounts on cash flow hedges transferred to the income statement	11	–	–	4.9	–	4.9
Deferred tax on transfer to the income statement	12	–	–	(1.1)	–	(1.1)
Total comprehensive loss for the year		–	–	1.9	(57.0)	(55.1)
Share options and LTIPs						
– proceeds from shares issued	29,30	1.0	14.3	–	–	15.3
– value of employees' services	36	–	–	–	9.5	9.5
– own shares purchased		–	–	–	(1.8)	(1.8)
Deferred tax on share based payments	12	–	–	–	0.1	0.1
Dividends paid	13	–	–	–	(261.3)	(261.3)
At 31 March 2023		249.1	408.7	150.3	162.5	970.6

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2023

	Note	2023 £m	2022 £m
Non-current assets			
Goodwill	15	92.7	91.4
Other intangible assets	16	185.9	179.6
Property, plant and equipment	17	10,716.9	10,208.4
Right-of-use assets	18	129.3	129.9
Investment in joint venture	19	16.5	16.5
Derivative financial instruments	20	82.3	31.2
Trade and other receivables	21	88.4	92.1
Retirement benefit surplus	27	5.7	17.5
		11,317.7	10,766.6
Current assets			
Inventory		35.4	32.0
Trade and other receivables	21	750.9	606.4
Current tax receivable		9.9	6.2
Derivative financial instruments	20	0.5	27.6
Cash and cash equivalents	22	34.2	115.4
		830.9	787.6
Current liabilities			
Borrowings	23	(317.4)	(365.2)
Trade and other payables	25	(720.4)	(655.5)
Provisions for liabilities	28	(52.4)	(38.4)
		(1,090.2)	(1,059.1)
Net current liabilities		(259.3)	(271.5)
Total assets less current liabilities		11,058.4	10,495.1
Non-current liabilities			
Borrowings	23	(6,986.2)	(6,365.9)
Derivative financial instruments	24	(11.3)	(43.3)
Trade and other payables	25	(1,479.6)	(1,334.0)
Deferred tax	26	(1,293.5)	(1,320.6)
Retirement benefit obligations	27	(285.1)	(145.5)
Provisions for liabilities	28	(32.1)	(21.9)
		(10,087.8)	(9,231.2)
Net assets		970.6	1,263.9
Equity			
Called up share capital	29	249.1	248.1
Share premium account	30	408.7	394.4
Other reserves	31	150.3	148.4
Retained earnings		162.5	473.0
Total equity		970.6	1,263.9

Signed on behalf of the Board who approved the accounts on 23 May 2023.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

GROUP FINANCIAL STATEMENTS CONTINUED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Cash generated from operations	37	753.3	891.7
Tax received	37	6.1	-
Tax paid	37	(10.1)	(1.2)
Net cash generated from operating activities		749.3	890.5
Cash flows from investing activities			
Purchase of subsidiaries net of cash acquired		(0.4)	-
Purchases of property, plant and equipment		(699.7)	(610.3)
Purchases of intangible assets		(40.0)	[36.3]
Proceeds on disposal of property, plant and equipment		12.9	9.5
Loans repaid by joint venture		5.5	-
Loans advanced to joint venture		-	(13.0)
Interest received		5.5	1.9
Net cash outflow from investing activities		(716.2)	(648.2)
Interest paid		(205.3)	(182.9)
Interest element of lease payments		(3.7)	[4.0]
Dividends paid to shareholders of the parent		(261.3)	(254.5)
Repayments of borrowings		(982.4)	(488.9)
Principal elements of lease payments		(13.1)	(12.1)
New loans raised		1,351.4	501.0
Issues of shares net of costs		15.3	257.2
Payments for swap terminations		(11.2)	-
Proceeds from swap terminations		-	5.6
Purchase of own shares		(1.8)	-
Net cash outflow from financing activities		(112.1)	(178.6)
Net movement in cash and cash equivalents		(79.0)	63.7
Net cash and cash equivalents at the beginning of the year		107.7	44.0
Net cash and cash equivalents at the end of the year		28.7	107.7
Cash at bank and in hand		34.2	40.4
Bank overdrafts		(5.5)	(7.7)
Short term deposits		-	75.0
		28.7	107.7

NOTES TO THE GROUP FINANCIAL STATEMENTS

1 General information

The Severn Trent Group's operations are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see strategic report on page 83 which sets out the Group's considerations relating to viability and going concern) under the historical cost convention, except for the revaluation of financial instruments including derivatives (refer to accounting policy notes t and u), and accounting for the transfer of assets from customers (refer to accounting policy note i).

(i) Consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and United Kingdom adopted International Financial Reporting Standards.

(ii) Parent company financial statements

The parent company financial statements have been prepared in accordance with United Kingdom Accounting Standards and comply with the Companies Act 2006. The Company meets the definition of a qualifying entity as defined in FRS 100 'Application of Financial Reporting Requirements', accordingly the Company has elected to apply FRS 101 'Reduced Disclosure Framework'.

Therefore the recognition and measurement requirements of United Kingdom adopted International Financial Reporting Standards have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as the parent company financial statements are Companies Act 2006 accounts.

As permitted by FRS 101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to statement of cash flows, share based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by Section 408 of the Companies Act 2006, no profit or loss account is presented for the parent company. The profit for the year is disclosed in the Company statement of comprehensive income, the Company statement of changes in equity and the Company balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

b) Basis of consolidation

The consolidated financial statements include the results of Severn Trent Plc and its subsidiaries and joint ventures. Results are included from the date of acquisition or incorporation and excluded from the date of disposal.

Subsidiaries are consolidated where the Group has the power to control a subsidiary.

Joint venture undertakings are accounted for on an equity basis where the Group exercised joint control under a contractual arrangement.

Non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since that date.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not included within the Group financial statements.

Foreign currency denominated assets and liabilities of the Company and its subsidiary undertakings are translated into the relevant functional currency at the rates of exchange ruling at the year end. Any exchange differences so arising are dealt with through the income statement.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. All gains and losses on exchange arising during the year are dealt with through the income statement.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and intercompany sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Amounts received from developers for diversions activity is recognised as turnover when the service to divert the infrastructure has been completed.

Operating services revenue is recognised in line with the delivery of each performance obligation. Further details of the performance obligations are detailed in note 6. The expected turnover over the life of a contract is allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Any changes to the revenue relating to performance obligations already delivered are recognised in the period in which they are identified. Differences between amounts recognised as revenue and amounts billed are recognised as contract assets or liabilities.

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

2 Accounting policies (continued)

d) Exceptional items

Exceptional items are income or expenditure, which individually or in aggregate, if of a similar type, should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Where there is a change in the tax rate enacted or substantively enacted, deferred tax assets and liabilities in the opening balance sheet are remeasured at the new rate. The resulting charge/credit to income statement and reserves is recognised in the year that the rate change occurs.

Current and deferred tax are recognised in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future to utilise it.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

f) Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Goodwill arising on acquisition of subsidiaries is included in intangible assets, whilst goodwill arising on acquisition of associates or joint ventures is included in interests in associates or joint ventures respectively. If an acquisition gives rise to negative goodwill this is credited directly to the income statement. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill and indefinite life intangibles are tested for impairment in accordance with the policy set out in note 2 l) below and carried at cost less accumulated impairment losses. Goodwill is allocated to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes.

Where goodwill forms part of a cash-generating unit and all or part of that unit is disposed of, the associated goodwill is included in the carrying amount of that operation when determining the gain or loss on disposal of the operation.

g) Other intangible non-current assets

Intangible assets acquired separately, or internally generated where a separate resource that is controlled by the Group is created, are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

	Years
Software	3-10
Other intangible assets	15-25

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist (see 2 l).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered.

All other costs of obtaining contracts are written off to the income statement as incurred.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation and impairment. Expenditure on development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. The transfer is considered to be linked to the provision of ongoing services therefore the corresponding credit is recorded in deferred income and released to turnover over the expected useful lives of the related assets. Further details regarding the judgment applied is detailed in note 4.

Where assets take a substantial period to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

2 Accounting policies (continued)

i) Property, plant and equipment (continued)

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80-150
Sewers	150-200
Other assets	
Buildings	30-80
Fixed plant and equipment	20-40
Vehicles and mobile plant	2-15

j) Leased assets

Where the Group enters a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Group; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date, the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Lease liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Group at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts.

Most extension and termination options held are exercisable only by the Group and not by the respective lessor. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group.

Where the lease term is less than one year or the underlying asset is low value, the Group does not recognise a right-of-use asset or lease liability. Payments under such leases are charged to operating costs.

k) Grants and contributions

Grants and contributions received in respect of non-current assets, including certain charges made for new connections to the water and sewerage networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in turnover in the period that they become receivable.

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital adjusted for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairment losses are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost. Impairment losses are recognised in line with the policy set out in l) above.

n) Inventory

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, the cost includes the cost of acquiring and developing the sites.

Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

o) Loans receivable

Loans receivable are measured at fair value on initial recognition, less issue fee income received where the fee is integral to the yield on the loan. All loan receivables are held for collection of contractual cash flows, which represent solely payments of principal and interest. After initial recognition, loans receivable are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue fee income are credited to the income statement and added to the carrying value of loans receivable at a constant rate in proportion to the loan amount outstanding.

The Group recognises a loss allowance for expected credit losses (ECL) on its loans receivable from joint ventures. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to the 12 month ECL.

2 Accounting policies (continued)

o) Loans receivable (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the loans. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers both quantitative and qualitative information about the risk of default that is reasonable and supportable, including forward-looking information that is available. This includes assessment of a deterioration in: actual or expected business; financial or economic conditions of the borrower; actual or expected operating results, cash flows and financial position of the borrower; and the regulatory, economic, or technological environment faced by the borrower.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Definition of default

The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a loan receivable is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition, and subsequently measured at amortised cost using the effective interest rate method, less loss allowance. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

q) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high-quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as remeasurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies. Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfngedig.

(ii) Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the Group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

Shares held by the Severn Trent Employee Share Ownership Trust that have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 u) and the accounting policy for lease liabilities is set out in note 2 j).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs in the income statement.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments in the income statement.

2 Accounting policies (continued)

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs in the income statement.

Derivatives not designated as hedging instruments

Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments

The Group uses derivative financial instruments such as cross currency swaps, forward currency contracts, energy swaps and interest rate swaps to hedge its risks associated with foreign currency, interest rate and energy price fluctuations.

At the inception of each hedge relationship, the Group documents:

- the economic relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if the host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

v) Share based payment

The Group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating Group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

2 Accounting policies (continued)

x) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above; and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out below.

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and the fair value less costs to sell. Depreciation is not charged on such assets.

Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3 New accounting policies and future requirements

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group's financial position.

4 Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

a) Critical accounting judgments

(i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £238.4 million (2022: £198.2 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £898.9 million (2022: £714.3 million).

(ii) Income from connections to the water and waste water networks

The Group receives income from developers and domestic customers for new connections to the water and waste water networks either in the form of infrastructure assets or cash. The more significant examples of these transactions are:

- Developers transfer to the Group infrastructure assets that they have installed in a new development. Usually there is no monetary consideration exchanged when the Group adopts assets in this manner.
- When new properties are connected to the network, the Group is permitted, under the Water Industry Act, to obtain a contribution from the developer towards the cost of reinforcing its network to meet the additional demands arising from the new connections. These are referred to as Infrastructure charges. The charges are a standard amount per property and are not linked to specific reinforcement expenditure.
- When developers require properties to be connected to the Group's network, the Group installs a meter and connection to each property but retains ownership of the assets and responsibility for their maintenance.

Assessing whether this income is received in relation to the provision of the connection to the Group's infrastructure networks or is to facilitate the ongoing provision of water and waste water services to the properties in question requires judgment about the nature of the ongoing relationship between the Group and the customer. During the period the Group received infrastructure assets with a fair value of £105.0 million (2022: £69.0 million), infrastructure charges amounting to £21.8 million (2022: £25.0 million) and other charges relating to the provision of infrastructure amounting to £20.2 million (2022: £17.0 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

a) Critical accounting judgments (continued)

(iii) Climate change

The Group continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Group operates is continually changing, and the expected impact on the Group from climate change is set out within the 'Our approach to climate change' section of the Strategic Report on page 39.

We have considered the impact of the climate change related risks to which the Group is exposed in the preparation of these financial statements. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

b) Sources of estimation uncertainty

(i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	42.1
Infrastructure assets	135.2
Fixed plant and equipment	24.3
Moveable plant	11.4

The impact on the annual depreciation expense of a 10 per cent increase and decrease in useful economic life ('UEL') of property, plant and equipment by asset category is detailed as follows:

Impact on annual depreciation (£m)	10 per cent increase in UEL £m	10 per cent decrease in UEL £m
Land and buildings	(9.3)	11.3
Infrastructure assets	(9.1)	5.1
Fixed plant and equipment	(20.5)	25.0
Moveable plant	(0.6)	0.8

(ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits. The Group makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made and associated sensitivities are set out in note 28 to the financial statements.

(iii) Expected credit losses on trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables. A number of economic factors such as high inflation, rising interest rates and reduction of Government support for domestic energy bills might impact household disposable income and therefore the expected credit losses on trade receivables.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	2023 £m	2022 £m
Gross carrying amount	746.7	630.9
Provision for bad and doubtful debts	(135.1)	(135.0)
Net carrying amount	611.6	495.9

Movements in the expected credit loss allowance are as follows:

	2023 £m	2022 £m
At 1 April	135.0	137.1
Charge for bad and doubtful debts	24.5	24.6
Amounts written off during the period	(24.4)	(26.7)
At 31 March	135.1	135.0

The average expected credit loss for the outstanding trade receivables and accrued income was 2.25% at 31 March 2023. A change of 10bps in the expected credit loss would increase the charge and provision for bad and doubtful debts by £10.3 million.

5 Segmental analysis

a) Background

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the activities of Severn Trent Water Limited, except hydro-electric generation and property sales, and Hafren Dyfrdwy Cyfngedig.

Business Services includes the Group's Operating Services businesses, the Green Power business including Severn Trent Water's hydro-electric generation, the Property Development business and our other non-regulated businesses including affinity products and searches.

The Severn Trent Executive Committee ('STEC') is the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in our joint venture are not included in the segmental reports reviewed by STEC.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

The measure of profit or loss that is reported to STEC for the segments is PBIT. A segmental analysis of turnover and PBIT is presented below.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

5 Segmental analysis (continued)

b) Segmental results

The following table shows the segmental turnover and PBIT:

	2023		2022	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
External turnover	1,995.0	170.1	1,803.9	139.4
Inter-segment turnover	0.4	7.0	0.5	4.2
Total turnover	1,995.4	177.1	1,804.4	143.6
Profit before interest and tax	467.5	49.2	476.3	36.4

Profit before interest and tax is stated after:

	2023		2022	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Depreciation of property, plant and equipment	367.6	12.1	350.6	11.1
Depreciation of right-of-use assets	2.2	1.7	1.0	2.8
Amortisation of intangible assets	30.8	2.8	33.4	2.9
(Profit)/Loss on disposal of fixed assets	(0.2)	(2.0)	2.5	(7.9)

The reportable segments' turnover is reconciled to Group turnover as follows:

	2023 £m	2022 £m
Regulated Water and Waste Water	1,995.4	1,804.4
Business Services	177.1	143.6
Corporate and other	1.1	1.1
Consolidation adjustments	(8.5)	(5.8)
	2,165.1	1,943.3

Included in the revenues of Regulated Water and Waste Water of £1,995.4 million (2022: £1,804.4 million) is £259.5 million (2022: £259.8 million) which arose from sales to Water Plus Group. No other single customer contributed 10% or more to the Group's revenue for either 2023 or 2022.

