MAKING A DIFFERENCE **TOGETHER**

Severn Trent Plc
Annual Report and Accounts 2022

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COMPANIES HOUSE

WONDERFUL ON TAP

MAKING A DIFFERENCE TOGETHER

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

Regulated water and waste water

Our regulated water and waste water businesses are Severn Trent Water and Hafren Dyfrdwy. The primary activities we focus on are:

- Wholesale operations and engineering; and
- Household customer services.

About us

We are two of eleven regulated water and waste water businesses in England and Wales. We provide high-quality services to more than 4.8 million households and businesses in our region.

Where we operate

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

Turnover

£1,804.4m

6.5% ▲

Profit before interest and tax ('PBIT')

£476.3m

5.4% ▲

Adjusted PBIT[1]

£476.3m

5.4% ▲

Employees[2]

6,612

1.2% ▲

Litres of drinking water supplied each day

2.0bn

0% ◆

Litres of waste water treated each day

3.1bn

0% ◆

Households and businesses served

4.8m

4% ▲

Revenue split

Business Services

Business Services operates throughout Great Britain and includes the following businesses:

Green Power

Severn Trent Green Power generates renewable energy from anaerobic digestion, hydropower, wind turbines and solar technology.

Operating Services

Operating Services provides:

- Contract services to municipal and industrial clients in the UK;
- Design, build and operation of water and waste water treatment facilities and networks to the UK Ministry of Defence ('MOD'); and
- Services to developers.

Property Development

Property Development manages the sale of surplus land.

Other businesses include our affinity and searches businesses.

Turnover

£143.6m

6.6% ▲

PBIT

£36.4m

53.6% ▲

Adjusted PBIT[1]

£38.5m

49.2% ▲

Employees[2]

492

1.2% ▲

1. Alternative Performance Measures are defined in note 43 to the Group financial statements
2. Average during 2021/22. See note 9 to the Group financial statements.

GROUP HIGHLIGHTS

Group turnover

£1,943.3m

6.4% ▲

Group PBIT

£506.2m

7.5% ▲

Group adjusted PBIT

£508.3m

7.5% ▲

Dividend per share

102.14p

0.6% ▲

Basic earnings per share ('EPS')

(35.2)p

(139.5)% ▼

Adjusted basic EPS[2]

96.9p

(8.1)% ▼

1 Basic loss per share of (35.2) pence after exceptional deferred tax charge equivalent to 119.6 pence per share.
2 Earnings and the weighted average number of ordinary shares for the purpose of adjusted earnings per share are defined in note 15 to the Group financial statements.

Cautionary Statement

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal' or 'estimates' 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).

CONTENTS

Strategic Report
Highlights 01
Our Strategic Framework 02
Purpose in Action 04
Our Business Model 06
Market and Industry Overview 08
Chair's Statement 11
Chief Executive's Review 14
Rivers 17
Our Performance and Key Performance Indicators 20
Business Services Performance Review 32
Sustainability Framework 34
Our TCFD Disclosures 35
Our Net Zero Transition Plan 46
Chief Financial Officer's Review 52
Our Approach to Risk 59
Our Principal Risks 61
Emerging Risks 67
Statement on conflict in Ukraine 67
Viability Statement 68
Engagement with our Stakeholders 72
Engagement in Action 76
Section 172 Statement 82
Our People 85
Non-Financial Information Statement 89

Governance Report
Chair's Introduction to Governance 90
Governance at a Glance 94
Board of Directors 96
Governance Framework 98
Corporate Governance Statement 99
Nominations Committee Report 110
Audit and Risk Committee Report 115
Treasury Committee Report 122
Corporate Sustainability Committee Report 124
Directors' Remuneration Report 128
Remuneration at a Glance 132
Summary of Remuneration Policy and Implementation 135
Company Remuneration at Severn Trent 138
Annual Report on Remuneration 146
Directors' Report 149
Directors' Responsibility Statement 153

Group Financial Statements
Independent Auditor's Report 154
Consolidated Income Statement 162
Consolidated Statement of Comprehensive Income 163
Consolidated Statement of Changes in Equity 164
Consolidated Balance Sheet 165
Consolidated Cash Flow Statement 166
Notes to Group Financial Statements 167

Company Financial Statements
Company Statement of Comprehensive Income 229
Company Statement of Changes in Equity 229
Company Balance Sheet 230
Notes to Company Financial Statements 231

Other Information
Five-year Summary 235
Information for Shareholders 236

OUR PURPOSE

OUR STRATEGIC FRAMEWORK

PURPOSE

TAKING CARE OF ONE OF LIFE'S ESSENTIALS

Environment

The natural environment is critical to our business; we are constantly interacting with it and we need to protect and enhance it whenever we can.

Waste

Our network of sewers and pumping stations collect waste water, taking it back to our treatment networks. Waste water is carefully screened, filtered and treated in our sewage treatment works to meet stringent environmental standards and is recycled back to the environment.

Our customers and communities

We serve 4.8 million households and businesses with a safe and reliable supply of water and collect waste water seven days a week, every day of the year.

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

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

Water

Our water treatment works clean raw water to the highest standards making it safe to drink. Our network of pipes and our enclosed storage reservoirs bring a continuous supply of clean water right to our customers' taps.

OUR VALUES

Read more online at severntrent.com

CULTURE

Read more on p92

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

STAKEHOLDER ENGAGEMENT

Read more on p72 – 81

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

REWARDING OUR PEOPLE

Read more on p85 – 88

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

SUSTAINABILITY PILLARS

Read more on p34

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

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

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

Read more online at severntrent.com

STRATEGIC OUTCOMES

Read about our performance this year on p20 – 27

A company **you can trust**

A service **for everyone**

Water **always there**

A positive **difference**

An outstanding **experience**

Waste water **safely taken away**

Lowest possible bills

Good to **drink**

A thriving **environment**

PURPOSE IN ACTION

At Severn Trent, we are first and foremost driven by our Purpose – taking care of one of life's essentials. We know that when we are united by our clear social Purpose, we can drive positive change and deliver positive outcomes for all our stakeholders – our customers, our colleagues, our investors, the society we live in and the environment we depend on. We are pleased to have made strong progress across a number of important areas this year.

£566m **(2017/18 prices)**
additional investment for our Green Recovery programme

340
Kickstarters have joined us

c.£2m
donated through our Community Fund

5 **pledges**
to Get River Positive

Driving positive change

Severn Trent is committed to making decisions for the long term – decisions that deliver value for our shareholders, customers, the communities we serve and the environment, and treating all of our employees and other stakeholders fairly. Our culture and strong desire to do the right thing means that we continually look for innovative ways to deliver our company strategy.

Delivering positive outcomes

Through consistently living and adhering to our Purpose and Values, we are able to focus on the delivery of our strategic outcomes. We work to achieve our outcomes in a sustainable way – be it through taking care of the environment, helping people thrive or being a trustworthy company. This is integral to the way we operate.

Green Recovery

In summer 2021, Ofwat approved our proposal to invest **£566 million** (2017/18 prices) in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company and new investment to support our environmental and societal ambitions. All six schemes have made excellent progress. We will publish a dedicated Green Recovery Report in July this year, outlining our progress to date.

Read more on p29 – 31

Get River Positive

In March 2022, we announced our commitment to '**Get River Positive**'. This is not just an ambition or an aspiration. It is a firm commitment. In considering each of our pledges, we engaged with all of our stakeholders, including shareholders, customers, local communities and campaign groups, to listen to and understand their views. Our **five pledges** were developed in full consideration of these discussions.

Read more on p17 – 19

Commonwealth Games

In March 2021, we were delighted to announce our partnership with the **Birmingham 2022 Commonwealth Games** to support its ambitions to make this the most sustainable games yet. We are proud to be leading on making it the first carbon neutral games through a range of offsetting initiatives. Like us, the games have an ambition to leave a positive **lasting legacy** for future generations and we look forward to the games this year.

Read more on p22

Employability Scheme

We launched our 100,000 Employability Hours Scheme in October 2021, aimed at helping more of our customers back into work following the pandemic by offering our communities **100,000 hours** of valuable skills and training at no cost to them. We have created a range of bespoke courses available to anyone across our region, ranging from CV skills, presenting skills, and career planning workshops. Our training team will deliver the sessions at our Academy, virtually and out in our communities.

Read more on p88

Community Fund

Our Severn Trent Community Fund donates **1%** of our profits each year to projects in our local communities. This year we are pleased and proud to report that we have donated **c.£2 million** to **73 projects**. As reported last year, we also supported local charities through our COVID-19 Emergency Fund, with £103,000 donated to 34 projects. This year we also launched a dedicated Community Fund in Hafren Dyfrdwy for our Welsh communities. Read more about the impact of the Community Fund and the stories from the beneficiaries in our dedicated Community Fund Report online.

Read more online at stwater.co.uk/about-us/severn-trent-community-fund/

Sustainability commitments

In 2019 we announced our Triple Carbon Pledge, committed to operational net zero emissions including 100% renewable energy and an all-electric fleet (where available) by 2030. This year we confirmed our Science-Based Targets in line with a 1.5°C pathway. At COP26 we helped to launch the **Get Nature Positive** campaign, aimed at reversing the negative impact on nature, and pledged to restore over 2,000 hectares of peatland. In 2020 we announced our decision to invest £1.2 billion in sustainability – read more on page 34. Our dedicated Sustainability Report, which will be published in mid-June, sets out the progress we are making against our sustainability commitments.

Read more in our Sustainability Report online at severntrent.com/sustainability-strategy/reports-and-publications/

OUR BUSINESS MODEL

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

As a company taking care of one of life's essentials, we know that the resilience of our business is intrinsically linked to the resilience of our region, its communities and the natural environment. We are committed to acting to protect our planet and lead our sector in combatting climate change in our region. We do this through the important relationships we maintain with our key stakeholders.

We are addressing climate change as a priority and investing in renewable energy production.

*Providing clean water and cleaning waste water is an '**energy hungry**'* process, so we use waste and renewables to help us power our operations. The green energy produced from food waste makes the most of our resources, contributes towards meeting our net-zero commitments and increases our energy security.

How we do it

A thriving environment

The natural environment is critical to our business; we are constantly interacting with it and we need to protect and *enhance it whenever we can.*

Waste water safely taken away

Our network of sewers and pumping stations collects waste water, taking it back to our treatment works.