Segmental PBIT is reconciled to the Group's profit before tax as follows:

	2023 £m	2022 £m
Regulated Water and Waste Water	467.5	476.3
Business Services	49.2	36.4
Corporate and other	(8.0)	(6.9)
Consolidation adjustments	0.1	0.4
PBIT	508.8	506.2
Net finance costs	(362.6)	(269.4)
Reduction in expected credit loss on loan receivable	-	0.2
Net gains on financial instruments	21.7	39.3
Share of net gain/(loss) of joint ventures accounted for using the equity method	-	(2.2)
Profit on ordinary activities before taxation	167.9	274.1

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a Group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

5 Segmental analysis (continued)

c) Segmental capital employed

Separate segmental analyses of assets and liabilities are not reviewed by STEC. The balance sheet measure reviewed by STEC on a segmental basis is capital employed.

	2023		2022	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	11,498.4	349.5	10,869.7	337.4
Goodwill	63.5	30.5	63.5	29.2
Segment assets	11,561.9	380.0	10,933.2	366.6
Segment operating liabilities	(2,507.4)	(33.3)	(2,158.8)	(29.6)
Capital employed	9,054.5	346.7	8,774.4	337.0

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2023 £m	2022 £m
Segment assets		
Regulated Water and Waste Water	11,561.9	10,933.2
Business Services	380.0	366.6
Corporate and other	5.3	4.5
Other financial assets	117.0	174.2
Investment in joint venture	16.5	16.5
Loan receivable from joint venture	75.3	79.6
Current tax receivable	9.9	6.2
Consolidation adjustments	(17.3)	(26.6)
Total assets	12,148.6	11,554.2

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

	2023 £m	2022 £m
Segment liabilities		
Regulated Water and Waste Water	(2,507.4)	(2,158.8)
Business Services	(33.3)	(29.6)
Corporate and other	(47.4)	(38.2)
Other financial liabilities	(7,314.9)	(6,774.2)
Deferred tax	(1,293.5)	(1,320.6)
Consolidation adjustments	18.5	31.1
Total liabilities	(11,178.0)	(10,290.3)

The consolidation adjustments comprise elimination of intra-group creditors.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

5 Segmental analysis (continued)

c) Segmental capital employed (continued)

The following table shows the additions to other intangible assets, property, plant and equipment and right-of-use assets:

	2023		2022	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	39.5	0.5	35.9	0.4
Property, plant and equipment	885.5	14.3	694.3	20.0
Right-of-use assets	3.0	-	2.7	1.5

d) Geographical areas

All of the Group's sales were derived from the UK in 2023 and 2022.

6 Revenue from contracts with customers

Revenue recognised from contracts with customers is analysed by type of revenue and by business segment below:

Year ended 31 March 2023	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,932.9	-	-	(0.4)	1,932.5
Operating services	-	84.7	-	-	84.7
Renewable energy	57.2	78.6	-	(7.0)	128.8
Other sales	5.3	13.8	1.1	(1.1)	19.1
	1,995.4	177.1	1.1	(8.5)	2,165.1

Year ended 31 March 2022	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,767.5	-	-	(0.5)	1,767.0
Operating services	-	74.4	-	-	74.4
Renewable energy	32.8	55.5	-	(4.2)	84.1
Other sales	4.1	13.7	1.1	(1.1)	17.8
	1,804.4	143.6	1.1	(5.8)	1,943.3

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year and revenue is recognised on a straight-line basis over the financial year.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income in relation to connections were as follows:

	2023 £m	2022 £m
At 1 April	1,353.4	1,259.1
Contributions and grants received	40.2	42.8
Assets transferred at no cost	105.0	69.0
Amounts released to income statement	(16.4)	(17.5)
At 31 March	1,482.2	1,353.4

Revenue amounting to £16.4 million (2022: £17.5 million) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2022: nil).

Payments for infrastructure charges and other charges relating to connection to the networks occur when the connections are made. The performance obligations, including provision of an ongoing water and waste water service, are provided over the life of the relevant property.

6 Revenue from contracts with customers (continued)

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2023 £m	2022 £m
In the next year	16.2	29.5
Between one and five years	64.8	118.0
After more than five years	1,401.2	1,205.9
	1,482.2	1,353.4

Payments received from customers in advance of the service period represents a contract liability. Changes in the Group's contract liabilities from payments received in advance were as follows:

	2023 £m	2022 £m
Contract liability at 1 April	144.8	132.5
Revenue recognised	(1,394.9)	(1,291.1)
Cash received	1,396.6	1,303.4
Contract liability at 31 March	146.5	144.8

The Operating Services business includes a material 25-year contract with multiple performance obligations. Under this contract with the Ministry of Defence ('MoD'), the Group bills the customer based on an inflation-linked volumetric tariff and invoices are payable on normal commercial terms. The performance obligations, which are satisfied as the services are performed, are:

- operating and maintaining the customer's infrastructure assets;
- upgrading the customer's infrastructure assets;
- administrating the services received from statutory water and sewerage undertakers; and
- administrating billing services of the customer's commercial and Non Base Dependent customers.

Revenue has been allocated to each performance obligation based on the stand-alone selling price of each performance obligation, which is based on the forecast costs incurred and expected margin for each obligation. Changes to projected margins are adjusted on a cumulative basis in the period that they are identified.

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. The estimated transaction price has increased from 31 March 2022 as a result of increased inflation and consumption. At 31 March 2023 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £372.5 million (2022: £396.3 million). This amount is expected to be recognised as revenue as follows:

	2023 £m	2022 £m
In the next year	52.1	49.0
Between one and five years	212.3	197.4
After more than five years	108.1	149.9
	372.5	396.3

The assumptions and other sources of estimation uncertainty in relation to this contract do not present a significant risk of a material adjustment to the carrying amounts of assets and liabilities in the next financial year and therefore are not included as a source of estimation uncertainty in note 4 b).

Revenue recognised in excess of amounts billed is recorded as a contract asset and amounts billed in excess of revenue recognised are recorded as contract liabilities. Changes in contract assets in the year were as follows:

	2023 £m	2022 £m
Contract asset at 1 April	39.9	38.2
Amounts billed	(52.6)	(49.9)
Revenue recognised	57.0	51.6
Contract asset at 31 March	44.3	39.9

No contract liabilities arose from the Group's Operating Services contract with the MoD.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

7 Net operating costs

	2023 £m	2022 £m
Wages and salaries	315.1	299.1
Social security costs	35.3	30.9
Pension costs	22.4	28.2
Share based payments	9.5	8.3
Total employee costs	382.3	366.5
Power	198.3	110.9
Raw materials and consumables	115.2	81.3
Rates	84.4	84.3
Charge for bad and doubtful debts	24.5	24.6
Services charges	41.6	36.5
Depreciation of tangible fixed assets	379.7	361.5
Depreciation of right-of-use assets	3.9	3.8
Amortisation of intangible fixed assets	33.7	36.3
Hired and contracted services	291.6	256.9
Rental charges		
– land and buildings	0.3	0.1
– other	–	0.5
Hire of plant and machinery	9.1	9.3
Profit on disposal of tangible fixed assets	(2.2)	(5.4)
Exchange (gains)/losses	(0.8)	0.5
Infrastructure maintenance expenditure	238.4	198.2
Ofwat licence fees	5.5	4.9
Other operating costs	71.3	63.3
Other operating income	(3.1)	(3.3)
	1,873.7	1,630.7
Own work capitalised	(217.4)	(188.3)
	1,656.3	1,442.4

During the year the following fees were charged by the auditor:

	2023 £m	2022 £m
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	0.3	0.3
– the audit of the Company's subsidiary accounts	0.7	0.6
Total audit fees	1.0	0.9
Fees payable to the Company's auditor and its associates for other services to the Group:		
– audit related assurance services	0.2	0.2
– other assurance services	0.1	0.1
Total non-audit fees	0.3	0.3

Other assurance services include certain agreed upon procedures performed by Deloitte in connection with financing documents.

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit and Risk Committee report on pages 127 and 134. No services were provided pursuant to contingent fee arrangements.

Details of directors' remuneration are set out in the Directors' Remuneration Report on pages 141 to 144.

8 Employee numbers

Average number of employees (including Executive Directors) during the year:

	2023	2022
By business segment		
Regulated Water and Waste Water	7,176	6,612
Business Services	461	492
Corporate and other	14	14
	7,651	7,118

9 Finance income

	2023 £m	2022 £m
Interest income earned on bank deposits	3.3	0.1
Other financial income	2.2	1.8
Total interest receivable	5.5	1.9
Interest income on defined benefit scheme assets	78.6	52.8
	84.1	54.7

10 Finance costs

	2023 £m	2022 £m
Interest expense charged on:		
Bank loans and overdrafts	30.9	14.7
Other loans	328.6	243.5
Lease liabilities	3.7	4.0
Total borrowing costs	363.2	262.2
Other financial expenses	1.3	2.4
Interest cost on defined benefit scheme liabilities	82.2	59.5
	446.7	324.1

Borrowing costs of £56.6 million (2022: £34.5 million) incurred on funding eligible capital projects have been capitalised at an interest rate of 5.4% (2022: 4.11%). Tax relief of £10.7 million (2022: £6.5 million) was claimed on these costs which has created tax losses carried forward, offset by a related deferred tax asset of £14.1 million (2022: £8.6 million).

11 Net gains/(losses) on financial instruments

	2023 £m	2022 £m
Loss on swaps used as hedging instruments in fair value hedges	(1.3)	(1.0)
(Loss)/gain arising on debt in fair value hedges	(0.3)	1.6
Exchange loss on other loans	(7.4)	(6.6)
Net loss on cash flow hedges transferred from equity	(4.9)	(6.8)
Hedge ineffectiveness on cash flow hedges	(1.3)	(0.6)
Gain arising on swaps where hedge accounting is not applied	35.7	51.5
Amortisation of fair value adjustment on debt	1.2	1.2
	21.7	39.3

The gains from financial assets and liabilities mandatorily measured at fair value through profit or loss was £34.4 million (2022: £50.5 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2022: nil).

The Group's hedge accounting arrangements are described in note 35.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

12 Taxation

a) Analysis of tax charge in the year

	2023 £m	2022 £m
Current tax		
Current year at 19% (2022: 19%)	-	-
Prior years	0.2	(4.8)
Total current tax charge/(credit)	0.2	(4.8)
Deferred tax		
Origination and reversal of temporary differences:		
Current year	36.0	66.7
Prior years	(0.5)	5.0
Exceptional charge on rate change	-	294.4
Total deferred tax charge	35.5	366.1
	35.7	361.3

An exceptional deferred tax charge of £294.4 million arose from recalculating opening deferred tax liabilities at 25% in 2022 (see note 26).

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2022: higher) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

Total tax

	2023 £m	2022 £m
Profit before taxation	167.9	274.1
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	31.9	52.1
Tax effect of depreciation on non-qualifying assets	2.2	1.9
Permanent difference from super deductions	(4.6)	(5.3)
Other permanent differences	(2.0)	2.1
Current year impact of rate change	8.5	15.9
Adjustments in respect of prior years	(0.3)	0.2
Exceptional deferred tax arising from rate change	-	294.4
Total tax charge	35.7	361.3

Current tax

	2023 £m	2022 £m
Profit before taxation	167.9	274.1
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	31.9	52.1
Tax effect of depreciation on non-qualifying assets	2.2	1.9
Permanent difference from super deductions	(4.6)	(5.3)
Other permanent differences	(2.0)	2.1
Tax effect of accelerated capital allowances	(33.1)	(40.8)
Other temporary differences	5.6	(10.0)
Adjustments in respect of prior years	0.2	(4.8)
Total current tax charge/(credit)	0.2	(4.8)

The most significant factor impacting the Group's current tax charge is the difference between the depreciation charged on property, plant and equipment in the financial statements and the amount deductible from taxable profits in the form of capital allowances. Where the assets qualify for capital allowances this creates a temporary difference and deferred tax is recognised on the difference between the carrying amount of the asset and the amount that will be deductible for tax purposes in future years. Changes in the amount of deferred tax recognised on these assets are charged or credited to deferred tax in the income statement. Where the amount of the capital allowances received is greater than the depreciation charged this is referred to as accelerated capital allowances.

12 Taxation (continued)

b) Factors affecting the tax charge in the year (continued)

On 3 March 2021, the UK Government announced the introduction of a capital allowance 'super deduction' which gave an in-year capital allowance of 130% on the cost of plant and machinery qualifying for the relief between 1 April 2021 and 31 March 2023 and an acceleration of capital allowances on the cost of assets qualifying for special rate allowances. The introduction of these changes meant the Group was eligible to claim more capital allowances in the last two years to the extent that the Group was not liable to pay corporation tax for those years.

Certain of the Group's property, plant and equipment assets are not eligible for capital allowances under current legislation. Therefore there is no tax deduction that corresponds to the depreciation charged on these assets and deferred tax is not recognised in respect of this permanent difference.

The 30% allowance in excess of the cost of assets qualifying for the super deduction will never be charged as depreciation in the financial statements and therefore this represents a permanent difference between profits recognised in the income statement and taxable profits.

Other permanent differences comprise expenditure that is not deductible for tax purposes or income that is not taxable.

Other temporary differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax assets in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 26.

c) Tax (credited)/charged directly to other comprehensive income or equity

No current tax has been charged or credited to other comprehensive income or equity. The following amounts of deferred tax have been (credited)/charged to other comprehensive income or equity:

	2023 £m	2022 £m
Deferred tax on:		
Actuarial losses/gains	(63.0)	47.1
Cash flow hedges	(0.6)	13.0
Share based payments	(0.1)	(4.9)
Transfers to the income statement	0.1	1.7
Effect of change in tax rate	-	(8.4)
Total deferred tax (credited)/charged to other comprehensive income or equity	(62.6)	48.5

13 Dividends

Amounts recognised as distributions to owners of the Company in the year:

	2023		2022	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2022 (2021)	61.28	153.9	60.95	152.2
Interim dividend for the year ended 31 March 2023 (2022)	42.73	107.4	40.86	102.3
Total dividends paid	104.01	261.3	101.81	254.5
Proposed final dividend for the year ended 31 March 2023	64.09	163.1		

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

14 Earnings/(loss) per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the period. Potential ordinary shares are not treated as dilutive if their conversion does not decrease earnings per share or increase loss per share.

Basic and diluted earnings per share are calculated on the basis of profit attributable to the owners of the Company.