Good to drink

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

Our customers and communities

We serve 4.8 million households and businesses with a safe and reliable supply of water and collect waste water, seven days a week, every week of the year.

Water always there

Our networks of pipes and our enclosed storage reservoirs bring a continuous supply of clean water right *to our customers' taps.*

Resources we rely on

Physical assets

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

We maintain over 50,200 km of clean water pipes and over 92,900 km of sewer pipes.

Progress this year
This year we replaced 71 km of our water mains (2020/21: 48 km).

Links
Principal Risks 2 and 3
Strategic Outcomes

Financial capital

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

Our combined Severn Trent Water and Hafren Dyfrdwy gearing (net debt as a percentage of our regulated capital value) is 59.5% (2020/21: 64.5%). Severn Trent Plc had undrawn committed facilities of £1,100 million during the year.

Progress this year
Sector-leading Outcome Delivery Incentive ('ODI') performance.

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

£1.6 billion new debt and facilities, below Ofwat's cost of debt curve.

Links
Principal Risks 7 and 8
Strategic Outcomes

Natural resources

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

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

Progress this year
We are on track to improve 5,000 hectares of land across our region by 2027, having improved the biodiversity of 4,696 hectares in the last two years.

We planted more than 151,000 trees this year, and are on track to meet our 1.3 million target by 2030 as part of our Great Big Nature Boost.

We launched our five River Pledges to improve our region's rivers.

Links
Principal Risks 2, 3, 9 and 10
Strategic Outcomes

Technology

As a large organisation, we rely on technology in our business every day for communication, data storage and monitoring of our operations and assets.

We are consistently exploring new innovations and technology to deliver efficiencies and continuously improve our processes.

Progress this year
New Technology Helpdesk on tour across the business.

Delivered all 16 prioritised contributing outcomes required by the Drinking Water Inspectorate under its NIS-R Cyber Assessment Framework in full and on time.

Links
Principal Risks 2, 3 and 5
Strategic Outcomes

Relationships we rely on

Our customers and communities

These are at the heart of everything we do. We aim to anticipate and meet changing customer and wider societal needs.

We serve 4.8 million households and businesses.

One of the lowest combined bills in England over the last decade for Severn Trent Water. Hafren Dyfrdwy customers continue to have the lowest average combined bills in Wales.

Progress this year
We are supporting around 215,000 customers through financial schemes and we launched our Affordability Strategy in order to support an additional 100,000 customers in water poverty by 2025.

Links
Principal Risks 1, 2 and 3
Strategic Outcomes

Our suppliers and contractors

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

We work with c.3,000 direct suppliers.

Progress this year
Over 1,100 suppliers have signed up to our Sustainable Supply Chain Charter since 2016.

We launched EcoVadis, our online Sustainability Assessment Platform, with 35 suppliers assessed and a further 52 undergoing their assessment.

Links
Principal Risks 1 and 4
Strategic Outcomes

Our people and culture

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

We directly employ over 7,000 people.

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

Circa 15% of our graduates and apprentices are from Black, Asian or other minority ethnic backgrounds (2020/21: 15%). Over 340 'Kickstarters' joined the business as part of the Government Kickstart scheme.

Launched 'Wonderfully You'; our Diversity and Inclusion Strategy and associated targets.

Links
Principal Risks 1 and 7
Strategic Outcomes

Our regulators

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

We work with our regulators to shape our industry.

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

Early engagement with our stakeholders ahead of the next price review.

New expert panel established to meet Ofwat's PR24 challenge requirements.

Links
Principal Risks 6
Strategic Outcomes

MARKET AND INDUSTRY OVERVIEW

OUR WATER SECTOR

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

Priorities for the upcoming price review

Ofwat last completed its five-yearly review cycle of the water industry's pricing in 2019. These price controls set out the amount that water and waste water companies can charge for their services over a five-year period, known as Asset Management Plan ('AMP') periods. The next price review is due in 2024 ('PR24') and will govern pricing across the period 2025 to 2030.

We are currently working through and developing our plans for PR24, which build on the success and learnings from our Green Recovery submission, and on supporting the key outcomes outlined by the regulator. These comprise a focus on the long term, better understanding of our customers and communities, creating environmental and social value, and being efficient and innovative.

We regularly seek feedback from our customers to help shape our plans, seeing it as a continual activity, not just something that happens at price reviews. We have already engaged with over 11,000 customers as we develop our plans for the future on topics ranging from wider societal issues and our impact on the environment, to more tactical topics like sensible use of water in hot weather.

Over the last few years, we have noticed some subtle changes in the types of topics our customers are raising with us. Many of our customers are concerned about affordability and protecting vulnerable customers, as well as the environment, climate change and how we are adapting to extreme weather to ensure a resilient supply. The importance of water efficiency and education also continue to be mentioned a lot by our customers. These are key areas that our PR24 plan will look to cover and support.

As part of the current price review process, we recognise that our sector, our environment and society more generally are facing a number of challenges. Responding to these will require a forward-looking focus, and as such our five-year business plan will be developed in the context of a longer-term strategy and strategic direction.

How we are collaborating to tackle net zero

One way in which we are collaborating with the wider UK water sector is in our commitment to be net zero by 2030. One of the biggest challenges is tackling emissions from our waste water treatment process, which is why we convened the Process Emissions Industry Group. The group's ambition is to work together to share data, knowledge, experience and plans so we can better tackle this challenge together. The ST Group is linked to the longstanding Water UK net-zero group, which has been running since 2019, and the associated carbon network, which has run for about 15 years.

Affordability

There are an increasing number of customers in water poverty emerging in society and our customers tell us that they are not immune from this. Recent events have highlighted the financial pressures faced by our communities – from the energy crisis, increasing National Insurance costs, falling Universal Credit, rising inflation and, most recently, the impacts of the conflict in Ukraine. Real disposable income is forecast to decline by 2.2% in the next year, the largest single fall since ONS records began.

As a socially responsible company, that genuinely cares about its customers and the communities it serves, we launched our Affordability Strategy in May 2022 to support up to a further 100,000 customers at a time when they need help the most.

Our Affordability Strategy is an industry first and we are excited to realise the benefits for all stakeholders – and particularly our customers. Read more on pages 72 to 81.

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 72 to 81.*

Policy

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

Regulation and Representation

The Consumer Council for Water ('CCW') speaks on behalf of water consumers in England and Wales. It provides advice to consumers and takes up complaints on their behalf.

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

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

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

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

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

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

- the Health and Safety Executive to manage risk and ensure that the health and safety of our employees, customers and visitors is preserved;
- 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.

The strategic direction to 2050

At Severn Trent, we are committed to drive progress in the water sector now and for generations to come. We are first and foremost driven by our Purpose – 'taking care of one of life's essentials' – focused on the delivery of outcomes for the benefit of our customers and wider society, as well as our shareholders.

We recognise that as an industry, and a society, we are facing into a number of significant trends and challenges. We recognise and value the benefits of working in partnership and collaborating with other water and waste water companies, regulators, businesses and customers to ensure we continue to deliver water resource resilience for future generations to come.

During the year we have released consultations of our Strategic Direction Statements ('SDS') for Severn Trent Water and Hafren Dyfrdwy, which outline the key themes of the challenges and trends *facing our businesses over the course of the next 30 years, and how* we plan to respond to them. In identifying our responses to these issues, we balance the needs of all our stakeholders – customers, communities, employees, partners, regulators, governments, and our investors.

The SDS for both Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig are available on their respective websites, and each provides more specific explanations of the key trends and challenges relevant to each business.

Read our Severn Trent Water SDS online at stwater.co.uk/about-us/our-other-plans/strategic-direction-statement/

Read our Hafren Dyfrdwy SDS online at hdcymru.co.uk/about-us/overview/

KEY TRENDS AND CHALLENGES	RESPONSE OVER THE NEXT 30 YEARS	STRATEGIC OUTCOMES
Demographic and social change		
The UK population is expected to grow over the next 25 years. Our population is expected to have a higher proportion of single-occupancy households and an increasingly ageing population. **Customer expectations are continuing to evolve, with *a continued reliance on digital technologies and greater* focus on the environmental credentials of businesses.**	Given the increased demand for water, we will bolster our resilience to source and deliver water, and help our customers to become more water conscious. We will continue the move towards digital *channels to allow our customers to contact* us in the most convenient way to them.	A company **you can trust** A positive **difference**
Climate change		
Climate change will continue to impact global weather patterns and create more extreme weather events such as flooding and drought. **We anticipate further interventions around decarbonisation and a focus on reducing carbon emissions.**	In response to climate change, we will improve the resilience of our network, whilst maintaining a safe and high-performing culture. We will continue to focus on reducing our carbon footprint and that of our supply chain. As a Group, we have committed to being net zero on our Scope 1 and Scope 2 emissions by 2030.	**Lowest possible** bills A service **for everyone**
Environmental change		
Change in land use as a consequence of demographic change (such as more housing developments) and climate change (extreme weather) has potential to impact on the environment and ecosystems. **Awareness of environmental issues and the value and role of our natural environment are continuing to become more prevalent in society.**	We will identify, design and adopt more sustainable practices to support the natural environment in response to these challenges. We will work in partnership with others in our *region, and its catchments, to limit the overall* impact on our environment. We will minimise waste, and support the principles *of a circular economy wherever possible.*	An outstanding **experience** Good to **drink**
Affordability challenges		
The impacts of future recessions and periods of economic growth will not be shared equally, with impacts unevenly spread across our household and non-household customers alike. **Responding to future environmental and social change will *require investment by water companies, which will need* to be balanced against the impact on customer bills.**	We will continue to review our systems and processes in supporting our customers, and *deliver a high-quality, affordable service.* We will work with our communities to make a positive social difference, including skills *capability and employment opportunities in* our region.	Water **always there** Waste water **safely taken away** A thriving **environment**

PURPOSE BEYOND THE PANDEMIC

The pandemic has taught us some valuable lessons and underlined the importance of Purpose in everything we do. Our strategy is working and we are confident that we are in a strong position for the challenges and opportunities ahead. As the effects of the COVID-19 pandemic continue to present themselves, the Board remains focused on ensuring that Severn Trent is a successful, socially-purposeful company, making long-term decisions for the benefit of all our stakeholders.

Christine Hodgson
Chair

102.14p
Dividend per share
2021: 101.58p

£506.2m
Group PBIT
2021: £470.7m

£1,943.3m
Group turnover
2021: £1,827.2m

Our enduring Purpose and culture

Our Purpose – taking care of one of life's essentials – is a long-term endeavour developed collaboratively by our people, for our people. We know that what we do is crucial for everyone who lives and works in our region – be that in the water they drink, the jobs we create, the communities we serve and support, and the nature enjoyed by us all. Our Purpose is 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.

The effects of the COVID-19 pandemic are widespread and will not be short-lived. The events of the last two years have had a fundamental impact on the way businesses across the globe have operated, and Severn Trent is no exception. The pandemic has highlighted that Purpose alone is not enough to effect meaningful change. Our people and our culture are crucial to our success, and our employees have remained connected to our Purpose throughout the pandemic.

This is reflected in their commitment to initiatives that align with the Government's Levelling Up agenda, such as the Government Kickstart scheme and our apprenticeship programme, which have created opportunities for meaningful, skilled work that are accessible for all and will improve skills capability across our whole region. The way in which our people are working to build skills and employment across our communities over the long term is truly inspirational. You can read more about this work on pages 85 to 88.

As outlined in my Chair's review last year, our response to the pandemic considered all stakeholders, encompassed in our mission to be a force for good both during the pandemic and beyond – whether this was ensuring our operational services remained resilient, protecting our environment, strengthening our connection with our workforce and communities, or delivering our bold Green Recovery plans. We have made good progress in each of these areas again this year and I am particularly delighted with the progress made on our Green Recovery plans, as these schemes will deliver long-term benefits for all our stakeholders at a time when it is most needed. You can read more about our progress with these projects on pages 29 to 31.

Protecting and enhancing our environment

I could not write my report this year without discussing the heightened focus on river quality and the way in which we are responding to this important issue. Both the Board and Executive Team are committed to making a positive impact on the environment and the communities we serve and recognise that, as a sector, there's more we need to do to help our region's rivers be the healthiest they can be. The Board welcomed the report by the Parliamentary Environmental Audit Committee, with its emphasis on the importance of investment and tackling the root causes of pollution, and we discuss this topic regularly to oversee the detailed plans to address our customers' concerns and ensure that our region's rivers are as healthy as possible.

Further to many Board discussions on this important topic, and informed by extensive stakeholder engagement, in March 2022, we announced our commitment to 'Get River Positive'; establishing five River Pledges, which are outlined on page 17.

We continue to oversee progress against each of these pledges at every Board meeting and we have also directly linked the River Pledges to our remuneration structures, through introducing some of the measures that are most pertinent to our stakeholders into our Annual Bonus Plan with 8% of every employee's bonus aligned to their achievement from 2022/23. Further detail can be found within the Directors' Remuneration Report on pages 128 to 148.

Listening to our stakeholders

Our Purpose 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 and consistent operational performance demonstrate the strength and depth of this connection. Our customers and communities tell us that they want us to focus on topics of importance to them and be reassured that they can depend on us to respond to these issues. Our investors want to understand our Purpose and Values and know that we will apply these consistently in delivering our strategy, with a focus on the long term.

When meeting our people throughout the year, it is clear that they take seriously the responsibility that comes with providing an essential service. Their passion and commitment shine through in everything they do, through embracing change or adapting to unexpected incidents and extreme weather events during the year. As outlined in my report last year, throughout the pandemic, our people altered their normal ways of working and demonstrated their flexibility and resilience. This cemented the already strong bond we have with our employees – aided by innovative campaigns such as 'Caring for our colleagues' and 'Share a Smile', along with establishing our four employee advisory groups for LGBTQ+, Ethnicity, Disability and Women in STEM and Operations. I am very much looking forward to attending these meetings next year. Read more about how the Board has engaged with our stakeholders on pages 72 to 81.

Our connection with our local communities has also been reinforced during the year, not least due to our partnership with the Birmingham 2022 Commonwealth Games. Our people, customers and communities have worked together to create 74 Tiny Forests, at least one for each Commonwealth nation, in urban areas across our region, which will deliver a lasting legacy for the Commonwealth Games and also create inspiring outdoor classrooms allowing children to learn first-hand about nature and the environment for many years to come. This is just one component of our plans to ensure that the Commonwealth Games are the most sustainable ever.

Affordability

Through listening to our stakeholders, it is clear that there is an increasing number of households experiencing water poverty (customers that spend more than 5% of their income, after housing costs, on water) and our customers tell us that they are not immune from this. Recent events have highlighted the financial pressures faced by our communities – as a result of rising energy prices, increasing National Insurance costs, falling Universal Credit, rising inflation and, most recently, the impacts of the conflict in Ukraine. Real disposable income is forecast to decline by 2.2% in the next year, the largest single fall since ONS records began.

As a socially responsible company that genuinely cares about its customers and the communities it serves, we launched our Affordability Strategy in May 2022, comprising a package of new funding totalling £30 million, which will see the number of customers supported through our social tariff increase by 100,000 at a time when they need support the most. In developing our approach, we engaged with all of our stakeholders, including customers, shareholders, Ofwat, CCW and local communities to listen to, and understand, their views and the affordability challenges they face. Our strategy has been developed in full consideration of these discussions.

Resilient financial performance and sharing the rewards

We were very pleased that, in December 2021, Ofwat highlighted Severn Trent as being in the top three in the sector for both service delivery and financial resilience. We were the only company to be in the top three for both areas. Under our industry's regulatory framework, we are able to share 50% of totex outperformance with customers and 50% of totex outperformance can be reinvested. Over the course of AMP6, we reinvested £220 million generated by our outperformance back into our business. We continue to invest our totex efficiently spending in line with our allowance to date. This means we can make investments to bolster and improve our operational performance and resilience. Additionally, over the last year, we have allocated c.£2 million through the Severn Trent Community Fund to 73 projects in our region. Read more about these projects online at stwater.co.uk/about-us/severn-trent-community-fund/.

We consistently demonstrate robust operational and resilient financial performance, and this year has been no exception, with Group turnover of £1,943.3 million (up 6.4% from 2020/21) and Group PBIT of £506.2 million (up 7.5% from 2020/21). Liv and James will provide further detail within their respective reports.

The Board is therefore proposing a final dividend of 61.28 pence per share to be paid on 13 July 2022, taking the total dividend for the year to 102.14 pence per share. We are pleased to be able to sustain our dividend commitments and continue our engagement with shareholders on performance against our strategy, and I was delighted to meet with a number of shareholders to discuss this during the year. Our consistent results emphasise that we are well placed to uphold our high standards of delivery for customers and provide a sustainable platform for investment and growth in areas that are important to our stakeholders.

Innovation in sustainability

I am delighted that we have been included on the 2021 Carbon Disclosure Project climate change 'A List', making us one of just 200 global companies, out of almost 12,000 assessed, to achieve this rating. This reflects the focus and hard work of our people in tackling climate change and the high quality of our reporting, including the publication of our third Climate Change Adaptation Report and Task Force on Climate-related Financial Disclosures ('TCFD') in September 2021. You can read our TCFD update this year on pages 35 to 45.

Notwithstanding this excellent progress, we are not at all complacent and recognise that, in order to transition to a net-zero world, we must be at the forefront of transformation and act as leaders in innovation to develop new ways of delivering our services. The Board undertook a number of site visits during the year, to observe and understand the innovative trials underway that seek to measure, reduce and remove carbon from our process emissions where possible. You can read more about this important activity in our dedicated Sustainability Report, which will be published in mid-June.

In addition to this, key programmes such as the Water Framework Directive are progressing well and we are on track to meet our objectives under the Water Industry National Environment Programme schemes in the current AMP.

Your Board

My focus continues to be on maintaining a strong, value-adding team, with a diverse range of professional backgrounds, skills and perspectives. Succession planning is a key priority for the Board and Nominations Committee, and we have many rich discussions on this topic at meetings.

As part of our succession plans, we welcomed two independent Non-Executive Directors to the Board during the year. Gillian Sheldon was appointed in November 2021 and Tom Delay joined us in January 2022, and we are already benefiting from the skills and experience they bring to our Board. Their extensive inductions are still underway, facilitated through a blend of one-to-one meetings and site visits, and further detail can be found on pages 108 to 109. I have no doubt that both Gillian and Tom will find the wide-ranging activity that takes place across the Group as informative and inspiring as I do.

Following the announcement on 1 November 2021, Angela Strank stepped down from the Board on 31 March 2022, having served on the Board for over eight years. On behalf of the Board, I would like to thank Angela for her service to Severn Trent and her valuable contribution to the Board's work, particularly in her capacity as Chair of the Corporate Sustainability Committee. The Company's sustainability agenda advanced significantly under her leadership and we are proud of what the Company achieved during her tenure.

Long-term outlook

The last two years have emphasised that our coherent strategy and clear Purpose and Values have enabled us to respond to changes on the horizon and deliver strong performance for the benefit of our stakeholders. With two years of AMP7 now having passed, we have started looking at the next regulatory period and we are confident that we are in the right position to build an ambitious plan that further delivers for all stakeholders.

I look forward to the year ahead, knowing that the talent and commitment of our people, the operational and financial strength of our business, our solid asset base and our commitment to good governance will help us to fulfil our potential as a socially responsible business providing a high-quality, essential public service and stay true to our Purpose of 'taking care of one of life's essentials'. There is much more to do. However, we are ambitious in our desire to meet the expectations of our stakeholders.

Christine Hodgson
Chair

Board members visited Minworth Sewage Treatment Works to observe innovative technologies being deployed

MAKING A POSITIVE DIFFERENCE

£506.2m
Group PBIT
2021: £470.7m

0.6%
Dividend increase
2021: 1.5%

£1,943.3m
Group turnover
2021: £1,827.2m

£79m[1]
Net ODI reward
2021: £77m

£508.3m
Adjusted Group PBIT
2021: £472.8m

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

Liv Garfield
Chief Executive

I'm delighted to present my Chief Executive's Review for 2021/22, providing you with an update on our performance and my personal highlights of the year.

The days when a company was judged purely on its balance sheet and income statement are behind us, and this is a change we welcome *wholeheartedly. That's not to say that financial performance is no* longer a key focus; we're extremely proud of our track record, as you can see in James's Chief Financial Officer's Review. As we have *previously articulated in our Social Purpose document, what truly* matters is balance. Balance between today and tomorrow, between making improvements where customers, and broader stakeholders, value them the most, making a positive impact on the environment and the communities we serve, and providing a fair return to our investors. So in this year's review, I want to focus on the issues of importance to our stakeholders and set out our bold commitments to address them.