The calculation of basic and diluted earnings per share is based on the following:

i) Earnings for the purpose of basic and diluted earnings per share

	2023 £m	2022 £m
Profit/(loss) for the period	132.2	(87.2)

ii) Number of shares

	2023 £m	2022 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	250.8	247.9
Effect of dilutive potential ordinary shares:		
- share options and LTIPs	1.1	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	251.9	247.9

Unvested share options and LTIPs have not been treated as dilutive potential ordinary shares in 2022 because their conversion would decrease the loss per share.

b) Adjusted earnings per share

	2023 pence	2022 pence
Adjusted basic earnings per share	58.2	96.1
Adjusted diluted earnings per share	58.0	95.6

Adjusted earnings per share figures are presented for continuing operations. These exclude the effects of net gains/losses on financial instruments, current tax on net gains/losses on financial instruments, and deferred tax in both 2023 and 2022. The Directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above except that the number of ordinary shares for the purpose of the adjusted diluted earnings per share for the year ended 31 March 2022 is 249.3 million as this includes 1.4 million dilutive potential ordinary shares from share options and LTIPs.

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2023 £m	2022 £m
Earnings for the purpose of basic and diluted earnings per share	132.2	(87.2)
Adjustments for:		
- net gains on financial instruments	(21.7)	(39.3)
- current tax on net gains on financial instruments	-	(1.4)
- deferred tax	35.5	366.1
Earnings for the purpose of adjusted basic and diluted earnings per share	146.0	238.2

The comparative earnings for the purpose of adjusted basic and diluted earnings per share excluded an amount relating to amortisation of acquired intangibles. We have restated this comparative measure to include the effect of amortisation of acquired intangibles so that it is calculated on a consistent basis with the current year.

15 Goodwill

	2023 £m	2022 £m
Cost		
At 1 April	91.4	91.4
Acquisition of subsidiary	1.3	-
At 31 March	92.7	91.4

On 8 February 2023, Severn Trent Services Operations UK Limited acquired 100% of the issued share capital of M A solutions (Lindum) Ltd for a total consideration of £1.6 million, of which £0.8 million is cash consideration and the remainder deferred consideration.

The acquisition has been accounted for using the acquisition method. Goodwill of £1.3 million was recognised, attributable to the anticipated future opportunities and outperformance arising as a result of the acquisition. The goodwill valuation was based on management's best estimates of the fair values of the assets and liabilities acquired, which was estimated at £0.3m.

Goodwill relates to specific cash-generating units (CGUs) hence no allocation of goodwill is required. A summary of the carrying amount of goodwill by CGU is presented below.

	2023 £m	2022 £m
Regulated Water and Waste Water	62.2	62.2
Green Power	29.2	29.2
Operating Services	1.3	-
	92.7	91.4

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2022: £4.3 million). This is reviewed for impairment as part of the Regulated Water and Waste Water impairment review, set out in note 15 a) below.

a) Regulated Water and Waste Water

On 1 July 2018 Instruments of appointments of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border of England and Wales. As a result, the business that the goodwill relates to is now partly in Severn Trent Water and partly Hafren Dyfrdwy consequently this goodwill is allocated to the Regulated Water and Waste Water cash-generating unit.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Regulated Water and Waste Water CGU was determined on the basis of fair value, through a level 3 valuation, less costs to sell.

The fair value, determined using a discounted cash flow calculation for the Regulated Water and Waste Water segment is based on the most recent financial projections available for the business, which cover the five-year period to 31 March 2028.

The key assumptions underlying these projections are the cash flows in the projections and the following:

	%
Discount rate	6.5
RPI long-term inflation	3.0
CPI long-term inflation	2.0
Growth rate in the period beyond the detailed projections	1.5

The discount rate is an estimate for the weighted average cost of capital at the year end date based on the post-tax WACC detailed in the Ofwat PR19 final determination adjusted for market changes. The rate disclosed above is the equivalent pre-tax nominal rate.

Inflation has been included in the detailed projections at 3.0% and 2.0% for RPI and CPI respectively, based on the Bank of England's target rate for CPI.

Cash flows beyond the end of the five-year period are extrapolated using an assumed real growth rate of 1.5% in the Group's regulatory capital base, based on past experience and external factors likely to drive long-term growth in the regulatory capital base.

The fair value less costs to sell for the CGU exceeded its carrying value by £2,534.4 million. An increase in the discount rate to 7.1% or a reduction in the growth rate in the period beyond the detailed projections to 0.7% would reduce the recoverable amount to the carrying amount of the CGU.

15 Goodwill (continued)

b) Green Power

On 30 November 2018, the Group acquired Agrivert Holdings and its subsidiary undertakings resulting in goodwill of £29.2 million. This goodwill has been allocated to the Green Power South cash-generating unit which is determined to be the lowest level of independent cash flows relating to the goodwill. Green Power South is included within the Green Power part of the Business Services segment.

The Group has reviewed the carrying value of goodwill for impairment in accordance with the policy stated in note 2. The carrying value of the Green Power South CGU was determined on the basis of a value in use calculation.

The value in use determined using a discounted cash flow calculation for the Green Power South CGU is based on the most recent financial projections available for the business to 2028.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	7.8
Growth rate in the period beyond the detailed projections	2.0

The discount rate was based on a review of a range of external sources of information about the cost of capital for the Severn Trent energy business. This rate was then converted to the equivalent pre-tax discount rate disclosed above.

Cash flows beyond the end of the five-year period are extrapolated using assumed growth of 2.0% in the Group's free cash flows, informed through external market trends.

The value in use for the CGU exceeded its carrying value by £19.2 million. An increase in the discount rate to 9.0% or reduction in the growth rate in the period beyond the detailed projections to 1.2% would reduce the recoverable amount to the carrying amount of the CGU.

16 Other intangible assets

	Computer software				Total £m
	Internally generated £m	Purchased £m	Capitalised development costs and patents £m	Other intangible assets £m	
Cost					
At 1 April 2021	303.9	162.5	12.8	35.8	515.0
Additions	21.8	14.5	–	–	36.3
Disposals	–	–	(12.8)	–	(12.8)
Transfers from property, plant and equipment	11.3	3.0	1.3	–	15.6
At 1 April 2022	337.0	180.0	1.3	35.8	554.1
Additions	22.1	12.2	–	5.7	40.0
At 31 March 2023	359.1	192.2	1.3	41.5	594.1
Amortisation					
At 1 April 2021	(216.4)	(116.9)	(12.8)	(4.9)	(351.0)
Amortisation for the year	(25.5)	(8.7)	–	(2.1)	(36.3)
Disposals	–	–	12.8	–	12.8
At 1 April 2022	(241.9)	(125.6)	–	(7.0)	(374.5)
Amortisation for the year	(20.6)	(10.9)	(0.1)	(2.1)	(33.7)
At 31 March 2023	(262.5)	(136.5)	(0.1)	(9.1)	(408.2)
Net book value					
At 31 March 2023	96.6	55.7	1.2	32.4	185.9
At 31 March 2022	95.1	54.4	1.3	28.8	179.6

Other intangible assets include the instrument of appointment acquired with Dee Valley Water, customer contracts and energy subsidy contracts both acquired with Agrivert and rights obtained under contracts for biological assets. The instrument of appointment has an indefinite useful life and as such the carrying value has been included in the impairment assessment performed for the Regulated Water and Waste Water CGU described in note 15. As at 31 March 2023 no impairment was recorded (2022: nil).

17 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Movable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2021	4,015.0	5,773.2	4,792.8	72.3	1,095.3	15,748.6
Additions	59.1	136.4	132.9	0.7	385.2	714.3
Transfers on commissioning	131.5	97.0	313.3	12.3	(554.1)	–
Transfers to intangible assets	–	–	–	–	(15.6)	(15.6)
Disposals	(3.9)	–	(8.6)	(4.9)	(3.0)	(20.4)
At 1 April 2022	4,201.7	6,006.6	5,230.4	80.4	907.8	16,426.9
Additions	35.9	161.4	77.6	0.8	623.2	898.9
Transfers on commissioning	74.5	1.2	180.7	1.3	(257.7)	–
Disposals	(10.8)	(2.3)	(30.8)	(2.5)	(9.3)	(55.7)
At 31 March 2023	4,301.3	6,166.9	5,457.9	80.0	1,264.0	17,270.1
Depreciation						
At 1 April 2021	(1,542.2)	(1,434.7)	(2,858.1)	(38.4)	–	(5,873.4)
Charge for the year	(100.9)	(40.7)	(212.7)	(7.2)	–	(361.5)
Disposals	3.5	–	8.3	4.6	–	16.4
At 1 April 2022	(1,639.6)	(1,475.4)	(3,062.5)	(41.0)	–	(6,218.5)
Charge for the year	(102.1)	(45.6)	(225.0)	(7.0)	–	(379.7)
Disposals	10.8	0.2	32.1	1.9	–	45.0
At 31 March 2023	(1,730.9)	(1,520.8)	(3,255.4)	(46.1)	–	(6,553.2)
Net book value						
At 31 March 2023	2,570.4	4,646.1	2,202.5	33.9	1,264.0	10,716.9
At 31 March 2022	2,562.1	4,531.2	2,167.9	39.4	907.8	10,208.4

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £105.0 million (2022: £69.0 million) and provisions for works in response to legally enforceable undertakings to regulators amounting to £34.2 million (2022: £15.3 million).

The net book value of land and buildings is analysed as follows:

	2023 £m	2022 £m
Freehold	2,570.1	2,561.8
Short leasehold	0.3	0.3
	2,570.4	2,562.1

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

18 Leases

a) The Group's leasing activities

The Group leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2 j).

Lease contracts are negotiated on an individual basis and include a wide range of terms and conditions. The contracts do not include covenants other than security interests in the leased assets that are held by the lessor and leased assets may not be used as security for other borrowing. The contracts do not impose any restrictions on dividend payment, additional debt or further leasing. There were no sale and leaseback transactions in the period.

b) Income statement

The income statement includes the following amounts relating to leases:

	2023 £m	2022 £m
Depreciation charge of right-of-use assets:		
Land and buildings	0.9	1.4
Infrastructure assets	1.1	1.1
Fixed plant and equipment	0.2	0.2
Moveable plant	1.7	1.1
Total depreciation of right-of-use assets	3.9	3.8
Interest expense included in finance cost		
Expense relating to short-term leases included in operating costs	-	0.5
Expense relating to leases of low value assets included in operating costs	0.3	0.1

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	2023 £m	2022 £m
Right-of-use assets:		
Land and buildings	12.5	12.3
Infrastructure assets	110.4	111.5
Fixed plant and equipment	4.1	4.1
Moveable plant	2.3	2.0
	129.3	129.9

Additions to right-of-use assets were £3.0 million (2022: £4.2 million). Disposals were £nil (2022: £0.2 million). Extension of lease terms during the year has resulted in a reduction in dilapidation provisions included in right-of-use assets of £0.8 million (2022: £1.1 million).

	2023 £m	2022 £m
Lease liabilities:		
Current	8.3	7.1
Non-current	102.6	110.3
	110.9	117.4

18 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities were as follows:

	2023 £m	2022 £m
Within 1 year	12.3	11.0
1 – 2 years	12.2	11.2
2 – 5 years	39.6	35.5
After more than 5 years	80.4	95.0
Gross obligations under leases	144.5	152.7
Less future finance charges	(33.6)	(35.3)
Present value of lease obligations	110.9	117.4

Net obligations under leases were as follows:

	2023 £m	2022 £m
Within 1 year	8.3	7.1
1 – 2 years	8.4	7.4
2 – 5 years	29.6	25.9
After more than 5 years	64.6	77.0
Included in non-current liabilities	102.6	110.3
	110.9	117.4

d) Cash flow

The total cash outflow for leases in the year was £16.8 million (2022: £16.1 million) which consists of £3.7 million (2022: £4.0 million) payments of interest and £13.1 million (2022: £12.1 million) repayment of principal elements. This is included in financing cash flows.

19 Interests in joint ventures

Particulars of the Group's principal joint venture undertaking at 31 March 2023 were:

Name	Type	Country of incorporation	Class of share capital held	Proportion of ownership interest
Water Plus Group Limited	Joint venture	Great Britain	Ordinary B	50%

Water Plus is the largest business retailer in the non-household retail water market in England and Scotland. Its principal activities are core retail services including billing, meter reading, call centre support and water efficiency advice as well as key account management services and value added solutions.

Water Plus competes in England and Scotland for customers ranging from small and medium-sized enterprises through to large corporate entities in both the private and public sectors.

Movements in the investment were as follows:

	2023 £m	2022 £m
Carrying value of joint venture investment at 1 April	16.5	–
Reclassification on subscription for equity	–	18.7
Group's share of profit/(loss) after tax and comprehensive income/(loss)	–	(2.2)
Carrying value of joint venture investment at 31 March	16.5	16.5

On 23 April 2021, the Group extinguished the £32.5 million Revolving Credit Facility ('RCF') previously extended to Water Plus, and replaced this with a subscription for £32.5 million of equity shares in Water Plus Group Limited at par. The carrying value of the loan receivable was reclassified to investment in joint venture.

During the current year, Water Plus broke even (2022: loss of £4.4m).

As at 31 March 2023 and 2022 the joint venture did not have any significant contingent liabilities to which the Group was exposed and, other than those set out below, the Group did not have any significant contingent liabilities in relation to its interests in the joint venture. The Group had no capital commitments in relation to its interests in the joint venture at 31 March 2023 or 2022.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

19 Interests in joint ventures (continued)

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee is capped at £43.5 million (2022: £54.1 million).

The registered office of Water Plus Group Limited is South Court Riverside Park, Campbell Road, Stoke-On-Trent, United Kingdom, ST4 4DA.

Balance sheet and income statement extracts can be found below for Water Plus:

At 31 March	2023 £m	2022 £m
Non-current assets	40.0	41.6
Current assets ¹	300.9	367.3
Current liabilities ²	(112.4)	(154.5)
Non-current liabilities ³	(214.6)	(241.4)
Net assets/liabilities	13.9	13.0

1 Includes cash of £12.2 million (2022: £24.4 million)

2 Includes current financial liabilities (excluding trade and other payables and provisions) of £1.2 million (2022: £0.1 million)

3 Includes non-current financial liabilities of £213.1 million (2022: £240.3 million)

For the year ended 31 March	2023 £m	2022 £m
Revenue	731.7	750.9
Depreciation and amortisation	(6.2)	(6.6)
Finance income	3.7	4.0
Finance costs	(11.3)	(7.7)
Tax credit/(charge)	(1.6)	4.2
Comprehensive gain/(loss) for the year	–	(3.5)

The below shows a reconciliation from the net assets of Water Plus to the carrying value as above:

	2023 £m	2022 £m
Net assets of Water Plus at 31 March	13.9	13.0
Severn Trent's share of net assets	7.0	6.5
Water Plus financial liabilities classified as part of net investment in joint venture	9.8	9.8
Other	(0.3)	0.2
Carrying value of joint venture investment at 31 March	16.5	16.5

The net assets position of Water Plus is derived from the best information available at the time the financial statements of the Group are approved. The impact on the Group of any subsequent changes in the net assets of Water Plus will be reflected in the financial statements prepared to 31 March 2024.