Listening to our stakeholders this year, it is clear that there are two main issues on their minds – river quality and affordability. We have listened *carefully to fully understand their concerns on these two important* topics and developed our approach in consideration of their views.

Protecting and enhancing our environment

We are delighted to have been awarded the industry leading 4* EPA status from the Environment Agency for the last two years and believe ourselves to be on track to achieve the same rating again this year, against increasingly stretching targets. This is a testament to the hard work of the operational teams involved.

Our Great Big Nature Boost has improved the biodiversity of over 4,600 hectares in the last two years, delivering over 90% of our 5,000 *hectares by 2027 target already. We've delivered this through a* number of initiatives, including Severn Trent Environmental Protection Scheme ('STEPS') grants, work on our own land delivered by our *wonderful army of employee volunteers, and working with farmers* and landowners to plant trees and protect hedgerows. We're bringing our supply chain with us too, with all contracts now requiring a net 15% biodiversity gain for site construction works.

In July 2021, Ofwat awarded us £566 million (2017/18 prices) to invest in our ambitious Green Recovery programme, providing a great opportunity to deliver long-term growth for the Company alongside new investment to support our ESG ambitions. We were delighted with this outcome and are thrilled to share that all of our Green Recovery projects are progressing at pace with our projects mobilised and key suppliers engaged. We have made excellent progress on improving 50km to create bathing quality stretches of water of the rivers Avon and Teme, which will provide more leisure opportunities, improve wellbeing and also deliver environmental benefits, including enhanced biodiversity and healthier aquatic life. We have also begun work on our £76 million Green Recovery project in Mansfield, which will see us install thousands of sustainable urban drainage schemes including rain gardens, retention ponds and swales. Not only will these interventions assist with flood alleviation in Mansfield, they will *also deliver wonderful nature-based amenities for local communities* to enjoy. You can read more about the progress we have made on all of our Green Recovery projects on pages 29 to 31.

Getting River Positive

Our stakeholders have told us how important river quality is to them and we share their passion that our region's rivers should be the healthiest they can be. In November 2021, Ofwat and the Environment Agency each issued their own investigations into the waste water industry to investigate compliance with the conditions of environmental permits. We were able to respond quickly and comprehensively and have had open conversations since. It is not yet clear what the scope or likely outcome of this investigation will be as it is in its early stages. In my report, I want to lay out the way in which we are responding to the heightened focus on this important issue and how we will report our progress to you. We are fully committed at every level of the organisation – from the frontline to the Boardroom – to making a positive impact on the environment and the communities we serve, and recognise that, as a sector, there is more that we should do to help our region's rivers be the healthiest they can be. Of course, the long-term success of our Company is naturally linked to the health of the environment and the wellbeing of our customers, colleagues

and the communities we serve. And our sustainability commitments go beyond this – focused on making a positive impact in our region, for the people who live and work here and the environment around us. Which is why we have made good progress in improving the health of our region's rivers significantly in the last 30 years – in the last 32 years we have invested £12 billion in improving sewage treatment – which has helped reduce levels of phosphate by 80.5%, biochemical oxygen demand by 71% and ammonia by 72%. Notwithstanding the progress made, we know that we need to do more and play a leading role in helping others to make positive changes too. In March, we announced our commitment to 'Get River Positive' – which we will achieve through our five River Pledges outlined on page 17. In developing each of our pledges, we engaged with all of our stakeholders, including shareholders, customers, local communities, NGOs, regulators and other key stakeholders and river user groups to listen to and understand their views. We will also report on our progress in delivering our pledges in an open and transparent way.

Alongside our pledges, we have introduced a dedicated team of River Rangers – who will work with community groups and organisations such as Warwickshire Wildlife Trust to care for rivers and address issues across our region.

I have also personally met with all managers to ensure the whole organisation is aligned on our pledges and we have also directly linked the River Pledges to our remuneration structures through introducing some of the measures that are most pertinent to our stakeholders into our Annual Bonus Plan, with 8% of every employee's bonus aligned to their achievement from 2022/23. Read more on page 141 of the Directors' Remuneration Report.

Roadmap to Net Zero

Our customers and broader stakeholders tell us that they are focused on our response to climate change, and we tabled our long-term approach to climate change at our 2021 Annual General Meeting ('AGM'), which received overwhelming support. We are determined to play a leading role in addressing the impact of climate change and mitigating our own impact, the impact of our supply chain and adapting to the challenges that climate change may bring in the future. In March 2021, we submitted our proposed Scope 1, 2 and 3 emissions targets to the Science-Based Targets Initiative, committing us to significantly reduce our greenhouse gas emissions by 2030.

We are making good progress towards our net zero by 2030 target, including:

- 17% of our company vehicles and 1% of our vans are now electric vehicles (against a target of 100% by 2030, where possible);
- a 25% reduction in Scope 1 and 2 emissions (against a target of 46% by 2030);
- 38% of our suppliers have set a Science-Based Target for Scope 3 emissions (against a target of 70%); and
- 100% of electricity usage being renewable (against a target of 100% by 2030).

We are on track for operational net zero by 2030 and we generated a record total renewable energy of 507 GWh, equivalent to 52% of our electricity use this year, and we were also recognised in the top 2% of global companies in the Carbon Disclosure Project's climate change 'A List'. We are also improving the accuracy of our own emissions data through drones and industry-leading monitoring, and trialling a range of innovative solutions to identify the most effective ways of reducing process emissions.

You can read more about our progress in our dedicated Sustainability Report, which will be published in mid-June.

Supporting our customers, colleagues and communities

Our Purpose is taking care of one of life's essentials and we want our services to be affordable for all our customers. We already have the second-lowest water bills in England at £389 a year; however, we know that there is an increasing number of households experiencing financial poverty and, for some, even £1 a day is a stretch too far. Recent events have highlighted the financial pressures faced by our communities – as a result of soaring energy prices, increasing National Insurance costs, falling Universal Credit, rising inflation, and most recently, the impacts of the conflict in Ukraine. Real disposable income is forecast to decline by 2.2% in the next year, the largest single fall since ONS records began.

We are fully committed at every level of the organisation – from the frontline to the Boardroom – to making a positive impact on the environment and the communities we serve. Our stakeholders have told us how important river quality is to them and we share their passion that our region's rivers should be the healthiest they can be.

We already provide an extensive range of schemes to support those that are struggling to pay their bills and currently support around 215,000 customers, which is ahead of our 2025 target of 195,000. For Severn Trent, the proportion of our customers estimated to be in water poverty is around the national average. In May 2022, we launched our new Affordability Strategy, which will see the number of customers *supported through our social tariff increase by a further 100,000. This* will mean that c.6% of our customers will be supported by our social tariff by the end of the AMP, and taken together with the other types of financial support, we will be helping around 315,000 of our most financially vulnerable customers by the end of the AMP.

Our Severn Trent Community Fund also offers incredible support to charities and other organisations in our region, with a further c.£2 million awarded to 73 unique projects this year by our customer-led panel.

As well as strong financial support, we are also heavily involved in education activity. This year we have:

- welcomed 47% of this year's new talent intake from social mobility cold spots;
- been joined by 340 young people under the Government's Kickstart programme, with 40% of those having secured jobs or gone back into education;
- offered 4% of the UK's total internships under the #10000BlackInterns programme; and
- delivered education programmes to children in 140 schools about water – including healthy hydration, water efficiency and healthy sewers.

Delivering operational excellence every day

Despite the disruption of the pandemic, our teams have worked together to deliver impressive operational performance once again. We're proud to have met our targets on 88% of measures, demonstrating the breadth of our operational leadership, and we are determined to drive the change needed to hit the three targets that we did not meet. This performance resulted in a sector leading net reward of £79 million, taking the total amount earned this AMP so far to £156 million.

On water performance, the investments we made in AMP6 combined with a relentless focus on performance are proving effective with ten in twelve of our water measures met this year. I am delighted that we have maintained our low level of complaints about drinking water taste,

odour or appearance, reflecting a 44% reduction since 2016. The team has delivered this amazing improvement through a robust programme of cleansing and conditioning across our mains network and implementing plans to create a calmer network. We also remain on track to reduce leakage by 15% by 2025 and 50% by 2045, supported by the installation of over 110,000 meters this year.

On waste water, our waste operational performance remains strong, with six in eight measures met as we use data analytics to help us work smarter and target investment in the right places. Blockages are down 4% year-on-year following increased investment in repairs and cleansing, more sewer sensors and customer education. We have also reduced the number of pollutions by 30% this AMP, supported by increased condition-based monitoring of assets and our new Waste Network Response Team.

We're continuing to see improvements in our customer experience scores, with all nine of our customer service measures green. A big part of this is how accessible we are as a company and I am delighted that our household customers can now access a multi-channel digital experience; allowing simple, quick interactions with us in a way that best suits them. This is reflected in our improved C-MeX performance this year. And we continue to be sector leading in developer services, with a best-in-class D-MeX score for the second year in a row.

You can read more about our operational performance in the performance review on pages 20 to 27 and our financial performance in James's Chief Financial Officer's Review on pages 52 to 58.

Our people

This year has again reinforced my view of Severn Trent's strengths, our Values and our resilience – and highlighted that, when we work together, there is nothing that we cannot achieve. Our Value, 'Showing Care', is central to how we keep our people and communities safe in all that we do. It's how we start every shift and every meeting, and our Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do. We experienced no major safety incidents and no fatalities in the last twelve months, with a 10% improvement in Lost Time Incidents ('LTIs') this year.

I passionately believe that having a culture that embraces individuals' contributions, no matter what their age, gender, race, ethnicity, disability, sexual orientation, social background, religion or belief, is a vital part of our future success. We're proud of our track record on gender diversity and we were delighted to be recognised as the top utility company for both representation of women on the Board and combined Executive Committee and direct reports in the FTSE Women Leaders Review 2021.

Over the last year we've put particular focus on championing the voices of colleagues from diverse backgrounds and we launched our 'Wonderfully You' campaign this year, which outlines our Diversity and Inclusion ambitions. This activity is supported by our established employee advisory groups for LGBTQ+, Ethnicity, Disability and Women in STEM and Operations. These groups have been fundamental to our progress to date, which saw us recognised in Stonewall's Top 40 Employers, and in the top five companies on the Social Mobility Index. I have enjoyed attending each of these groups throughout the year to see the fantastic work they are doing first-hand.

I am delighted that we maintained our strong employee engagement score again this year – with an average score of 8.2, placing us in the top 10% of utilities globally. I am particularly pleased that, during a challenging labour market, our colleagues scored the question, asking whether they would recommend us as a place to work to a friend, 8.2 out of 10. The loyalty our people have shown is evident in their dedication to delivering for our customers and our excellent operational performance this year.

Thanks and outlook

I would like to thank all 7,000 of my wonderful colleagues, who have worked tirelessly to help deliver our Purpose – taking care of one of life's essentials – this past year. The passion they have applied to all they do, sometimes in difficult circumstances but always with a smile on their faces, is truly inspiring. It is an honour to work alongside you.

My thanks also go to my exceptional management team for their continued leadership across the Group, which has been particularly important again this past year. And I am grateful too for the stewardship, support and challenge from Christine and the Board.

I am proud of what we've achieved this year, and see enormous potential in what we can achieve in the year ahead. Now that the UK has moved into recovery mode following the pandemic, we're ideally placed to play our part in the next phase through our Green Recovery plans, helping deliver the first ever carbon-neutral Commonwealth Games, having a positive societal impact on our communities through our Affordability Strategy and making further progress on our environmental commitments. We now have to deliver everything we've promised to set us up for continued success in AMP7 and put us on a positive trajectory for AMP8. It's going to be a real challenge and it's one we're confident and excited to deliver.

Liv Garfield
Group Chief Executive

RIVER POSITIVE BY 2030

RIVERS WE'RE DOING A WHOLE LOT MORE...

We've invested **£12bn** since privatisation to improve our overall **sewerage system**, contributing to healthier rivers.

We've introduced a team of **River Rangers**.

We've continuing to invest over **£100m a year** to protect our rivers and enable nature to thrive.

We'll have improved **2,100km** of rivers in our region by **2027**, through our Great Big Nature Boost.

We've launched a **£566m** (2017/18 prices) Green Recovery programme, with a **£78m** commitment to bathing rivers and **£76m** to alleviate flooding in Mansfield using nature-based solutions.

We've scored **18** out of a possible **20** Environmental Performance Assessment stars from the Environment Agency over the last five years up to 2020.

River Rangers

Our new River Rangers Team is dedicated to protecting the region's waterways and helping them to thrive. The Team works closely with our partners, including regional wildlife trusts, community groups, river users and others, to focus on improving river health and boosting biodiversity along stretches of our region's rivers.

In addition, they also work to educate communities on sewer misuse, preventing wipes and sanitary products from reaching rivers.

The Team carries out a programme of operational, monitoring and sampling activities, allowing us to better understand the quality of rivers in our region and what's needed to protect and improve them.

PLEDGE ONE

Ensure storm overflows and sewage treatment works do not harm rivers

PLEDGE TWO

Create more opportunities for everyone to enjoy our region's rivers

PLEDGE THREE

Support others to improve and care for rivers

PLEDGE FOUR

Enhance our rivers and create new habitats so wildlife can thrive

PLEDGE FIVE

Open and transparent about our performance and our plans

Check out the getriverpositive.co.uk website for more information on our River Pledges

RIVER POSITIVE BY 2030

PLEDGE ONE
Ensure storm overflows and sewage treatment works do not harm rivers

- Based on the Environment Agency measure of Rivers Not Achieving Good Status ('RNAGS'), our operations will not be the reason for unhealthy rivers by 2030.
- We will reduce spills from storm overflows to an average of 20 per year by 2025.
- Using better data, we will find and fix problems quicker than ever before at no extra cost to customers.

PLEDGE TWO
Create more opportunities for everyone to enjoy our region's rivers

- We will ensure that 90% of people in our region live within an hour's drive of a bathing site.
- We'll improve 50 km of rivers in Warwickshire and Shropshire, creating 15 km of bathing quality river by 2025, and have plans to double the amount of bathing quality rivers in the Midlands within ten years.
- We will work with local clubs to increase opportunities for water-based activities *at our reservoir* sites, starting this year.

PLEDGE FOUR
Enhance our rivers and create new habitats so wildlife can thrive

- By 2030 we will have established new habitats, in the Midlands, for native species of wildlife, such as great crested newts, beavers, otters and cuckoos – so our natural communities can thrive.
- Our River Rangers will work with community groups and organisations such as Warwickshire Wildlife Trust to care for rivers and address issues across our region.
- Our Get River Positive Community Champion volunteers will work with Waterside Care and the Canal and River Trust to clean and restore rivers and river banks across our region.
- We'll plant over a million trees across our region by 2025, and 1.3 million by 2027.

PLEDGE THREE
Support others to improve and care for rivers

- We have launched a new deal for farmers which includes helping them transition to regenerative farming practices in our region.
- We will campaign for the removal of the automatic right to connect for new development, i.e. building new homes.
- We will champion the Bill to ban wet wipes that contain plastic and will lobby for a ban on all wet wipes that are not 'Fine to Flush'.
- We will launch regional River Forums, bringing all contributors to river health together.
- Later this year we'll launch a Get River Positive Community Fund to support community groups and charities wanting to help improve our region's rivers.

We're working hard to prevent river pollution

As part of our Get River Positive approach, we will ensure that our storm overflows and sewage treatment works do not harm rivers, based on the Environment Agency RNAGS measure.

The sector has made good progress in improving river health over the last 30 years. The water industry accounts for 24% of the remaining quality issues in England's rivers and other sectors, including agriculture, housing and transport, accounting for 76% of the reasons for rivers failing to achieve good ecological status.

Notwithstanding the progress made, we are responding to our stakeholders' heightened focus on this important issue. Our Get River Positive commitments and five River Pledges set out how we will make a positive impact on the environment and the communities we serve and help our region's rivers be the healthiest they can be.

Improving river health is a team game

We are committed to doing all we can to take leadership on many of the issues our region's rivers face and to partner with others to make our region's rivers the healthiest they can be.

The route to zero – the plan so far

At Severn Trent we are responsible for 960 RNAGS within our region. We have committed to reducing RNAGS to 700 by 2025 and ultimately zero by 2030 to ensure that our storm overflows and sewage treatment works do not harm rivers. We already have detailed plans and measures in place to address 80% of our RNAGS and we are developing plans for the remaining 20%, which will be in place by the end of 2022.

PLEDGE FIVE
Be open and transparent about our performance and our plans

- We will work with NGOs to ensure we provide the river quality information people want and need to see by the end of 2022.
- We will make this information easily accessible via our websites by end of 2022.
- As well as 100% monitor coverage at our treatment works and on our storm overflows, later this year we will start monitoring wider river quality and share the results on our websites.

OUR PERFORMANCE AND KEY PERFORMANCE INDICATORS

Strategic outcomes

A company you can trust

A positive difference

Lowest possible bills

A service for everyone

An outstanding experience

Good to drink

Water always there

Waste water safely taken away

A thriving environment

A number of our operational Key Performance Indicators ('KPIs') contribute to more than one of our strategic outcomes.

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

Where possible, we have used consistent data for 2020/21 and 2021/22, which may differ from our APR20 reported value due to methodology changes for a number of Performance Commitments. These are indicated by a [2] footnote.

Remuneration

Annual Bonus Scheme ('ABS')

There are additional ODIs that are not KPIs in this report. For more information on the strategic alignment of remuneration, see page 140.

Stakeholders

Our Customers

Our Colleagues

Our Communities

Our Shareholders and Investors

Our Suppliers and Contractors

Regulators and Government

Relative performance

Better than year-on-year / against target, where provided

Deterioration year-on-year / against target, where provided

No change year-on-year / equalling target, where provided

Our Customers and Communities

Supporting our customers, communities and the environment is always a key focus for us. We've had another strong year supporting our colleagues, giving back to our communities and delivering environmental improvements.

A Company You Can Trust

Showing care is central to our Values. It's at the heart of Doing the Right Thing every day. We do everything we can to create a culture that embraces individuality and enables everyone to be the best they can be.

We strive to ensure everyone goes home safe and well at the end of the day

Our commitment to health and safety continues. In a post-pandemic world, we have successfully re-integrated our office-based staff to our main sites. Our culture drives our best work through collaboration, so spending time together in the office is crucial. At the same time, we recognise the positive impact on mental wellbeing of more flexible working, so we've invested in our technology to ensure we continue to take advantage of these opportunities where we can.

During the year, we recorded 19 incidents where our colleagues were temporarily unable to work. Though 19 of our colleagues getting *hurt whilst working is still too many, we delivered a 10% reduction in* LTIs compared with the last performance year. We've had a big focus on reminding staff during their return to sites and offices about the risks of injury during simple tasks such as slips, trips and falls.

A Positive Difference

We want to be known for our commitment to social responsibility. Our unique position in the Midlands and North and Mid-Wales allows us to make a positive difference to society in ways other companies cannot. That's why we're playing our part in the Levelling Up agenda through initiatives to support our wider communities.

We create opportunities for others

We've committed to offer 100,000 hours of free employability training to our communities through a variety of channels, including online learning, virtual and face-to-face workshops around topics such as growing your confidence, CV writing and interview skills. This is made possible through our Severn Trent Academy. Our commitment to the Kickstart programme was a real success, as 340 'Kickstarters' joined us with around 40% of all participants having secured jobs or gone back into education. We've taken valuable lessons from this into the #10000BlackInterns programme, where we're taking on 72 through employment as well as an additional 77 graduates and apprentices in 2022.

We continue to adapt our employability offering. In October 2021, we partnered with Sense to further our understanding and support of those who are neurodivergent. Understanding the impact of neurodivergence on individuals has allowed our managers to ensure support is there when needed, from how we approach our workload to the office environment we work in.

In 2015 we turned our attention to educating our current and future customers. This year we've educated another 80,656 school children on knowing what not to put down the toilet and sink to avoid sewer misuse. Our schools programme has also expanded its offering *across the secondary education programme, allowing us to embed* the educational messages we started in our AMP6 programme.

We're creating new jobs across the region

As part of our Green Recovery programme, we are investing £566 million (2017/18 prices) in initiatives to support the UK's recovery from the pandemic. We expect this investment to create c.2,500 jobs in our region, the majority of which will be within our supply chain and supporting partners. Alongside this, we'll create around 300 new roles within Severn Trent to help us mobilise and deliver the programme – so far we've recruited 107 employees into these roles.