20 Categories of financial assets

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		20.5	13.7
Interest rate swaps – not hedge accounted		–	2.9
Inflation swaps – not hedge accounted		7.3	–
		27.8	16.6
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		14.0	14.6
Interest rate swaps – cash flow hedges		40.5	–
Energy hedges – cash flow hedges		0.5	27.6
		55.0	42.2
Total derivative financial assets			82.8
Financial assets at amortised cost			
Trade receivables	21	294.4	217.7
Accrued income	21	317.2	278.2
Other amounts receivable	21	73.4	58.8
Loan receivable from joint venture	21	75.3	79.6
Short-term deposits	22	–	75.0
Cash at bank and in hand	22	34.2	40.4
Total financial assets at amortised cost		794.5	749.7
Total financial assets		877.3	808.5
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		82.3	31.2
Trade and other receivables		3.3	6.7
Loan receivable from joint venture		75.3	79.6
		160.9	117.5
Current assets			
Derivative financial assets		0.5	27.6
Trade and other receivables		681.7	548.0
Cash and cash equivalents		34.2	115.4
		716.4	691.0
		877.3	808.5

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

21 Trade and other receivables

	2023 £m	2022 £m
Current assets		
Net trade receivables	294.4	217.7
Other amounts receivable	70.1	52.1
Contract assets	44.3	39.9
Prepayments	24.9	18.5
Net accrued income	317.2	278.2
	750.9	606.4
Non-current assets		
Other amounts receivable	3.3	6.7
Prepayments	9.8	5.8
Loan receivable from joint venture	75.3	79.6
	88.4	92.1
	839.3	698.5

Prepayments include unamortised success fees paid as a result of winning the MoD contract (see note 6) amounting to £4.3 million (2022: £4.8 million). The costs are being amortised on a straight line basis over the life of the contract.

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

(i) Trade receivables and accrued income

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the Group is Severn Trent Water Limited, which represents 91% of Group turnover and 89% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 41, Related party transactions. Credit risk is considered separately for trade receivables due from Water Plus and is considered immaterial as amounts outstanding are paid within 30 days.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables, contract assets and accrued income.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2022: nil).

(ii) Contract assets

The contract assets represent the Group's right to receive consideration from the MoD for services provided. On that basis the Group considers that the credit risk in relation to these assets is immaterial and therefore no provision for expected credit losses has been recognised (2022: nil).

(iii) Loan receivable from joint venture

As well as trade receivables from Water Plus the Group has advanced loans to its joint venture. These loans are assessed for impairment under the two stage impairment model in IFRS 9.

21 Trade and other receivables (continued)

b) Expected credit loss allowance

(i) Trade receivables and accrued income

The expected credit loss at 31 March 2023 and 2022 was as set out below. The loss allowance is based on historical credit losses adjusted for expected changes in cash collection. The loss rate disclosed is calculated by applying the loss allowance to the gross carrying amount for each age category.

2023	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	3	415.3	(13.4)	401.9
Up to 1 year past due	21	109.2	(22.8)	86.4
1 – 2 years past due	32	66.2	(21.4)	44.8
2 – 3 years past due	38	46.6	(17.5)	29.1
3 – 4 years past due	41	29.6	(12.0)	17.6
4 – 5 years past due	52	26.5	(13.9)	12.6
5 – 6 years past due	56	18.8	(10.5)	8.3
6 – 7 years past due	55	12.8	(7.0)	5.8
7 – 8 years past due	64	8.3	(5.3)	3.0
8 – 9 years past due	69	5.9	(4.1)	1.8
More than 9 years past due	96	7.5	(7.2)	0.3
	746.7		(135.1)	611.6

2022	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	4	333.1	(11.7)	321.4
Up to 1 year past due	25	93.8	(23.1)	70.7
1 – 2 years past due	39	63.3	(24.6)	38.7
2 – 3 years past due	43	39.0	(16.7)	22.3
3 – 4 years past due	55	32.2	(17.6)	14.6
4 – 5 years past due	49	26.2	(12.8)	13.4
5 – 6 years past due	54	16.2	(8.7)	7.5
6 – 7 years past due	63	11.2	(7.1)	4.1
7 – 8 years past due	69	7.4	(5.1)	2.3
8 – 9 years past due	73	3.3	(2.4)	0.9
More than 9 years past due	100	5.2	(5.2)	–
	630.9		(135.0)	495.9

Movements on the expected credit loss allowance were as follows:

	2023 £m	2022 £m
At 1 April	135.0	137.1
Charge for bad and doubtful debts	24.5	24.6
Amounts written off during the year	(24.4)	(26.7)
At 31 March	135.1	135.0

(ii) Loan receivable from joint venture

In previous years, the Group has determined that there has been a significant increase in the credit risk since inception relating to its loans receivable of £76.4 million (2022: £80.7 million) from Water Plus, in the light of significant losses incurred by Water Plus. Following a breakeven position from Water Plus in the current year, the Group determines that there continues to be credit risk since inception on the loan receivable balance from Water Plus. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2023 based on Water Plus's financial projections. The Group has maintained the expected credit loss provision at £1.1 million (2022: £1.1 million) resulting in a net loan receivable of £75.3 million (2022: £79.6 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

22 Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank and in hand	34.2	40.4
Short-term deposits	-	75.0
	34.2	115.4

£18.4 million (2022: £24.6 million) of cash at bank and in hand is restricted for use on the MoD contract and £0.6 million (2022: £0.5 million) is held as security for insurance obligations. Neither are available for use by the Group.

23 Borrowings

	2023 £m	2022 £m
Current liabilities		
Bank overdraft	5.5	7.7
Bank loans	3.6	3.7
Other loans	300.0	346.7
Lease liabilities	8.3	7.1
	317.4	365.2
Non-current liabilities		
Bank loans	709.4	778.8
Other loans	6,174.2	5,476.8
Lease liabilities	102.6	110.3
	6,986.2	6,365.9
	7,303.6	6,731.1

See note 34 for details of interest rates payable and maturity of borrowings.

24 Categories of financial liabilities

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		10.0	37.0
Inflation swaps – not hedge accounted		–	3.7
		10.0	40.7
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		0.9	–
Interest rate swaps – cash flow hedges		0.4	2.6
		1.3	2.6
Total derivative financial liabilities		11.3	43.3
Other financial liabilities			
Borrowings	23	7,303.6	6,731.1
Trade payables	25	122.7	89.1
Other payables	25	15.6	13.4
Total other financial liabilities		7,441.9	6,833.6
Total financial liabilities		7,453.2	6,876.9
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		11.3	43.3
Borrowings		6,986.2	6,365.9
		6,997.5	6,409.2
Current liabilities			
Borrowings		317.4	365.2
Trade payables		122.7	89.1
Other payables		15.6	13.4
		455.7	467.7
		7,453.2	6,876.9

25 Trade and other payables

	2023 £m	2022 £m
Current liabilities		
Trade payables	122.7	89.1
Social security and other taxes	10.9	11.1
Other payables	15.6	13.4
Accruals and receipts in advance	555.0	512.4
Deferred income	16.2	29.5
	720.4	655.5
Non-current liabilities		
Accruals and receipts in advance	13.6	10.1
Deferred income	1,466.0	1,323.9
	1,479.6	1,334.0
	2,200.0	1,989.5

The accruals balance above includes £146.5m of contract liabilities (2022: £144.8m). Movements in this balance are set out in note 6 of the financial statements.

Movements in the deferred income balance are set out in note 6 to the financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

26 Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2021	972.1	(27.8)	(39.0)	0.7	906.0
Charge/(credit) to income	57.8	9.0	11.5	(6.6)	71.7
Charge/(credit) to income arising from rate change	307.0	(2.6)	(10.5)	0.5	294.4
Charge/(credit) to equity	–	47.1	14.7	(4.9)	56.9
Charge/(credit) to equity arising from rate change	–	(6.2)	(1.8)	(0.4)	(8.4)
At 1 April 2022	1,336.9	19.5	(25.1)	(10.7)	1,320.6
Charge/(credit) to income	49.2	15.5	14.4	(43.6)	35.5
Charge/(credit) to equity	–	(63.0)	0.5	(0.1)	(62.6)
At 31 March 2023	1,386.1	(28.0)	(10.2)	(54.4)	1,293.5

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/settled after more than 12 months, are as follows:

	2023 £m	2022 £m
Deferred tax asset	(92.6)	(35.8)
Deferred tax liability	1,386.1	1,356.4
	1,293.5	1,320.6

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 3 March 2021, the UK Government announced an increase in the rate of corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax assets and liabilities were therefore remeasured at 1 April 2021 at the new rate of 25%. This resulted in an exceptional deferred tax charge in the income statement for 2022 of £294.4 million and a credit to reserves amounting to £8.4 million.

27 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual.

The defined benefit pension schemes cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by Trustees. The Trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the Trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the scheme rules. The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme [STPS]*	31 March 2022
Severn Trent Mirror Image Pension Scheme [STMIPS]	31 March 2022
Water Companies Pension Scheme – Dee Valley Water Limited Section [DVWS]	31 March 2020

* The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

The defined benefit scheme assets have been updated to reflect their market value at 31 March 2023. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the costs of administering the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2023 £m	2022 £m
Fair value of assets	1,785.3	2,659.4
Present value of the defined benefit obligations	(2,064.7)	(2,787.4)
	(279.4)	(128.0)

Presented on the balance sheet as:

Retirement benefit obligation – funded schemes in surplus	5.7	17.5
Retirement benefit obligation – funded schemes in deficit	(278.6)	(137.6)
Retirement benefit obligation – unfunded schemes	(6.5)	(7.9)
Retirement benefit obligation – total	(285.1)	(145.5)
Net retirement benefit obligation	(279.4)	(128.0)

STPS, STMIPS, and DVWS	2023 £m	2022 £m
Fair value of scheme assets		
Equities	188.4	478.1
Annuity policies	122.2	104.6
Corporate bonds	237.0	953.0
Liability-driven investment funds ('LDIs')	259.2	642.4
Property	239.6	296.8
Buy and maintain credit	-	22.5
High-yield bonds	-	25.8
Cash	738.9	136.2
	1,785.3	2,659.4

* In June 2021, the STMIPS Trustees completed the purchase of a bulk annuity contract with JUST, an insurance company, to secure the benefits of all members of the STMIPS. The Trustees continue to pay benefits to members as before the transaction, but these cashflows are now matched exactly by income from JUST. In March 2023, the DVWS also entered into a bulk annuity buy-in investment policy with JUST that covers the majority of the scheme obligations.

Most of the assets have quoted prices in active markets, but there are equities, annuity policies, corporate bonds and LDI investments which are unquoted amounting to £419.0 million (2022: £496.0 million).

Movements in the fair value of the scheme assets were as follows:

	2023 £m	2022 £m
Fair value at 1 April	2,659.4	2,600.4
Interest income on scheme assets	78.6	52.8
Contributions from the sponsoring companies	100.5	61.9
Return on plan assets (excluding amounts included in finance income)	(922.0)	68.9
Scheme administration costs	(4.3)	(3.8)
Benefits paid	(126.9)	(120.8)
Fair value at 31 March	1,785.3	2,659.4

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes (continued)

Movements in the present value of the defined benefit obligations were as follows:

	2023 £m	2022 £m
Present value at 1 April	(2,787.4)	(2,968.1)
Current service cost	(0.1)	(0.2)
Past service credit	8.3	–
Interest cost	(82.2)	(59.5)
Actuarial (losses)/gains arising from changes in demographic assumptions	(16.2)	5.6
Actuarial gains arising from changes in financial assumptions	744.7	192.9
Actuarial losses arising from experience adjustments	(58.7)	(78.9)
Benefits paid	126.9	120.8
Present value at 31 March	(2,064.7)	(2,787.4)

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £6.5 million (2022: £7.9 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that it has an unconditional right to a refund of any surplus assets in each of the Schemes following settlement of all obligations to Scheme members and therefore the surplus in the DVWS has been recognised in full.

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2023 £m	2022 £m
Amounts credited/(charged) to operating costs:		
Current service cost	(0.1)	(0.2)
Past service credit	8.3	–
Scheme administration costs	(4.3)	(3.8)
	3.9	(4.0)
Amounts charged to finance costs:		
Interest cost	(82.2)	(59.5)
Amounts credited to finance income:		
Interest income on scheme assets	78.6	52.8
Total amount credited/(charged) to the income statement	0.3	(10.7)

The actual return on scheme assets was a loss of £843.4 million (2022: gain of £121.7 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(iv) Actuarial risk factors

The schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk for so long as the benefits are not insured.

Investment risk

The Group's contributions to the schemes are based on actuarial calculations which make assumptions about the returns expected from the schemes' investments. If the investments underperform these assumptions in the long term then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

Each scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach, reference is made to both the maturity of the liabilities and the funding level of that scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the STPS has a balanced approach to investment in equity securities, debt instruments and real estates. Due to the long-term nature of the scheme liabilities, the Group and the STPS Trustees consider it appropriate to invest a portion of the scheme assets in equity securities and in real estate to leverage the return generated by the fund. The STMIPS and DVWS are now primarily invested in bulk annuity insurance contracts with JUST, with a small residual amount of invested assets remaining.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

The schemes use LDIs within the asset portfolios to hedge against the value of liabilities changing as a result of movements in long-term interest rate and inflation expectations. This structure allows the schemes to both hedge against these risks and retain capital investment in assets that are expected to generate higher returns.

Longevity risk

The Group's contributions to the schemes are based on assumptions about the life expectancy of scheme members after retirement. If scheme members live longer than assumed in the actuarial calculations then the Group may need to make additional contributions to the schemes in order to fund the payment of accrued benefits.

(v) Actuarial assumptions

The major financial assumptions used in the accounting valuation of the obligations for the STPS which represents by far the largest defined benefit obligation for the Group were as follows:

	2023 % pa	2022 % pa
Price inflation – RPI	3.3	3.6
Price inflation – CPI	Pre 2030: 2.3	2.6
	Post 2030: 3.2	3.5
Discount rate	4.8	2.8
Pension increases in payment	3.3	3.6
Pension increases in deferment	3.3	3.6

The assumption for RPI inflation is derived with reference to the difference between the yields on longer-term fixed rate gilts and on index-linked gilts. RPI is expected to be more closely aligned with CPI from 2030 onwards, which is reflected in the corresponding assumption for CPI inflation.

In setting the discount rate, we construct a yield curve. Short dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of this constructed yield curve.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

27 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(v) Actuarial assumptions (continued)

The mortality base table assumptions are based on those used in the latest triennial funding valuation of the STPS. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 60 implied by the assumptions are as follows:

	2023		2022	
	Men	Women	Men	Women
Mortality table used	S3PMA	S3PFA_M	S3PMA_L	S3PFA_M
Mortality table compared with standard table	98%	91%	112%	95%
Mortality projections	CMI 2021	CMI 2021	CMI 2021	CMI 2021
Long-term rate of future improvement per annum	1.0%	1.0%	1.0%	1.0%
Weighting factor given to data for 2021	40%	40%	20%	20%
Remaining life expectancy for members currently aged 60 (years)	25.8	28.6	26.5	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)	26.9	29.8	27.6	29.7

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	Change in assumption	Impact on disclosed obligations
Discount rate ¹	Increase/decrease by 0.1% pa	Decrease/increase by £26 million
Price inflation ²	Increase/decrease by 0.1% pa	Increase/decrease by £21 million
Mortality ³	Increase in life expectancy by 1 year	Increase by £72 million

1 A change in discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the schemes.

2 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant pension increases. This would be expected to be offset by returns on LDI assets within the asset portfolios used to hedge against the value of liabilities, as set out in the inflation risk section of note 34(d).