Lowest Possible Bills

We're proud to have one of the lowest bills in England – but we know we can do more. Our focus on identifying properties which are not currently charged for the water they use, while understanding wider value for money, helps us ensure we can offer customers the best value service.

Through reducing the number of void properties, we can help reduce customers' bills. Finding void properties that should be brought into charge can be challenging, but it's the right thing to do to ensure those who use water pay for it. At the same time, we'll ensure that support is available for those struggling to pay their bills.

Working with retailers, we've also brought over 9,600 non-household properties into charge. This ensures those companies that are accessing our services pay for them.

The Big Difference Scheme, one of our affordability schemes, has helped around 627,500 customers to date. This year, we have increased accessibility to the scheme to maximise its reach, offering support to more customers by providing reductions to their bills.

We also recognise that those struggling to pay their water bill are likely to be experiencing financial pressures elsewhere. When we identify someone that needs support, we go above and beyond to help them access support from other organisations as well. We're also working with partners and other companies to share data to better understand who might be at risk and reach out to support them as soon as possible.

We're continuing to understand how our customers perceive the value for money of our service. We've seen a slight reduction year-on-year, which we believe is a consequence of the wider financial squeeze on household budgets. We are playing our part in addressing the increasing number of customers in water poverty through our industry-leading Affordability Strategy. Read more on page 28.

Service for Everyone

It's our responsibility to ensure we provide a service that is affordable and accessible to everyone.

We're going to offer financial support to more customers than ever before

Supporting our customers is becoming more important as the scale of the cost of living challenge continues to become clear. Research suggests that within our region around 6% of customers are in water poverty, which means they spend more than 5% of their income, after household costs, on water.

We've made big steps in the last twelve months to improve the support available to our customers. Year-on-year we're supporting 13% more

A Company you can Trust

Employee engagement (QUEST) (score out of 10)

▼ **Definition**
Our internal annual staff survey.

Performance in 2021/22 ▲
8.2 (Global benchmark: 7.4)

Strategic outcomes **Remuneration** **Stakeholders**
N/A

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

▲ **Definition**
The number of employees unable to work due to injury or illness from their job.

Performance in 2021/22 ▲
0.14 (ABS target: 0.15)

Strategic outcomes **Remuneration** **Stakeholders**

A Positive Difference

Education programme (commitments)[1]

▲ **Definition**
The number of commitments made to change our behaviours following our bespoke customer education programme.

Performance in 2021/22 ▲
80,656 (ODI target: 31,050)

Strategic outcomes **Remuneration** **Stakeholders**

Our Customers and Communities continued

customers through our Help to Pay When You Need It Scheme. We have targeted working with partners across our region to increase the awareness of schemes and ensure those that can benefit the most are aware of how we can help them.

We're supporting around 215,000 customers to pay their bills, a 27% increase year-on-year and ahead of our 2025 target of 195,000. We've focused on ensuring as many customers as possible are aware of and can access our support programmes. We carried out a successful trial with Coventry City Council, which focused on supporting young care leavers as they transition into more independent living. Not only did we offer them support through the Big Difference Scheme, we also connected them with other organisations such as banking, social housing and other utility providers. The scheme was such a success we are now rolling it out further across our region.

Accessing our service has never been easier

We're continuing to see improvements in customer experience ('C-MeX') as a result of the enhanced focus across customer operations. We also offer our customers a multi-channel digital experience enabling simple, quick interactions with us in a way that best suits their needs. It's clear that our customers want a choice of channels and want it to be simple and quick to resolve their query. Our website has been redesigned to reduce the number of 'clicks' needed to manage accounts and we offer interaction via WhatsApp/Facebook Messenger/text/Apple Chat in a seamless way. We've also introduced our new virtual metering team, who can inspect and diagnose potential metering problems via a video call – an innovation we believe could solve up to 50% of all metering queries without the need for a physical visit.

We now have more than 220,000 customers signed up to our Priority Services Register ('PSR'). This is more than double the number from twelve months ago. 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.

An Outstanding Experience

Our customers' experience of dealing with us is just as important as the service we provide. That's why we continually strive to exceed our customers' expectations and deliver an outstanding experience for all.

Leading the industry for developers

We continue to lead the sector for our developers' experience of dealing with us. We know we've got a formula that works, so our focus this year has been to consolidate our industry leading position, refine our processes and drive further efficiency. Some of the key changes we've made this year are:

- Streamlining our operating model for large developers and self-lay providers, driving efficiency in design and construction;
- Introducing a new end-to-end customer management system; and
- Developing a new commercial model to leverage lower connection costs against high-value mains-laying activity.

At the same time, we've continued to focus on our charging strategy, ensuring that it is simple to understand, provides stable year-on-year charges and is considered value for money. All this combined has allowed us to continue to push forward the frontier of developer experience and retain our number one position in the industry.

Thriving Environment

What's good for nature is great for our water. By working with our natural environment, we not only improve biodiversity across our region, we also encourage nature to do some of the hard work for us. That's why we embrace curiosity across our business to find new ways to work with the natural environment.

We've got bold ambitions to transform our region's environment

In the last two years we've improved the biodiversity of over 4,600 hectares. We've delivered this through a number of initiatives including STEPS grants, work on our own land through staff volunteer days, and working with farmers and landowners to plant trees and protect hedgerows. This is a huge step towards our commitment to improve biodiversity by at least 5,000 hectares by 2027.

Our Great Big Nature Boost also supported the release of beavers back into the wild in the UK. Reintroducing beavers to Willington Wetlands will bring many benefits for the local environment, including reducing the risk of local flooding in the area. Their return is a major boost for the natural environment – which plays a key role in capturing, cleaning and carrying water – which means we need less concrete and chemicals to treat the water.

What's good for the environment is good for our customers too. We believe that for every £1 we spend on improving the environment, we can save up to £20 in treatment costs and also provide around £4 in environmental benefits. So we help keep bills low and improve the amenity value of our region at the same time.

As part of our role as the official Nature and Carbon Neutral Partner to the Birmingham 2022 Commonwealth Games, we will improve biodiversity of 2,022 acres through our Legacy Forests programme as well as creating 74 Tiny Forests – at least one for each of the competing nations. We've already planted our first four areas of the Legacy Forest and have completed our Tiny Forests programme around Birmingham.

Legacy Forest

2,022

We have planted 4% to 31 March 2022.

Delivering the first ever carbon neutral games – through our 2,022-acre Legacy Forest. So far we have planted 4% of Legacy Forest in four areas – Hope Coppice (Solihull), Aldridge Airport (Walsall), The Bratch (Wombourne) and Woodgate Valley (Birmingham).

Water Bars

40 water refill bars

We will be showcasing our water, how precious it is and promoting the reduction of single plastic use by providing over 40 water refill bars at 14 different venues across twelve days of competition at the Commonwealth Games. We are expecting c.2 million refills during the games.

Tiny Forests

74 (100%)

All 74 Tiny Forests were planted by 19 April 2022.

We are reconnecting communities with nature and protecting urban areas from climate change by planting 74 Tiny Forests, at least one for each of the competing nations at the games. Communities have supported us to plant the trees, along with Severn Trent people on their volunteering days.

Lowest Possible Bills

Value for money (percentage)[1]

▼ **Definition**
Our customers' view of value for money, measured by a quarterly survey.

Performance in 2021/22 ▲
65% (ODI target: 63%)

Strategic outcomes **Remuneration** **Stakeholders**
N/A

A Service for Everyone

Help to Pay When You Need it (% of customers)[1]

▲ **Definition**
Percentage of our customers who need our support that are part of one of our affordability schemes.

Performance in 2021/22 ▲
48% (ODI target: 42%)

Strategic outcomes **Remuneration** **Stakeholders**
N/A

Priority Services Register ('PSR') (percentage)[1]

▲ **Definition**
Percentage of our customers that require bespoke support during incidents that are signed up to our PSR.

Performance in 2021/22 ▲
5.7% (ODI target: 5.2%)

Strategic outcomes **Remuneration** **Stakeholders**
N/A

An Outstanding Experience

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

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

Performance in 2021/22
8th

Strategic outcomes **Remuneration** **Stakeholders**

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

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

Performance in 2021/22
1st

Strategic outcomes **Remuneration** **Stakeholders**

A Thriving Environment

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

▲ **Definition**
The number of hectares of land with improved biodiversity since 2020.

Performance in 2021/22 ▲
4,696 (ODI target: 381)

Strategic outcomes **Remuneration** **Stakeholders**

Water

Good to Drink

Delivering safe, clean water is our day job. That's why improving our water quality has been a key focus for us over recent years.

We've maintained low levels of water quality complaints

We're delighted to report that we've maintained our low level of complaints about drinking water taste, odour or appearance. This reflects a 44% reduction in complaints since 2016.

Our strategy of flushing and conditioning our mains is yielding positive results. Increasing our flushing rate and returning to geographical areas at the right time helps us continue to drive improvements.

We're also continuing to see the benefit from AMP6 investment to improve raw water quality. By eliminating components such as manganese at source, we remove the risk of drinking water quality complaints at the tap.

Our innovative technology helps us monitor water quality

Our underlying performance on the Compliance Risk Index ('CRI'), a measure of water quality, has improved this year, with fewer sites failing year-on-year. Our work to understand bacteria within the process, using online flow cytometry, which provides live data on water safety, has proved a real success and helped us realise a marked improvement at our distribution service reservoirs. Unfortunately, we did experience one failure at one large site, which impacted our overall performance resulting in a slight year-on-year deterioration.

This year we kicked off our Green Recovery schemes, two of which will deliver improvements in water quality. We're working across Coventry to further identify and replace up to 26,000 lead supply pipes to remove the risk of lead leaching into the water supply. This complex programme seeks to understand each individual property's risk of lead and identify a cost-effective solution to remove it. Our decarbonising water resources programme has also entered detailed design as we seek to make an additional 65 Ml/d of raw water available across our network.

Innovation in water

During the year, we trialled two exciting innovations that will help us deliver our long-term leakage targets.

ePulse
The ePulse condition assessment technology uses acoustic signals and advanced computer algorithms to assess our distribution network. It assigns a condition grade to each of our mains. This is important as it allows us to better understand where the risks are on our network of over 50,200 km of clean water pipes. Not only will it improve our proactive intervention, it will also help drive cost efficiencies, especially in highly urbanised areas where the cost to undertake mains renewal is more expensive.