3 The change in this assumption reflects the risk that life expectancy rates might increase.

In reality inter-relationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these inter-relationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 13 years for STPS, 10 years for STMIPS and 12 years for DVWS.

The most recently completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2022 for the STPS and STMIPS and 31 March 2020 for DVWS. As a result of the STPS actuarial valuation, annual deficit reduction contributions of £34.2 million were agreed, with the March 2023 payment having been increased in line with the annual increase in CPI to November 2022. Thereafter, future contributions for the STPS will also increase in line with CPI inflation until March 2027. The first two contributions in March 2023 and March 2024 are payable directly into the STPS and it is expected that payments in future years will be payable to a limited liability partnership that the Group and Trustee are in the process of setting up.

Payments of £8.2 million per annum through an asset backed funding arrangement will also continue to 31 March 2032 for the STPS. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that they are no longer needed. There are no deficit reduction contributions payable by the Group for STMIPS and DVWS.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £22.4 million (2022: £28.1 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2023, no contributions (2022: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

28 Provisions

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2022	19.8	23.1	17.4	60.3
Charged to income statement	5.3	1.1	0.7	7.1
Other net additions	-	34.2	-	34.2
Utilisation of provision	(9.9)	(7.4)	-	(17.3)
Unwinding of discount	-	-	0.2	0.2
At 31 March 2023	15.2	51.0	18.3	84.5
			2023 £m	2022 £m
Included in:				
Current liabilities			52.4	38.4
Non-current liabilities			32.1	21.9
			84.5	60.3

Insurance includes provisions in respect of Lyra Insurance Guernsey Limited, a captive insurance company and a wholly owned subsidiary of the Group, and insurance deductions in Severn Trent Water Limited. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Regulatory comprises provisions for works in response to legally enforceable undertakings to regulators, some of which are capital projects. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

29 Share capital

	2023 Number	2022 Number
Total issued and fully paid share capital		
254,425,641 ordinary shares of 97 ^{17/19} p (2022: 253,410,074)	249.1	248.1
At 31 March 2023, 2,863,716 treasury shares (2022: 3,116,579) were held at a nominal value of £2,803,427 (2022: £3,051,131).		
On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97 ^{17/19} p at 2,400p per share, through a placing, raising £245.3 million net of issue costs.		
Changes in share capital were as follows:		
	Number	£m
Ordinary shares of 97^{17/19}p		
At 1 April 2021	242,259,862	237.2
Shares issued under the Employee Sharesave Scheme	730,212	0.7
Shares issued from equity placing	10,420,000	10.2
At 1 April 2022	253,410,074	248.1
Shares issued under the Employee Sharesave Scheme	1,015,567	1.0
At 31 March 2023	254,425,641	249.1

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

30 Share premium

	2023 £m	2022 £m
At 1 April	394.4	148.1
Share premium arising on issue of shares for Employee Sharesave Scheme	14.3	11.2
Share premium arising from equity placing	–	235.1
At 31 March	408.7	394.4

31 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2021	157.1	(55.4)	101.7
Total comprehensive income for the year	–	46.7	46.7
At 1 April 2022	157.1	(8.7)	148.4
Total comprehensive income for the year	–	1.9	1.9
At 31 March 2023	157.1	(6.8)	150.3

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps and energy swaps taken directly to equity under the hedge accounting provisions of IFRS 9.

32 Capital management

The Group's principal objectives in managing capital are:

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

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

The Group has continued to monitor market conditions and limit its exposure to floating interest rate debt, which comprises 5% (2022: 4%) of our gross debt portfolio at the balance sheet date, with a further 28% (2022: 27%) of index-linked debt and 67% (2022: 69%) of fixed rate debt.

Exposure to credit risk (excluding credit risk relating to amounts receivable from contracts with customers) is set out in note 34 b).

Foreign exchange risk is set out in note 34 a) (ii).

The Group has the following credit ratings:

	Moody's	Standard and Poor's	Fitch
Severn Trent Plc	Baa2	BBB	BBB
Severn Trent Water	Baa1	BBB+	BBB+

The ratings were stable.

A key metric in measuring financial sustainability and capital efficiency for companies in the water sector is RCV gearing. This is measured as Severn Trent Water Group's net debt plus Hafren Dyfrdwy Cyfyngedig's net debt divided by their combined RCV. Amongst other considerations, the Group takes into account Ofwat assumption at the Price Review (60% for AMP 7). At 31 March 2023 the Group's RCV gearing ratio based on the RCV in the Final Determination for AMP7 (FD RCV) was 60.7% (2022: 59.5%). The FD RCV excludes expenditure that was not in the PR19 Business Plan such as our Green Recovery Programme. This expenditure will be included in the opening RCV for AMP8. Where the expenditure has been incurred but is not yet included in the RCV, there is a mismatch in the RCV gearing ratio. We therefore also monitor our shadow RCV gearing ratio which adjusts the RCV for expenditure already incurred but not yet included in the RCV. The shadow RCV gearing ratio at 31 March 2023 was 60.0% (2022: 59.2%).

The Group's dividend policy is a key tool in achieving its capital management objectives. This policy is reviewed and updated in line with Severn Trent Water's five year price control cycle and takes into account, inter alia, the planned investment programme, the appropriate gearing level achieving a balance between an efficient cost of capital and retaining an investment grade credit rating and delivering an attractive and sustainable return to shareholders. The Board has decided to set the 2022/23 dividend at 106.82 pence, an increase of 4.6% compared to the total dividend for 2021/22 of 102.14 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

32 Capital management (continued)

The Group's capital at 31 March was:

	2023 £m	2022 £m
Net cash and cash equivalents	28.7	107.7
Bank loans	(713.0)	(782.5)
Other loans	(6,474.2)	(5,823.5)
Lease liabilities	(110.9)	(117.4)
Cross currency swaps	33.6	28.3
Loans receivable from joint venture	75.3	79.6
Net debt	(7,160.5)	(6,507.8)
Equity attributable to owners of the company	(970.6)	(1,263.9)
Total capital	(8,131.1)	(7,771.7)

33 Fair values of financial instruments

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	2023 £m	2022 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	34.5	28.3	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	(0.9)	–	
Interest rate swaps			Discounted cash flow
Assets	40.5	2.9	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	(10.4)	(39.6)	
Energy swaps			Discounted cash flow
Assets	0.5	27.6	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Inflation swaps			Discounted cash flow
Assets	7.3	–	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices.
Liabilities	–	(3.7)	Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI ("the CPI wedge"). Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m
At 1 April 2021	(32.1)
Net gains recognised in profit or loss	28.4
At 31 March 2022	(3.7)
Net gains recognised in profit or loss	11.0
At 31 March 2023	7.3

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £4.5 million.

33 Fair values of financial instruments (continued)

b) Comparison of fair value of financial instruments with their carrying amounts

The Directors consider that the carrying amounts of all financial instruments, except those disclosed in the table below, approximate to their fair values. The carrying values and estimated fair values of other financial instruments are set out below:

	2023		2022	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	569.0	551.0	652.6	652.6
Other loans	146.8	157.9	147.8	161.4
Overdraft	5.5	5.5	7.7	7.7
	721.3	714.4	808.1	821.7
Fixed rate debt				
Other loans	4,441.3	4,177.0	3,984.3	4,253.0
Lease liabilities	110.9	110.9	117.4	126.6
	4,552.2	4,287.9	4,101.7	4,379.6
Index-linked debt				
Bank loans	144.0	137.1	129.9	149.5
Other loans	1,886.1	1,798.0	1,691.4	2,456.1
	2,030.1	1,935.1	1,821.3	2,605.6
	7,303.6	6,937.4	6,731.1	7,806.9

The above floating, fixed or index-linked classification does not take into account the impact of interest rate swaps or cross currency swaps.

Fixed rate loans are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked loans are rarely traded and quoted prices are not considered a reliable indicator of fair value. Therefore, these loans are valued using discounted cash flow models with discount rates derived from observed market prices for a sample of bonds, which is a Level 2 valuation technique.

Fair values of the other debt instruments are also calculated using discounted cash flow models with discount rates derived from observed market prices, which is a Level 2 valuation technique.

34 Risks arising from financial instruments

The Group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ('Group Treasury') under policies approved by the Board of Directors. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury operates under the Group's Treasury Procedures Manual and Policy Statement and identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group's exposure to changes in market interest rates. Further details are set out in section a) (i) and note 35 b) (i).

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and note 35 a) (i).

34 Risks arising from financial instruments (continued)

Energy swaps are held to mitigate the Group's exposure to changes in wholesale energy prices. Further details are provided in note 35 b) (ii).

Severn Trent Water, the Group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by CPIH. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPIH, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI/CPI/CPIH and the Group holds RPI/CPI swaps to mitigate the risk of divergence between RPI and CPIH.

a) Market risk

The Group is exposed to fluctuations in interest rates and, to a lesser extent, exchange rates. The nature of these risks and the steps that the Group has taken to manage them are described below.

(i) Interest rate risk

The Group's annual income and its operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings.

Borrowings issued at variable rates expose the Group to the risk of adverse cash flow impacts from increases in interest rates.

Borrowings issued at fixed rates expose the Group to the risk of interest costs above the market rate when interest rates decrease.

The Group's policy is to maintain 40% to 70% of its interest-bearing liabilities in fixed rate instruments during AMP7. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2023 £m	2022 £m
Net debt (note 37)	7,160.5	6,507.8
Cash and cash equivalents	34.2	115.4
Loans receivable from joint venture	75.3	79.6
Cross currency swaps included in net debt at fair value	33.6	28.3
Fair value hedge accounting adjustments	(20.1)	(21.1)
Exchange on currency debt not hedge accounted	(22.3)	(14.9)
Interest bearing financial liabilities	7,261.2	6,695.1

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the Group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from variable rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

34 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest. Debt which is hedged by interest rate swaps or cross currency swaps is included in the category after taking account of the impact of the swap. Debt raised in foreign currencies has been included at the notional sterling value of the payable leg of the corresponding cross currency swap since this is the amount that is exposed to changes in interest rates.

Valuation adjustments that do not impact the amount on which interest is calculated, such as fair value hedge accounting adjustments, are excluded from this analysis.

The net principal amount of unhedged swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the swaps on the amount of liabilities bearing fixed interest.

	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
2023				
Overdraft	(5.5)	–	–	(5.5)
Bank loans	(543.6)	(25.4)	(144.0)	(713.0)
Other loans	(83.0)	(4,462.7)	(1,886.1)	(6,431.8)
Lease liabilities	–	(110.9)	–	(110.9)
	(632.1)	(4,599.0)	(2,030.1)	(7,261.2)
Impact of swaps not matched against specific debt instruments	275.0	(275.0)	–	–
Interest bearing financial liabilities	(357.1)	(4,874.0)	(2,030.1)	(7,261.2)
Proportion of interest bearing financial liabilities that are fixed		67%		
Weighted average interest rate of fixed debt		4.11%		
Weighted average period for which interest is fixed (years)		9.7		

	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
2022				
Overdraft	(7.7)	–	–	(7.7)
Bank loans	(625.4)	(27.2)	(129.9)	(782.5)
Other loans	(104.3)	(3,991.8)	(1,691.4)	(5,787.5)
Lease liabilities	–	(117.4)	–	(117.4)
	(737.4)	(4,136.4)	(1,821.3)	(6,695.1)
Impact of swaps not matched against specific debt instruments	475.0	(475.0)	–	–
Interest bearing financial liabilities	(262.4)	(4,611.4)	(1,821.3)	(6,695.1)
Proportion of interest bearing financial liabilities that are fixed		66%		
Weighted average interest rate of fixed debt		3.84%		
Weighted average period for which interest is fixed (years)		9.2		

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £25.9 million (2022: £25.2 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2023 %	2022 %	2023 £m	2022 £m	2023 £m	2022 £m
Pay fixed rate interest						
1-2 years	–	4.98	–	(50.0)	–	(2.2)
2-5 years	–	5.14	–	(150.0)	–	(13.6)
5-10 years	5.46	5.46	(75.0)	(75.0)	(10.0)	(21.2)
	5.46	5.20	(75.0)	(275.0)	(10.0)	(37.0)

In addition to the above the Group has cross currency swaps that also swap fixed rate interest to floating (see below).

34 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity analysis

The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2023		2023	
	+1.0% £m	-1.0% £m	+1.0% £m	+1.0% £m
Profit or loss	2.3	(2.8)	9.7	(10.6)
Cash flow	(2.8)	2.8	(1.5)	1.5
Equity	2.3	(2.8)	9.7	(10.6)

(ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions. Substantially all of the Group's profits and net assets arise from Severn Trent Water, which has very limited and indirect exposure to changes in exchange rates, and therefore the sensitivity of the Group's results to changes in exchange rates is not material.

Certain of the Group's subsidiaries enter into transactions in currencies other than the functional currency of the operation. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to nil charge (2022: nil) in the income statement.

The Group has raised debt denominated in currencies other than sterling to meet its objective of accessing a broad range of sources of finance. The Group mitigated its exposure to exchange rate fluctuations by entering into cross currency swaps at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on SONIA.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 35 a) (i).

The Group also has cross currency swaps with a sterling notional value of £98.3 million (2022: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to income of £7.1 million (2022: charge of £2.3 million) in the income statement, as well as an exchange loss of £7.4 million (2022: loss of £6.6 million) on the underlying debt.

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

2023	Euro €m	US Dollar \$m	Yen ¥bn
Borrowings by currency	(19.9)	(180.0)	(10.3)
Cross currency swaps – hedge accounted	19.9	30.0	10.3
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	–	–	–

2022	Euro €m	US Dollar \$m	Yen ¥bn
Borrowings by currency	(19.9)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	–	–	–

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

34 Risks arising from financial instruments (continued)

b) Credit risk

Operationally the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, whose operating licences oblige them to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 21.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis

At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2023 £m	2022 £m	2023 £m	2022 £m
Double A range	150.0	150.0	-	-
Single A range	770.5	710.5	-	75.0
Triple B range	-	10.0	-	-
	920.5	870.5	-	75.0

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2023 £m	2022 £m
Single A range	82.8	52.6
Triple B range	-	6.2
	82.8	58.8

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and market position to be closed out when required. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows:

	2023 £m	2022 £m
2 – 5 years	800.0	1,100.0
5 years	100.0	-
	900.0	1,100.0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flows including principal and interest.