Aqua Liner
New structural lining technologies that will reduce the cost of mains rehabilitation work. This efficiency will allow us to target a higher volume of rehabilitation work and therefore support the delivery of our leakage programme by reducing the risk of leakage through small cracks and weeping joints.

Good to Drink

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

▼ ***Definition***
A standardised measure of water quality including our response to any issues that arise.

Performance in 2021/22 ▼
2.43 (ODI target: <2)

Strategic outcomes **Remuneration** **Stakeholders**

Drinking water quality (number of complaints)[1]

▲ ***Definition***
The number of complaints about taste, odour and appearance that we receive.

Performance in 2021/22 ▲
8,123 (ODI target: 9,700)

Strategic outcomes **Remuneration** **Stakeholders**

Water Always There

Customers expect to turn on the tap and water to flow. We take pride in making this happen every day of the year.

Severn Trent operatives undertaking work at night to return supply to customers

We've got more work to do on significant supply interruption events

When we fall short of our customers' expectations, it can be most noticeable in the supply of water we provide. Whether it's a lack of pressure, temporary interruptions to supply or a visible leak in the street, these all contribute to our customers' experience of our level of service.

Supply interruptions are a key area of focus for us. Over recent years we've worked hard to improve our performance when an incident occurs by rezoning our networks, using direct injection from tankers to keep water flowing and using our training Academy to allow our operatives to hone their repair skills. All this has led to an improvement in our underlying performance. Unfortunately, we are still experiencing significant individual events which materially impact our customers. Events that lead to 55% of our total reported performance include:

- **Storm Arwen** – the storm event caused multiple power failures across a number of remote sites. We were unable to respond with operatives and generators at all sites in time to prevent a loss of supply.
- **Nottingham high demand** – higher than usual demand, combined with unplanned outages of some assets, resulted in a supply interruption event.

We've installed over 110,000 meters this year, to enable us to understand more about *customer-side leakage*

On track to deliver 15% leakage reduction

We are pleased to report we have already delivered a 3.5% reduction since 2020 – a great start as we strive to reduce leakage by 15% by 2025 and by 50% by 2045. Our customers tell us that they don't want water to be wasted as it is a precious resource. We're tackling leakage in a number of ways. Increasing our find activity ensures we identify and fix more issues across our network. We then drive down the time to fix each leak, with an 11% year-on-year improvement in our speed of response to visible leaks. To maintain this performance into the future, we're also continuing our investment in mains renewal and relining.

Within the year we've installed over 110,000 meters. We've also kicked off our smart metering programme as part of Green Recovery. This will help us and customers understand more about customer-side leakage. By expanding our use of smart technology, we'll be better able to identify potential leaks on customers' supply pipes and target those previously hard to solve problems. It will also give our customers greater insight into their own usage so we can maximise our water efficiency campaigns to reduce household consumption.

Water Always There

Supply interruptions (number of minutes)[1]

▼ **Definition**
The number of minutes the average customer is without supply in the year.

Performance in 2021/22 ▼
12.65 minutes
(ODI target: 6.13 minutes)

Strategic outcomes **Remuneration** **Stakeholders**

Leakage (three-year average) ('Ml/d')[1]

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

Performance in 2021/22 ▲
446 Ml/d
(ODI target: 448 Ml/d)

Strategic outcomes **Remuneration** **Stakeholders**

Waste

We have invested significantly in our waste operations over the last 30 years to minimise the impact on the environment, but we recognise that there is more we can do and we have a critical role in driving the necessary improvements.

We need to ensure our operations aren't adversely impacting the environment we depend on and use our position to influence and encourage others to play their part too. In March 2022, we launched our Get River Positive pledges, setting out the steps we're committing to take to reduce or remove our impact on our region's rivers by 2030. Read more on page 17 to 19.

During the year we have continued our focus on protecting river water quality by maintaining our strong record of compliance, delivering over 99.3% of the permit conditions across our sewage treatment works. Our focus on pollution incidents has ensured we maintained our performance year-on-year, close to our best ever performance reported last year.

The underlying asset health of our sewerage network continues to be a key focus for us. Our roll-out of sewer sensors is increasing our visibility across over 92,000 km of our sewer network. They have been a key tool to allow us to deliver a 33% reduction in the number of blockages since 2020, and delivering against our sewer collapses measure for the second consecutive year.

As a socially responsible company, we took the decision to introduce a measure focused on sewer flooding of public spaces – the only company in the industry to have such a measure. In the year we've outperformed our target by 34% and across the AMP we're outperforming the measure by over 40% on average. On our more traditional measures of sewer flooding, we've seen a 13% year-on-year improvement on internal sewer flooding but unfortunately we've missed our external sewer flooding target by 26%. Storm events over the winter had a significant impact on our network, resulting in external sewer flooding issues for our customers, when some areas experienced more than 200% of the average monthly rainfall.

We're delighted to have been recognised as a 4* company by the Environment Agency's Environmental Performance Assessment for the last two years. Our performance this year maintains that strong performance across the basket of measures and we are hopeful of receiving 4* status for the third consecutive year – the first time we would ever have achieved that.

Our ambition for the future is to continue to drive forward the industry across the waste water service. Our commitment to Get River Positive, together with our accelerated Water Industry National Environment Programme ('WINEP') and innovative Green Recovery schemes, will all combine to improve the performance of our waste water network, reducing the impact on customers and the aquatic environment.

Specifically, our Green Recovery scheme in Mansfield will trial ways to reduce the pressure on our network from rainfall events. Over the next three years we'll install tens of thousands of sustainable urban drainage schemes – including rain gardens, retention ponds and swales. These interventions will capture rainwater, either slowing it down or preventing it from flowing into our sewer system entirely. In turn this allows our sewers to maximise the volume of foul sewage they can carry, reducing the risk of hydraulic overload and extending the life of our assets. The scheme will also deliver community benefits through providing additional nature-based amenities for public enjoyment.

Innovation in waste water

During the year, we trialled two exciting innovations in our waste water programme.

Veolia disc filter trials

In anticipation of even tighter phosphorus limits from 2025, we're undertaking trials to evaluate commercial technologies for tertiary waste water treatment. These disc filters may help us achieve what are likely to be some of the tightest phosphorus permit conditions in the industry. Early feedback from the trial is promising, showing that the technology has the capability to achieve the standards and could be a valuable addition to our existing processes.

Bioresources controlling mind

We're making use of data science and artificial intelligence to optimise the transportation of our sludge between sites. This analytical tool has already been implemented across our sludge hubs and is realising efficiencies in our fuel use and operational costs already.

Waste water safely taken away

Internal sewer flooding (number of incidents)[1]

Definition
The number of sewer flooding incidents that occur inside a customer's property.

Performance in 2021/22 ▲
677 (ODI target: 685)

Public sewer flooding (number of incidents)[1]

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

Performance in 2021/22
1,296 (ODI target: 1,975) ▲

External sewer flooding (number of incidents)[1]

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

Performance in 2021/22 ▼
4,526 (ODI target: 3,574)

Pollutions (number of incidents)[1]

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

Performance in 2021/22 ▲
204 (ODI target: 222)

Spotlight on

Affordability

What is water poverty?

Customers are defined by the Consumer Council for Water ('CCW') as being in water poverty when they spend more than 5% of their total income, after household costs, on water. For Severn Trent, the number of customers estimated to be in water poverty is just under the national average at 6%. Last year Severn Trent, along with others in the industry, pledged a public interest commitment to make bills affordable for all those in water poverty by 2030. Given the current environment, we are accelerating our support this AMP through our new Affordability Strategy announced in May 2022.

What are we doing about it?

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

Our customers get all their clean and waste water services for around £1 a day – the second lowest combined bill in the land. But we know for some customers this is hard to meet, which is why we're making this money available to support them now when they need it the most.

A package of financial support worth £30 million will extend our affordability schemes to assist an additional 100,000 customers *who need financial help paying their bills over the next three years.* This will mean that 6% of our customers will be supported by a social tariff by the end of the AMP and, taken together with the other types of financial support, we will be helping around 315,000 of our most financially vulnerable customers by 2025.

We want to take action to help families across the region who are *going to be hit the hardest by the effects of increased cost of living* from food, fuel and energy bill rises.

This new commitment builds on our work to support and invest in our region which already includes offering 100,000 hours of free employability training to help people into jobs across the Midlands.

Why are we taking action now?

Given the current environment of record energy prices, rising inflation, falling Universal Credit, and rising National Insurance contributions, our most financially vulnerable customers are seeing increasing pressure on their ability to afford household bills combined with an increasingly uncertain outlook. Addressing affordability issues is clearly the right thing to do for customers.

Our Affordability Strategy will provide financial support for the most financially vulnerable customers in our region. The combined impact of these initiatives will mean that we will be able to support around 100,000 more of our customers by 2025 and help lift them out of water poverty, at no increase in costs above those assumed in our Final Determination to our wider customer base.

- **£30 million being made available to support thousands of customers**
- **Support comes as families across the region struggle with cost of living crisis**
- **Those eligible will receive financial help to pay their water bill**

Our Affordability Strategy was already a key consideration for our PR24 planning and our new scheme, which is industry leading, will go a long way to fulfilling our 2030 pledge at a time when customers need this most.

What else are we doing?

This pledge builds on the work we're already doing to support the region, including the following:

- We are donating **c.£10 million** over AMP7, to 2025, through our **Community Fund**, supporting local charities and community groups. In the first two years, the fund has supported 166 non-profit organisations with more than £3.4 million of grants and donations. Read more about our Community Fund online.
- We are also investing **£566 million** (2017/18 prices) as part of an ambitious **Green Recovery programme** to support the UK's green economic bounce back from the pandemic and creating c.2,500 *new jobs in the Midlands. Read more on pages 29 to 31.*

A package of financial support worth

£30 million

Support an additional

100,000 **customers by 2025**

This will mean that

6%

of our customers will be supported by a social tariff by the end of the AMP

We will be helping around

315,000

of our most financially vulnerable customers by 2025

As the cost of living continues to rise, we're acting now to help customers who need it most. Water is one of life's essentials and we want to give support to people struggling to pay their bill. Our customers have the second *lowest combined bill in the UK, getting clean* and waste water services for around £1 per day. However, we know that for some, paying their bill remains a challenge. That's why we've made this commitment, because quite simply, it's the right thing to do.