34 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

2023 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(16.7)	(473.5)	(36.1)	(149.2)	(675.5)
1 - 2 years	(10.6)	(153.7)	(89.3)	-	(253.6)
2 - 5 years	(141.8)	(906.6)	(113.8)	-	(1,162.2)
5 - 10 years	(211.9)	(2,002.1)	(714.3)	-	(2,928.3)
10 - 15 years	-	(905.4)	(168.0)	-	(1,073.4)
15 - 20 years	-	(1,064.8)	(304.4)	-	(1,369.2)
20 - 25 years	-	(152.9)	(326.2)	-	(479.1)
25 - 30 years	-	-	(738.5)	-	(738.5)
30 - 35 years	-	-	(2,909.0)	-	(2,909.0)
35 - 40 years	-	-	(917.5)	-	(917.5)
40 - 45 years	-	-	(413.3)	-	(413.3)
Total	(381.0)	(5,659.0)	(6,730.4)	(149.2)	(12,919.6)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short-term deposits £m	Receipts from financial assets £m
Within 1 year	2.4	681.7	34.2	718.3
1 - 2 years	7.3	3.3	-	10.6
2 - 5 years	87.0	-	-	87.0
Total	96.7	685.0	34.2	815.9

2022 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(4.1)	(404.4)	(133.1)	(113.5)	(655.1)
1 - 2 years	(317.3)	(449.7)	(32.7)	-	(799.7)
2 - 5 years	(407.7)	(1,175.7)	(154.4)	-	(1,737.8)
5 - 10 years	(111.4)	(1,591.1)	(593.1)	-	(2,295.6)
10 - 15 years	-	(731.7)	(255.1)	-	(986.8)
15 - 20 years	-	(1,070.7)	(280.5)	-	(1,351.2)
20 - 25 years	-	-	(211.6)	-	(211.6)
25 - 30 years	-	-	(727.2)	-	(727.2)
30 - 35 years	-	-	(1,713.3)	-	(1,713.3)
35 - 40 years	-	-	(2,082.6)	-	(2,082.6)
40 - 45 years	-	-	(411.9)	-	(411.9)
Total	(840.5)	(5,423.3)	(6,595.5)	(113.5)	(12,972.8)

Undiscounted amounts payable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short-term deposits £m	Receipts from financial assets £m
Within 1 year	3.3	547.9	115.4	666.6
1 - 2 years	102.3	6.6	-	108.9
2 - 5 years	12.5	-	-	12.5
Total	118.1	554.5	115.4	788.0

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

34 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

Index-linked debt includes loans with maturities up to 50 years. The principal is revalued at fixed intervals and is linked to movements in the RPI, CPI or CPIH. Interest payments are made biannually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

2023	Cross currency swaps					Total £m
	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	
Within 1 year	13.9	0.5	0.5	7.4	(6.1)	16.2
1 - 2 years	9.3	0.5	-	7.5	(6.0)	11.3
2 - 5 years	12.1	2.0	-	157.2	(125.1)	6.2
5 - 10 years	0.4	7.2	-	47.7	(45.1)	10.2
10 - 15 years	-	(1.9)	-	82.8	(59.0)	21.9
	35.7	8.3	0.5	302.6	(241.3)	105.8

2022	Cross currency swaps					Total £m
	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	
Within 1 year	[16.5]	0.2	28.0	6.2	(3.5)	14.4
1 - 2 years	(16.6)	0.3	-	6.2	(3.5)	(13.6)
2 - 5 years	(29.4)	1.3	-	146.3	(120.3)	(2.1)
5 - 10 years	(25.0)	3.0	-	39.3	(33.2)	(15.9)
10 - 15 years	-	(5.7)	-	-	-	(5.7)
15 - 20 years	-	(8.2)	-	-	-	(8.2)
	(87.5)	(9.1)	28.0	198.0	(160.5)	(31.1)

d) Inflation risk

The Group's principal operating subsidiary, Severn Trent Water, operates under a regulatory environment where its prices are linked to inflation as measured by CPIH. Its operating profits and cash flows are therefore exposed to changes in inflation. In order to mitigate and partially offset this risk, Severn Trent Water has raised debt that pays interest at a fixed coupon based on a principal amount that is adjusted for the change in inflation during the life of the debt instrument ('index-linked debt'). The amount of index-linked debt at the balance sheet date is shown in section a) (i) Interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) Cash flows from non-derivative financial instruments.

Oftwat is moving the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2022: £350 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

Inflation rate sensitivity analysis

The finance cost of the Group's index-linked debt instruments varies with changes in CPI/CPIH/RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in CPI/CPIH/RPI is set out in the following table. This analysis relates to financial instruments only and excludes any CPI/CPIH/RPI impact on Severn Trent Water's revenues and Regulatory Capital Value, or accounting for defined benefit pension schemes.

	2023		2022	
	+1.0% £m	-1.0% £m	+1.0% £m	-1.0% £m
Profit or loss	(16.4)	16.4	(14.8)	14.8
Equity	(16.4)	16.4	(14.8)	14.8

35 Hedge accounting

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met. Hedge ineffectiveness arises from credit risk, which is not hedged.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing in order to mitigate the Group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount		Fair value	
	2023 £m	2022 £m	2023 £m	2022 £m
Euro	11.4	11.4	6.4	7.4
US dollar	23.2	23.2	3.1	0.9
Yen	59.9	8.5	3.6	6.3
	94.5	43.1	13.1	14.6

b) Cash flow hedges

(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

Period to maturity	Average contract fixed interest rate		Notional principal amount		Fair value	
	2023 %	2022 %	2023 £m	2022 £m	2023 £m	2022 £m
2-5 years	2.43	1.70	125.4	50.0	9.5	1.0
5-10 years	1.83	2.10	248.0	325.2	30.6	(0.7)
	2.03	2.05	373.4	375.2	40.1	0.3

The Group recognised a loss on hedge ineffectiveness of £1.3 million (2022: loss of £0.6 million) in gains/losses on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group enters into a series of energy swaps under which it agrees to exchange the difference between fixed and market prices of electricity at six-monthly intervals. No such energy swaps are currently active and the risk of changes in wholesale energy prices in the next year is managed through physical contracts.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

Period to maturity	Average contract price		Notional contracted amount		Fair value	
	2023 £/MWh	2022 £/MWh	2023 MWh	2022 MWh	2023 £m	2022 £m
Less than 1 year	44.7	38.5	43,680	131,520	0.5	27.6
	44.7	38.5	43,680	131,520	0.5	27.6

35 Hedge accounting (continued)

c) Cumulative fair value adjustments

At the year end the cumulative fair value adjustments arising from the corresponding continuing hedge relationships were as follows:

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
2023				
Cross currency swaps	-	(109.9)	-	(14.0)
Interest rate swaps	-	(171.4)	-	-
	-	(281.3)	-	(14.0)
2022				
Cross currency swaps	-	(58.2)	-	(13.7)
Interest rate swaps	-	(374.9)	-	-
	-	(433.1)	-	(13.7)

£109.9 million (2022: £58.2 million) of the carrying amount of hedged items and £14.0 million (2022: £13.7 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

36 Share based payment

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £9.5 million (2022: £8.3 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £27.65 (2022: £27.30).

At 31 March 2023, there were no options exercisable (2022: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan (LTIP)

Under the LTIP, conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2019, 2020, 2021 and 2022 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulatory Equity in excess of the base return included within the Final Determinations over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2022: 100%).

(ii) Awards outstanding

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Outstanding at 1 April 2021	692,189
Granted during the year	203,756
Vested during the year	(230,003)
Lapsed during the year	(26,744)
Outstanding at 1 April 2022	639,198
Granted during the year	215,103
Vested during the year	(226,429)
Lapsed during the year	(14,713)
Outstanding at 31 March 2023	613,159

36 Share based payment (continued)

a) Long Term Incentive Plan (LTIP) (continued)

Details of LTIP awards outstanding at 31 March were as follows:

Date of grant	Normal Date of Vesting	Number of awards	
		2023	2022
July 2019	2022	-	231,442
July 2020	2023	202,547	205,651
July 2021	2024	196,129	202,105
July 2022	2025	214,483	-
		613,159	639,198

The awards outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.5 years (2022: 1.1 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 141 to 163.

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in the Company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2021	4,102,760	1,688p
Granted during the year	884,726	2,307p
Forfeited during the year	(74,463)	1,734p
Cancelled during the year	(135,804)	1,811p
Exercised during the year	(730,212)	1,611p
Lapsed during the year	(4,608)	1,682p
Outstanding at 1 April 2022	4,042,399	1,824p
Granted during the year	1,112,373	2,183p
Forfeited during the year	(72,506)	1,968p
Cancelled during the year	(216,312)	2,113p
Exercised during the year	(1,015,567)	1,502p
Lapsed during the year	(7,749)	1,772p
Outstanding at 31 March 2023	3,842,638	1,994p

Sharesave options outstanding at 31 March were as follows:

Date of grant	Normal Date of Vesting	Number of awards		
		2023	2022	
January 2017	2022	1,633p	-	123,540
January 2018	2023	1,652p	111,115	112,993
January 2019	2022 or 2024	1,474p	216,309	1,101,868
January 2020	2023 or 2025	1,787p	829,908	885,178
January 2021	2024 or 2026	1,860p	855,384	943,311
January 2022	2025 or 2027	2,307p	732,604	875,509
January 2023	2026 or 2028	2,183p	1,097,318	-
			3,842,638	4,042,399

The options outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.8 years (2022: 1.7 years).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

36 Share based payment (continued)

c) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are set out below:

	2023			2022		
	LTIP		SAYE	LTIP		SAYE
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	2,858	2,674	2,674	2,676	2,939	2,939
Option life (years)	3	3.3	5.3	3	3.3	5.3
Vesting period (years)	3	3	5	3	3	5
Expected volatility (%)	18.2	18.2	18.2	18.2	18.2	18.2
Expected dividend yield (%)	3.7	4.0	4.0	3.9	3.5	3.5
Risk free rate (%)	n/a	3.5	3.6	n/a	0.1	0.1
Fair value per share (pence)	2,842	526	542	2,659	543	521

Expected volatility is measured over the three years prior to the date of grant of the awards or share options.

Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

37 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2023 £m	2022 £m
Profit before interest and tax	508.8	506.2
Depreciation of property, plant and equipment	379.7	361.5
Depreciation of right-of-use assets	3.9	3.8
Amortisation of intangible assets	33.7	36.3
Pension service (credit)/cost	(8.2)	0.2
Defined benefit pension scheme administration costs	4.3	3.8
Defined benefit pension scheme contributions	(100.5)	(61.9)
Share based payment charge	9.5	8.3
Profit on sale of property, plant and equipment and intangible assets	(2.2)	(5.4)
Release from deferred credits	(16.4)	(17.5)
Contributions and grants received	40.2	42.8
Provisions charged to the income statement	7.1	14.8
Utilisation of provisions for liabilities	(17.3)	(12.3)
Operating cash flows before movements in working capital	842.6	880.6
Increase in inventory	(3.4)	(1.2)
Increase in amounts receivable	(146.2)	(87.6)
Increase in amounts payable	60.3	99.9
Cash generated from operations	753.3	891.7
Tax received	6.1	—
Tax paid	(10.1)	(1.2)
Net cash generated from operating activities	749.3	890.5

37 Cash flow statement (continued)

b) Non-cash transactions

Non-cash investing and financing transactions disclosed in other notes were:

- Acquisition of infrastructure assets from developers at no cost and provisions in response to legally enforceable undertakings to regulators (note 17).
- Acquisition of right-of-use assets (note 18).
- Shares issued to employees for no cash consideration under the LTIP (note 36).

c) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Lease liabilities £m	Cross currency swaps £m	Loans due from joint venture £m	Net debt £m
At 1 April 2022	107.7	(782.5)	(5,823.5)	(117.4)	28.3	79.6	(6,507.8)
Cash flow	(79.0)	83.7	(452.7)	13.1	–	(5.5)	(440.4)
Fair value adjustments	–	–	0.9	–	–	–	0.9
Inflation uplift on index-linked debt	–	(13.5)	(193.9)	–	–	–	(207.4)
Foreign exchange	–	–	(7.4)	–	–	–	(7.4)
Other non-cash movements	–	(0.7)	2.4	(6.6)	5.3	1.2	1.6
At 31 March 2023	28.7	(713.0)	(6,474.2)	(110.9)	33.6	75.3	(7,160.5)

d) Liabilities from financing activities

	Bank loans £m	Other loans £m	Lease liabilities £m	Total £m
At 1 April 2021	(1,011.1)	(5,471.3)	(121.3)	(6,603.7)
Cash flow	238.5	(250.6)	12.1	–
Fair value adjustments	–	2.9	–	2.9
Inflation uplift on index-linked debt	(6.9)	(99.6)	–	(106.5)
Foreign exchange	–	(6.6)	–	(6.6)
Other non-cash movements	(3.0)	1.7	(8.2)	(9.5)
At 1 April 2022	(782.5)	(5,823.5)	(117.4)	(6,723.4)
Cash flow	83.7	(452.7)	13.1	(355.9)
Fair value adjustments	–	0.9	–	0.9
Inflation uplift on index-linked debt	(13.5)	(193.9)	–	(207.4)
Foreign exchange	–	(7.4)	–	(7.4)
Other non-cash movements	(0.7)	2.4	(6.6)	(4.9)
At 31 March 2023	(713.0)	(6,474.2)	(110.9)	(7,298.1)

38 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2022: nil) is expected to arise in respect of either bonds or guarantees.

b) Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW residential and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which is scheduled to be held in November 2023.

c) Ongoing combined sewer overflow investigations

Ofwat and the Environment Agency are each conducting their own investigations into the waste water industry, to investigate compliance with the conditions of environmental permits. Ofwat has launched specific enforcement investigations against six sewerage companies, but Severn Trent is not included in those cases. The Environment Agency's investigation of all English sewerage companies is continuing and it is not yet clear what the outcome of those investigations will be. We have responded quickly and comprehensively to all questions from the regulators and have had open conversations with them on the issues under investigation.

39 Financial and other commitments

a) Investment expenditure commitments

	2023 £m	2022 £m
Property, plant and equipment contracted for but not provided for in the financial statements	634.9	354.7

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

40 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 64.09 pence per share.

41 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture Water Plus are disclosed below.

	2023 £m	2022 £m
Sale of services	259.5	259.8
Net interest income	3.9	2.5
	263.4	262.3

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2023 £m	2022 £m
Amounts due to related parties	–	(0.2)
Trade and other receivables due from related parties	0.2	–
Loans receivable from joint venture	75.3	79.6
	75.5	79.4

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 27.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year, and non-executive directors of the Company.

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 151 and 160 to 163.

	2023 £m	2022 £m
Short term employee benefits	4.6	5.7
Service contract non-executive director benefits	0.9	0.7
Share based payments	5.4	6.6
	10.9	13.0

42 Alternative performance measures (APMs)

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APM's). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own APMs, these might not be directly comparable with other companies' APMs. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

a) Exceptional items

Exceptional items are income or expenditure which individually or, in aggregate if of a similar type, should, in the opinion of the Directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level. There were no exceptional items in the years ended 31 March 2023 and 2022.

b) Adjusted earnings per share

Adjusted earnings per share figures exclude the effects of net gains/losses on financial instruments, current tax on net gains/losses on financial instruments and deferred tax. The Directors consider that the adjusted figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 14.

c) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 37.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

42 Alternative performance measures (APMs) (continued)

d) Effective interest cost

The effective interest cost is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

	2023 £m	2022 £m
Net finance costs	362.6	269.4
Net finance costs from pensions	(3.6)	(6.7)
Capitalised finance costs	56.6	34.5
	415.6	297.2
Average net debt	6,720.6	6,292.2
Effective interest cost	6.2%	4.7%

This APM is used as it shows the average finance cost for the net debt of the business.

e) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accrued to the carrying value of the debt (principally indexation adjustments on index-linked debt).

	2023 £m	2022 £m
Net finance costs	362.6	269.4
Net finance costs from pensions	(3.6)	(6.7)
Indexation adjustments	(215.7)	(106.5)
Capitalised finance costs	56.6	34.5
	199.9	190.7
Average net debt	6,720.6	6,292.2
Effective cash cost of interest	3.0%	3.0%

This is used as it shows the average finance cost that is paid in cash.

f) PBIT interest cover

The ratio of PBIT to net finance costs excluding net finance costs from pensions.

	2023 £m	2022 £m
PBIT	508.8	506.2
Net finance costs	362.6	269.4
Net finance costs from pensions	(3.6)	(6.7)
Net finance costs excluding net finance costs from pensions	359.0	262.7
	ratio	ratio
PBIT interest cover ratio	1.4	1.9

This is used to show how the PBIT of the business covers the financing costs associated only with net debt on a consistent basis. In previous years we have reported adjusted PBIT interest cover.

42 Alternative performance measures (APMs) (continued)

g) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

	2023 £m	2022 £m
PBIT	508.8	506.2
Depreciation (including right-of-use assets)	383.6	365.3
Amortisation	33.7	36.3
EBITDA	926.1	907.8
Net finance costs	362.6	269.4
Net finance costs from pensions	(3.6)	(6.7)
Net finance costs excluding finance costs from pensions	359.0	262.7
EBITDA interest cover ratio	2.6	3.5

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

h) Adjusted effective current tax rate

The current tax charge for the year, excluding prior year charges and current tax on financial instruments, divided by profit before tax, net losses/gains on financial instruments, exceptional items, and share of net profit/loss of joint ventures accounted for using the equity method.

	2023 £m	Current tax thereon £m	2022 £m	Current tax thereon £m
Profit before tax	167.9	–	274.1	–
Adjustments				
Share of net (profit)/loss of joint venture	–	–	2.2	–
Net (gains)/losses on financial instruments	(21.7)	–	(39.3)	–
	146.2	–	237.0	–
Adjusted effective current tax rate	0.0%	0.0%	0.0%	0.0%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in note 14. Share of net (profit)/loss of joint ventures is excluded from the calculation because the (profit)/loss is included after tax and so the tax on joint venture profits is not included in the current tax charge.

i) Operational cashflow

Cash generated from operations less contributions and grants received.

	2023 £m	2022 £m
Cash generated from operations	753.3	891.7
Contributions and grants received	(40.2)	(42.8)
Operational cashflow	713.1	848.9

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

42 Alternative performance measures (APMs) (continued)

j) Cash capex

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2023 £m	2022 £m
Purchase of property, plant and equipment	699.7	610.3
Purchase of intangible assets	40.0	36.3
Contributions and grants received	(40.2)	(42.8)
Proceeds on disposal of property, plant and equipment	(12.9)	(9.5)
Cash capex	686.6	594.3

This APM is used to show the cash impact of the Group's capital programmes.

k) Capital investment

Additions to property, plant and equipment and intangible fixed assets less contributions and grants received, assets contributed at no cost, and capitalised finance costs.

	2023 £m	2022 £m
Additions to property, plant and equipment	898.9	714.3
Additions to intangible assets	40.0	36.3
Contributions and grants received	(40.2)	(42.8)
Assets contributed at no cost	(105.0)	(69.0)
Capitalised finance costs	(56.6)	(34.5)
Capital investment	737.1	604.3

Includes £34.2 million (2022: £15.3 million) of provisions for future capital expenditure arising from regulatory obligations [See notes 17 and 28].

43 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2023 are given below. Details of the joint venture are set out in note 19. All subsidiary undertakings have been included in the consolidation.

Owned directly by Severn Trent Plc	Country of operation and incorporation	Percentage of share capital held	Class of share capital held
Athena Holdings Limited	Hong Kong	100%	Ordinary

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings

Aqua Deva Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent Investment Holdings Limited
Dee Valley Services Limited	Severn Trent LCP Limited
Dee Valley Water (Holdings) Limited	Severn Trent Leasing Limited
East Worcester Water Limited	Severn Trent Metering Services Limited
Etwall Land Limited	Severn Trent MIS Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent Overseas Holdings Limited
M A Solutions (LINDUM) Ltd	Severn Trent Pension Scheme Trustees Limited
Midlands Land Portfolio Limited	Severn Trent PIF Trustees Limited
North Wales Gas Limited	Severn Trent Property Solutions Limited
Northern Gas Supplies Limited	Severn Trent Reservoirs Limited
Severn Trent (W&S) Limited	Severn Trent Retail and Utility Services Limited
Severn Trent Data Portal Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Draycote Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Defence Limited
Severn Trent Finance Limited	Severn Trent Services Holdings Limited
Severn Trent General Partnership Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Solar Power Limited
Severn Trent Green Power (CW) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent Trimbley Limited
Severn Trent Green Power (North London) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (RBWM) Limited	Severn Trent Water Limited
Severn Trent Green Power (Wallingford) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power (West London) Limited	Severn Trent WWIF Limited
Severn Trent Green Power Biogas Limited	Wrexham Water Limited
Severn Trent Green Power Composting Limited	

The Group owns 100% of the share capital of the following subsidiary undertakings.

All subsidiary undertakings	Country of operation and incorporation	Class of share capital held
Energy Supplies UK Limited	United Kingdom	A and B Ordinary
Lyra Insurance Guernsey Limited	Guernsey	Ordinary
Severn Trent Carsington Limited	United Kingdom	A and B Ordinary

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

43 Subsidiary undertakings (continued)

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

Company	Registered office
Athena Holdings Limited	One 33, Hysan Avenue, Causeway Bay, Hong Kong
Dee Valley Limited	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Hafren Dyfrdwy Cyfyngedig	Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH
Lyra Insurance Guernsey Limited	St Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey
Severn Trent General Partnership Limited	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
Severn Trent Green Power (Ardley) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Bridgend) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Cassington) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (CW) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Hertfordshire) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (North London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (RBWM) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (Wallingford) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power (West London) Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Biogas Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Composting Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Group Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB
Severn Trent Green Power Holdings Limited	The Stables, Radford, Chipping Norton, Oxfordshire, OX7 4EB

43 Subsidiary undertakings (continued)

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2023 under section 479C of Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of individual accounts by virtue of section 479A of the Act.

Company	Company Number
Chester Water Limited	2888872
Dee Valley Group Limited	4316684
Dee Valley Limited	2902525
Dee Valley Water (Holdings) Limited	4421854
East Worcester Water Limited	2757948
Etwall Land Limited	7559793
Severn Trent (W&S) Limited	3995023
Severn Trent Carsington Limited	7570384
Severn Trent Data Portal Limited	8181048
Severn Trent Draycote Limited	7681784
Severn Trent Finance Holdings Limited	6044159
Severn Trent Finance Limited	6294618
Severn Trent General Partnership Limited	SC416614
Severn Trent Green Power (Ardley) Limited	5807721
Severn Trent Green Power (Hertfordshire) Limited	6771560
Severn Trent Green Power (North London) Limited	9689098
Severn Trent Green Power (West London) Limited	8308321
Severn Trent Green Power Composting Limited	4927756
Severn Trent Holdings Limited	5656363
Severn Trent Investment Holdings Limited	7560050
Severn Trent LCP Limited	7943556
Severn Trent Leasing Limited	6810163
Severn Trent Metering Services Limited	2569703
Severn Trent Overseas Holdings Limited	2455508
Severn Trent Reservoirs Limited	3115315
Severn Trent Services Holdings Limited	4395572
Severn Trent Services International (Overseas Holdings) Limited	3125131
Severn Trent Services International Limited	2387816
Severn Trent Retail and Utility Services Limited	2562471
Severn Trent Trimley Limited	10690056
Severn Trent WWIF Limited	11966722

COMPANY FINANCIAL STATEMENTS

**COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2023 £m	2022 £m
Profit for the year		426.7	141.8
Other comprehensive income			
Items that will not be reclassified to the income statement:			
Net actuarial gains	12	1.2	0.1
Deferred tax arising on actuarial gains	3	(0.3)	-
Deferred tax arising on change of rate	3	-	0.5
Other comprehensive income for the year		0.9	0.6
Total comprehensive income for the year		427.6	142.4

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2021		237.2	148.1	157.1	2,814.7	3,357.1
Profit for the year		–	–	–	141.8	141.8
Net actuarial gains	12	–	–	–	0.1	0.1
Deferred tax arising from rate change	3	–	–	–	0.5	0.5
Total comprehensive income for the year		–	–	–	142.4	142.4
Share options and LTIPs						
– proceeds from shares issued	8,9	0.7	11.2	–	–	11.9
– value of employees' services		–	–	–	8.4	8.4
Proceeds from equity placing		10.2	235.1	–	–	245.3
Dividends paid	16	–	–	–	(254.5)	(254.5)
At 31 March 2022		248.1	394.4	157.1	2,711.0	3,510.6
Profit for the year		–	–	–	426.7	426.7
Net actuarial gains	12	–	–	–	1.2	1.2
Deferred tax on net actuarial gains	3	–	–	–	(0.3)	(0.3)
Total comprehensive income for the year		–	–	–	427.6	427.6
Share options and LTIPs						
– proceeds from shares issued	8,9	1.0	14.3	–	–	15.3
– value of employees' services		–	–	–	9.7	9.7
Dividends paid	16	–	–	–	(261.3)	(261.3)
At 31 March 2023		249.1	408.7	157.1	2,887.0	3,701.9

Included in retained earnings are profits of £1,221.2 million that arose from group restructuring arrangements in previous years and are therefore not distributable. Distributable reserves are therefore £1,665.8 million.

COMPANY FINANCIAL STATEMENTS CONTINUED

COMPANY BALANCE SHEET

FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 £m	2022 £m
Non-current assets			
Property, plant and equipment		0.3	0.3
Right-of-use assets		0.6	0.8
Investments in subsidiaries	2	3,371.6	3,362.1
Deferred tax asset	3	1.6	2.0
Trade and other receivables	4	1,139.0	1,126.0
		4,513.1	4,491.2
Current assets			
Trade and other receivables	4	33.9	25.6
Current tax receivable		15.0	13.6
Cash and cash equivalents		1.2	-
		50.1	39.2
Current liabilities			
Borrowings	5	(0.2)	(96.2)
Trade and other payables	6	(12.6)	(94.0)
Provisions for liabilities	7	(0.8)	(0.8)
		(13.6)	(191.0)
Net current assets/(liabilities)		36.5	(151.8)
Total assets less current liabilities		4,549.6	4,339.4
Non-current liabilities			
Borrowings	5	(837.4)	(819.2)
Trade and other payables	6	(2.9)	(0.1)
Retirement benefit obligations	12	(6.5)	(7.9)
Provisions for liabilities	7	(0.9)	(1.6)
		(847.7)	(828.8)
Net assets		3,701.9	3,510.6
Capital and reserves			
Called up share capital	8	249.1	248.1
Share premium account	9	408.7	394.4
Other reserves	10	157.1	157.1
Retained earnings		2,887.0	2,711.0
Total capital and reserves		3,701.9	3,510.6

The profit for the year is £426.7 million (2022: £141.8 million).

Signed on behalf of the Board who approved the accounts on 23 May 2023.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Employee numbers

The average number of employees during the year was 14 (2022: 14).

2 Investments in subsidiaries

	£m
At 1 April 2022	3,362.1
Additions	9.5
At 31 March 2023	3,371.6

Details of principal subsidiaries of the Company are given in note 43 to the Group financial statements.

3 Deferred tax

	Retirement benefit obligations £m
At 1 April 2021	1.5
Credit to income arising from rate change	0.5
At 1 April 2022	2.0
Charge to income	(0.1)
Charge to equity	(0.3)
At 31 March 2023	1.6

4 Trade and other receivables

	2023 £m	2022 £m
Current assets		
Other amounts receivable	0.2	0.2
Prepayments	0.2	0.2
Amounts owed by group undertakings	33.5	25.2
	33.9	25.6
Non-current assets		
Other amounts receivable	3.2	2.7
Loan receivable	74.3	78.8
Amounts owed by group undertakings under loan agreements	1,061.5	1,044.5
	1,139.0	1,126.0
	1,172.9	1,151.6

5 Borrowings

	2023 £m	2022 £m
Current liabilities		
Other loans	0.1	96.1
Lease liabilities	0.1	0.1
	0.2	96.2
Non-current liabilities		
Bank loans	0.4	–
Amounts due to group undertakings under loan agreements	637.2	619.4
Other loans	199.1	199.0
Lease liabilities	0.7	0.8
	837.4	819.2
	837.6	915.4

At the balance sheet date the Company had £100.0 million (2022: £100.0 million) undrawn borrowing facilities.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

6 Trade and other payables

	2023 £m	2022 £m
Current liabilities		
Trade payables	0.6	0.1
Social security and other taxes	0.1	0.1
Other payables	0.7	3.2
Accruals	1.2	1.2
Amounts due to group undertakings	10.0	89.4
	12.6	94.0
Non-current liabilities		
Other payables	2.9	-
Accruals	-	0.1
	2.9	0.1
	15.5	94.1

7 Provisions

	Insurance £m	Other £m	Total £m
At 1 April 2022	0.4	2.0	2.4
Utilisation of provision	(0.1)	(0.6)	(0.7)
At 31 March 2023	0.3	1.4	1.7
	2023 £m	2022 £m	
Included in:			
Current liabilities	0.8	0.8	
Non-current liabilities	0.9	1.6	
	1.7	2.4	

The cash outflows associated with insurance provisions are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations and commercial disputes. The associated outflows are estimated to arise over a period up to five years from the balance sheet date.

8 Share capital

	2023 £m	2022 £m
Total issued and fully paid share capital		
254,425,641 ordinary shares of 97½p (2022: 253,410,074)	249.1	248.1
At 31 March 2023, 2,863,716 treasury shares (2022: 3,116,579) were held at a nominal value of £2,803,427 (2022: £3,051,131).		
On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97½p at 2,400p per share, through a placing, raising £245.3 million net of issue costs.		
Changes in share capital were as follows:		
	Number	£m
Ordinary shares of 97½p		
At 1 April 2021	242,259,862	237.2
Shares issued under the Employee Sharesave Scheme	730,212	0.7
Shares issued from equity placing	10,420,000	10.2
At 1 April 2022	253,410,074	248.1
Shares issued under the Employee Sharesave Scheme	1,015,567	1.0
At 31 March 2023	254,425,641	249.1

9 Share premium

	2023 £m	2022 £m
At 1 April	394.4	148.1
Share premium arising on issue of shares for Employee Sharesave Scheme	14.3	11.2
Share premium arising from equity placing	–	235.1
At 31 March	408.7	394.4

10 Other reserves

	Capital redemption reserve £m
At 31 March 2021, 31 March 2022 and 31 March 2023	157.1

The capital redemption reserve arose on the redemption of B shares.

11 Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 36 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

12 Pensions

Defined benefit schemes

The Group operates defined benefit pension schemes, of which some employees of the Company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net defined benefit cost of the scheme is recognised in the financial statements of the sponsoring employer, Severn Trent Water Limited. The scheme closed to future accrual on 31 March 2015. The cost of contributions to the Group schemes amount to £0.5 million (2022: £0.5 million). There were no amounts outstanding for contributions to the defined benefit schemes (2022: nil).

The Company has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. This unfunded scheme is part of the Severn Trent Pension Scheme.

Information about the schemes as a whole is disclosed in note 27 to the Group financial statements.

13 Related party transactions

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 27 to the Group financial statements.

Information about Directors' remuneration is provided in the audited part of the Directors' Remuneration Report.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee in respect of liabilities to wholesalers is capped at £43.5 million (2022: £54.1 million).

The Company has a revolving credit facility available to Water Plus totalling £95 million. At 31 March 2023 the amount drawn was £76.4 million (2022: £80.5 million).

14 Contingent liabilities

a) Bonds and guarantees

The Company has entered into bonds and guarantees in the normal course of business. No liabilities are expected to arise in respect of either the bonds or guarantees.

b) Bank offset arrangements

The banking arrangements of the Company operate on a pooled basis with certain of its subsidiary undertakings. Under these arrangements participating companies guarantee each other's overdrawn balances to the extent of their credit balances, which can be offset against balances of participating companies. As at 31 March 2023, the Company had no contingent liabilities (2022: nil).

15 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 64.09 pence per share.

16 Dividends

For details of the dividends paid in the years ended 31 March 2023 and 31 March 2022 see note 13 in the Group financial statements.

FIVE YEAR SUMMARY

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Continuing operations					
Turnover	2,165.1	1,943.3	1,827.2	1,843.5	1,767.4
Profit before interest, tax, and exceptional items	508.8	506.2	470.7	568.2	572.9
Gain on impairment of loans receivable	–	0.2	3.6	–	–
Net exceptional items before tax	–	–	(4.9)	(51.7)	(9.6)
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	(362.6)	(269.4)	(187.1)	(188.4)	(194.2)
Gains/(losses) on financial instruments	21.7	39.3	(6.2)	(17.4)	16.0
Results of associates and joint ventures ¹	–	(2.2)	(8.9)	–	(0.4)
Profit on ordinary activities before taxation	167.9	274.1	267.2	310.7	384.7
Current taxation on profit on ordinary activities	(0.2)	4.8	(26.8)	(30.1)	(31.8)
Deferred taxation	(35.5)	(71.7)	(28.2)	(29.1)	(39.4)
Exceptional tax	–	(294.4)	–	(92.7)	1.8
Profit/(loss) for the year	132.2	[87.2]	212.2	158.8	315.3
Net assets employed					
Fixed assets	10,716.9	10,609.3	10,261.4	9,954.8	9,337.7
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	(966.3)	(1,315.9)	(1,276.0)	(1,142.0)	(992.6)
Derivative financial instruments ²	37.9	(12.8)	(86.0)	(158.5)	(95.1)
Net retirement benefit obligation	(279.4)	(128.0)	(367.7)	(234.0)	(452.9)
Provisions for liabilities and deferred tax	(1,378.0)	(1,380.9)	(949.2)	(945.1)	(798.9)
	8,131.1	7,771.7	7,582.5	7,475.2	6,998.2
Financed by					
Called up share capital	249.1	248.1	237.2	236.5	235.9
Reserves	721.5	1,015.8	901.5	1,007.2	928.2
Total shareholders' funds	970.6	1,263.9	1,138.7	1,243.7	1,164.1
Net debt ³	7,160.5	6,507.8	6,443.8	6,231.5	5,834.1
	8,131.1	7,771.7	7,582.5	7,475.2	6,998.2
Statistics					
Earnings per share (continuing) – pence	52.7	(35.2)	89.1	66.7	133.4
Adjusted earnings per share – pence	58.2	96.9	105.4	146.0	145.8
Dividends per share (excluding special dividend) – pence	106.8	102.1	101.6	100.1	93.4
Dividend cover [before exceptional items and deferred tax]	0.5	0.9	1.0	1.5	1.6
Gearing ⁴ – %	88.1	83.7	85.0	83.4	83.3
Ordinary share price at 31 March – pence	2,879.0	3,078.0	2,306.0	2,280.0	1,976.0
Average number of employees					
– Regulated Water and Waste Water	7,176	6,612	6,536	6,345	5,680
– Other	475	506	497	451	900

1 Excludes exceptional share of net gains/losses of joint venture.

2 Excludes instruments hedging foreign currency debt.

3 Includes instruments hedging foreign currency debt.

4 Gearing has been calculated as net debt divided by the sum of equity and net debt.

GLOSSARY

ABS – Annual Bonus Scheme	FD – Final Determination	s.172 – Section 172 Statement
AGM – Annual General Meeting	FFT – Flow to Full Treatment	SASB – Sustainability Accounting Standards Board
AMP – Asset Management Plan	FRC – Financial Reporting Council	SBT – Science-Based Targets
AMP6 – the period 2015–2020	GAA – Group Authorisation Arrangements	SBTi – Science-Based Targets incentive
AMP7 – the period 2020–2025	GDPR – General Data Protection Regulations	SDS – Strategic Direction Statement
AMP8 – the period 2025–2030	GHG – Greenhouse Gas	STEM & Ops – Science Technology, Engineering and Mathematics and Operations
APD – Acid Phase Digestion	GWh – Gigawatt hours	SID – Senior Independent Director
AQR – Audit Quality Review	Ha – Hectares of land	SLA – Service Level Agreement
BEIS – Department for Business, Energy and Industrial Strategy	HD – Hafren Dyfrdwy	SMT – Senior Management Team
CAW – Carbon Accounting Workbook	IGP – Inspiring Great Performance	SOAF – Storm Overflows Assessments
CCW – Consumer Council for Water	IPCC – International Panel for Climate Change	SODRP – Storm Overflows Discharge Reduction Plan
CDP – Carbon Disclosure Project	ISSB – International Sustainability Standards Board	SOP – Standard Operating Procedure
CEO – Chief Executive Officer	KPI – Key Performance Indicator	SRF – Strategic Risk Forum
CFO – Chief Financial Officer	LTDS – Long-Term Delivery Strategy	SSO – Sanitary Sewer Overflows
CHP – Combined Heat and Power	LTI – Lost Time Incidents	SSSI – Site of Special Scientific Interest
C-MeX – Customer Measure of Experience	LTIP – Long Term Incentive Plan	STEC – Severn Trent Executive Committee
CRI – Compliance Risk Index	M&A – Mergers and Acquisitions	STEM & Ops – Science, Technology, Engineering and Mathematics & Operations
CRISP – Compliance Risk Index Sustainability Plan	MoD – Ministry of Defence	STEPS – Severn Trent Environmental Protection Scheme
CSO – Combined Sewer Overflows	NAV – New Appointments and Variations	STW – Severn Trent Water
Defra – Department for the Environment, Food and Rural Affairs	NHH – Non-Household	TCA – The Coal Authority
D&I – Diversity and Inclusion	NIS-R – Network and Information Systems Regulations	TCFD – Task Force for Climate-related Financial Disclosures
D-MeX – Developer Measure of Experience	NRW – Natural Resources Wales	THP – Thermal Hydrolysis Process
DNSH – Do No Significant Harm	NZTP – Net Zero Transition Plan	TNFD – Taskforce for Nature-related Financial Disclosures
DRIP – Dividend Reinvestment Plan	ODI – Outcome Delivery Incentive	Totex – Total expenditure
DTRT – Doing the Right Thing	ONS – Office for National Statistics	TSC – Technical Screening Criteria
DWI – Drinking Water Inspectorate	PAI – Principal Adverse Impact	TUB – Temporary Use Ban, also known as a hosepipe ban
DWMP – Drainage and Wastewater Management Plan	PBIT – Profit Before Interest and Tax	UKCP18 – UK Climate Projections 2018
EA – Environment Agency	PCC – Per Capita Consumption	UKWIR – UK Water Industry Research
EAP – Employee Assistance Programme	PESR – Post Employment Shareholding Requirement	UQ – Upper Quartile
EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation	PESTLE – Politicital, Economic, Social, Technological, Legal and Environmental	WaSCs – Water and Sewerage Companies
ECL – Expected Credit Losses	PFAS – Per- and Polyfluorinated Substances	WINEP – Water Industry National Environment Programme
EDM – Event Duration Monitor	PR24 – Price Review 2024	WRMP – Water Resources Management Plan
EPA – Environmental Performance Assessment	PSR – Priority Services Register	WSSR – Water Scarcity Status Report
EPS – Earnings per share	RCM – Regional Climate Model	WwTW – Waste water Treatment Works
ERM – Enterprise Risk Management	RCP – Representative Concentration Pathway	
ESG – Environment, Social and Governance	RCV – Regulatory Capital Value	
FBU – Fair, Balanced and Understandable	REGO – Renewable Energy Guarantee of Origin	
FCA – Financial Conduct Authority	RNAGS – Reasons for Not Achieving Good Status	
	RoRE – Return on Regulated Equity	

INFORMATION FOR SHAREHOLDERS

Severn Trent shareholder helpline

The Company's registrar is Equiniti. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments. If you have any queries relating to your Severn Trent Plc shareholding, you should contact Equiniti.

Registrar contact details:

Online: [shareview.co.uk](https://www.shareview.co.uk)

Telephone: +44 (0) 371 384 29671*

Accessibility: For deaf and speech impaired customers Equiniti welcome calls via Relay UK. Please see <https://www.relayuk.bt.com> for more information.

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom.

Please include your shareholder reference and details of your query.

Corporate website

Shareholders are encouraged to visit our website severntrent.com which provides:

- Company news and information;
- links to our operational businesses' websites;
- details of our governance arrangements;
- details of our plans and social purpose; and
- our approach to sustainability and innovation.

There is also a dedicated investors' section on the website containing up-to-date information for shareholders including:

- our investment proposition; and
- our financial reports and presentations;

Plus a shareholder centre containing:

- share price information;
- a history of dividend payment dates and amounts; and
- access to current and historical shareholder information.

Electronic communications

By registering to receive shareholder documentation from Severn Trent Plc electronically, shareholders can benefit from being able to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when shareholder documents are available;
- cast their AGM vote electronically; and
- manage their shareholding quickly and securely online, through Shareview.

Electronic shareholder communications also enable the Company to reduce its impact on the environment and benefit from savings associated with reduced printing and mailing costs.

For further information and to register for electronic shareholder communications visit www.shareview.co.uk and register for an online portfolio account enabling you to:

- monitor all your shareholdings;
- manage your personal details;
- buy and sell shares;
- vote at company meetings; and
- view tax vouchers online.

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account.

The benefits of doing this include:

- receiving cleared funds in your bank account on the payment date;
- avoiding postal delays; and
- removing the risk of your cheques getting lost in the post.

To take advantage of this service or for further details, contact Equiniti or register/log-in to [shareview.co.uk](https://www.shareview.co.uk) and select Manage My Shares and My Dividends.

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited via the Customer Experience number below or online via www.shareview.co.uk by registering for/logging-in to your portfolio account.

Telephone: +44 (0) 371 384 29671

¹ Please use the country code when calling from outside the UK. Lines are open from 8.30am to 17.30pm (UK time), Mon-Fri (excluding public holidays in England and Wales).

Other information

Buying and selling shares in the UK

If you wish to buy or sell certificated Severn Trent Plc shares, you may need to use a stockbroker or high street bank which trades on the London Stock Exchange. There are also many telephone and online services available to you.

If you are selling, you will need to present your share certificate at the time of sale. Details of dealing services offered by Equiniti Financial Services Limited may be obtained from www.shareview.co.uk or contact 03456 037 037* for assistance.

Share price information

Shareholders can find share price information on our website and in most national newspapers. For a real-time buying or selling price, you should contact a stockbroker.

Shareholder security

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

Please be aware that scams are becoming ever-more sophisticated with fraudsters often claiming or implying that they have some connection with Severn Trent, and possibly offering an attractive investment opportunity. Beware, they may simply be trying to obtain your personal data.

Financial calendar

Ex dividend date – final dividend	1 June 2023
Record date to be eligible for the final dividend	2 June 2023
DRIP election date – final	23 June 2023
AGM	6 July 2023
Final dividend payment date	14 July 2023

All dates are indicative and may be subject to change.

* Lines are open Monday to Friday, 8.00am to 4.30pm for dealing, and until 6.00pm for enquiries (excluding public holidays in England and Wales). Calls from a landline are charged at national rates. Calls from a mobile device may incur network extras.

¹ Please use the country code when contacting Equiniti from outside the UK.

How to avoid share fraud:

- Keep in mind that firms authorised by the Financial Conduct Authority ('FCA') are unlikely to contact you out of the blue with an offer to buy or sell shares;
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call;
- Check the Financial Services Register at fca.org.uk to see if the person and firm contacting you is authorised by the FCA;
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details;
- Use the firm's contact details listed on the Register if you want to call it back;
- Call the Freephone FCA Consumer helpline (see details below) if the firm does not have contact details on the Register or you are told they are out of date;
- Search the FCA Warning List of unauthorised firms to avoid at www.fca.org.uk/consumers/report-scams;
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme;
- Think about getting independent financial and professional advice before you hand over any personal data or documents or your money; and
- Remember, if it sounds too good to be true, it probably is.

If you are approached by fraudsters please tell the FCA using their contact form online at www.fca.org.uk/consumers/report-scams, or contact them on:

- 0800 111 6768 (freephone)
- 0300 500 8082 (from the UK)
- +44 207 066 1000 (from abroad)
- (18001) 0207 066 1000
(next generation text relay)

(open Mon-Fri 8am to 6pm, Sat 9am to 1pm)

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 (Mon-Fri 8am to 8pm) or online via <https://www.actionfraud.police.uk/reportscam>.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive, please contact:

The Mailing Preference Service ('MPS'), DMA House, 70 Margaret Street, London, W1W 5S.

Alternatively, register online at www.mpsonline.org.uk or call the MPS Registration line on 0207 291 3310.

American Depository Receipts ('ADRs')

Severn Trent has a sponsored Level 1 ADR programme, for which The Bank of New York Mellon acts as Depositary.

The Level 1 ADR programme trades on the premier tier of the US over-the-counter ('OTC') market under the symbol STRNY (it is not listed on a US stock exchange). Each ADR represents one Severn Trent ordinary share.

If you have any enquiries regarding Severn Trent ADRs, please contact The Bank of New York Mellon.

By post: BNY Mellon Shareowners Services, P0 Box 43006, Providence RI 02940-3078 US

By telephone:

If calling from within the US: (888) 269 2377 (toll-free)

If calling from outside the US: +1 201 680 6825

By email:

shrrelations@cpushareownerservices.com

Website: www.mybnymdr.com

Cautionary Forward-Looking Statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

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

Save as required by applicable laws and regulations, Severn Trent does not intend to update these forward-looking statements and does not undertake any obligation to do so. Past performance of securities of Severn Trent Plc cannot be relied upon as a guide to the future performance of securities of Severn Trent Plc. Nothing in this document should be regarded as a profits forecast.

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

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