Liv Garfield, Chief Executive

Spotlight on

Green Recovery

In summer 2021, Ofwat gave us approval to invest around £566 million (2017/18 prices) to support *the green economic recovery from the pandemic.* Our proposals covered a wide range of new and innovative projects for us as a company, and for the water industry as a whole. We're seeking to do things differently; to try new things and change the way we interact with our environment.

Our Green Recovery programme has allowed us to get an early start in tackling some of the big strategic challenges that we face now and into the future, such as improving river quality, developing a more resilient water supply and protecting our communities from the impacts of climate change.

We've recruited a diverse range of talented people to deliver the programme and set up an effective delivery structure, with 39% being female and 16% minority ethnic. We're passionate about creating new jobs and opportunities, and have already taken on twelve interns to support the programme. This has been such a success that four have already been offered permanent roles and we plan to run another internship programme later this year. Across the programme, we expect to create around 300 direct jobs, and over c.2,500 within our wider supply-chain and delivery partners. These highly engaged and talented new teams will bring an infusion of new skills and ideas, providing a key resource into the future.

We have made excellent progress with the Green Recovery programmes to date, successfully getting to the delivery phase in very short timescales. Five of the six programmes have achieved ambitious initial milestones and are firmly on track. Our Supply Pipes programme has proved really challenging to date due to a range of complexities and we have not yet achieved our planned job volumes. However, we have learned a huge amount and continue to adapt our approach and try new things in order to increase job volumes.

Our Green Recovery programme is innovative. We're thinking differently, working with new partners and trialling new technologies such as new *lead detection technologies and waste treatment solutions.*

The programme supports the UK Government's Levelling Up agenda and will deliver long-term, sustainable benefits for current and future generations in our region. These investments are making our region greener, safer, more resilient to climate change, and more prosperous. We have also raised new finance from investors to help keep bills affordable for customers. We estimate the cost to customers will be around £5 extra a year on average – so despite the big improvements we aim to make to everyone's lives, our bills will remain amongst the lowest in the country.

We couldn't deliver this huge programme without co-operation, and we are working in close partnership with local organisations to ensure that we can all learn together. For example, the market for nature-based solutions is relatively immature, so we need the support of our supply chain to develop the solutions we need. They're excited to get involved with these new, innovative projects, really pushing the boundary on what is possible. We've also set up a broad coalition of different stakeholders to help deliver our Mansfield programme, including Mansfield District Council, Nottingham County Council, the Highways Authority and a number of supply chain partners.

A detailed progress update on each of the projects can be found overleaf.

Check out our Green Recovery Report published in July 2022 on our website stwater.co.uk/regulatory-library

Customer Benefits of Green Recovery

We can enjoy a swim in the rivers Teme and Leam, knowing the water is safe for our family.

I can get my supply pipe checked for lead – and have it replaced free of charge.

Our river environment will be healthier, faster, thanks to accelerated investment plans.

We can get a smart meter fitted so we can better understand our water use.

Our town centre will look greener with thousands of new nature-based solutions which help reduce the risk of flooding.

We know water will always be there when we turn the tap on. But even better, it's going to be lower carbon too.

Green Recovery Projects – Progress Update

Rivers safe for swimming

Our Goal

Make stretches of the River Leam and River Teme healthy enough to swim in.

Pass on what we learn to other organisations, as part of our efforts to understand what it takes to achieve bathing quality rivers and to ensure the UK's rivers can achieve 'good ecological status'.

Create more leisure opportunities and improve wellbeing, and deliver environmental benefits, which includes enhanced biodiversity and healthier aquatic life.

Our Approach

Engage with and help other parties make positive change in the catchment, e.g. working with farmers to prevent pollution getting into rivers.

Develop new ways of communicating with river users so they understand water quality in real time.

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

Our Progress

Our mobilisation efforts have focused on three areas alongside our work with the supply chain to progress the project into contract:

1. **Analysed our network.** Asset surveys and flow monitoring (sensors) allow us to understand the size of storage required to reduce spills during heavy rainfall. Ecological surveys ensure we understand protection measures we need to consider such as what time of year we can undertake work.
2. **Our treatment works.** Detailed surveys have been completed to understand loading at each works to ensure we can design the most effective solutions for each of the parameters.
3. **Engagement with farmers and river users** in order to provide accurate river quality monitoring and modelling information. We have held focus groups and engaged with land agents and owners to inform them of our programme and encourage them to join us

More water for more customers

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 to achieve this will increase the biodiversity of 46 hectares of habitat, at our Witches Oak site.

Our Approach

Utilise an abstraction licence we purchased from a decommissioned power station at Rugeley and build a new water treatment works to accommodate new source of water.

Help 3,000 businesses save money, and reduce waste by looking for opportunities to reduce leaks, upgrade water fittings and signpost to installing grey water and smart storage systems, saving up to 4 Ml/d.

Our Progress

We have determined the most optimal solution for customers. This has been a lengthy exercise, but worthwhile to ensure the project delivers for customers now and in the future.

There are three aspects to this project:

1. **Increasing raw water to Church Wilne[1].** We will be using our existing abstraction location on the River Trent at Witches Oak and we have appointed a designer to develop the outline design in progress. We will construct new wetlands in three existing gravel beds at the site to provide the first stage of water treatment and also increased biodiversity.
2. **Increasing the Deployable Output of Church Wilne Water Treatment Works ('WTW')[1].** We will be using technologies to treat the water which are new to Severn Trent. We are going to test the performance of these technologies using a pilot plant located at Church Wilne which will be a scaled down version of the new water treatment works. The pilot plant will operate over 12 months to assess the seasonal changes in water quality that occur in the River Trent. The pilot plant will enable us to optimise the new water treatment process.
3. **A new transfer main from Church Wilne WTW[1] to increase resilience across our network.** To deploy the additional water from the new water treatment works, we will construct two new transfer pipelines connected into our grid so that we can transport the water to where it is most needed in our region and increase the resilience.
4. **Complete 3,000 water efficiency audits** across a wide range of different business types in order to help them reduce water consumption and save money. We've made good initial progress on this, engaging supply chain partners to run a trial and an initial plan to conduct a series of audits within schools that will start imminently. We will then use the learnings from these trials to inform a wider roll-out.

[1] The Church Wilne solution is subject to Ofwat approval.

Homes protected from flooding

Our Goal

Create the first catchment-scale flood-resilient community, using an innovative 'nature-based' approach to reduce surface flooding. The trial is centred around the Mansfield district of Nottinghamshire, where we aim to store the equivalent of 58,000m^3 of surface water in 'blue-green' infrastructure – a range of natural surface-flood defences, such as rain gardens, drainage ponds, grassed areas and permeable hard paving.

Reduce the broader harm flooding brings to communities and create a more pleasant natural environment for local people to enjoy.

Improve river water quality, by reducing the volume and frequency of discharges from 25 storm overflows.

Our Approach

Work collaboratively with a range of partners, such as local councils, communities, universities and environmental groups. We're focusing on areas with high proportions of financially vulnerable customers and aim to protect around 90,000 people.

Install a range of blue-green solutions which will capture rainwater and slow down the pace at which it enters the sewerage network.

Our Progress

We have established the foundations of stakeholders and partners for the project. We are working closely with both Mansfield County Council and Nottingham County Council. Without their support we wouldn't be able to deliver this project, and we thank them for their continued support.

We have engaged with consultants on the design, which is now developed for each of the interventions. We have engaged our supply chain on our pilot site, which includes 1,700 interventions over six zones at 176 locations near the town centre. Our solution of creating permeable paving is providing a great opportunity to reverse urban creep. By replacing tarmacked parking areas with a permeable surface, and creating green verges, we're able to capture surface water run-off and slow it down.

We are finding other opportunities to deliver improvements throughout the project. One example of this is with developers looking into how we can incentivise them to use sustainable urban drainage solutions ('SUDS') on brownfield sites rather than traditional hard standing.

Protecting customer supply pipes

Our Goal

Replace 26,000 customer supply pipes that are made of lead in two catchments.

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 – which the World Health Organization warns is unsafe at any level in drinking water.

Reduce leaks by around a million litres a day, as around 25% of leaks come from these customer-owned pipes.

Our Approach

Prioritise areas we work with based on lead risk, estimated leakage and deprivation.

Launch an ambitious pilot to fix the problem at the source, instead of adding more chemicals to mitigate the health risk from lead, working with plumbers to replace the pipes in 25,000 homes across Coventry.

Additionally replace around 1,000 lead and leaking pipes in a smaller, rural community in Shropshire.

Our Progress

The programme has proved really challenging to date and, although we have completed 79 jobs, this is well below our initial planned job rate. We've found that many jobs are higher complexity than expected, with around 80% of customers who have signed up being on a joint supply. These jobs typically require all or most neighbours to sign up and therefore are more complex and involved.

We have directly recruited seven operatives as part of our direct labour model trial. Skills shortages in the market have meant this has progressed slower than planned, but we are about to start our first jobs under this model. We are also working closely with our Academy Team to create an apprentice course that we plan to roll out nationally at the end of the programme.

We have also put significant effort into developing a grant scheme that will shortly be trialled before a planned wider roll out. We held an event at our Academy with around 30 WaterSafe plumbers from 17 companies to get feedback on the draft scheme. We're hopeful that working with the plumbers from the local area through this model will enable us to increase job volumes and create local jobs.

We're looking at how to drive efficiency by signing up whole streets at the same time. To this end we've engaged with key housing associations who are responsible for significant numbers of properties to share our plans and identify how we can work with them.

We are working with various organisations to explore more innovative solutions, including:

- Partial lead replacement where we have a mixed material pipe where extensions have been built on older properties; and
- We are investigating novel methods to confirm the presence of lead supply pipes to customers' properties without the need for excavation.

Lower water consumption

Our Goal

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 save money on their water bills. We'll also be able to 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.

Reduce the need for future investment in water resources – a UK Government objective

Our Approach

Roll out a large-scale trial of 157,329 smart water meters across Coventry and surrounding areas.

Install 66,319 new meters and 91,010 replacements, mainly in water-stressed areas in Warwickshire. These will help us reduce peak-time demand as customers use water more efficiently, while also helping us reduce leakage by enough to supply a town the size of Market Harborough (population over 22,000).

Our Progress

5,280 meters have already been installed across Coventry. We have been working with our supply chain to establish and embed the processes to complete the meter installations. We remain on target to complete over 30,000 by the end of May.

Progressing this programme at pace is essential. It will provide us with data on household usage and supply pipe leakage. The benefits of this can then inform our future plans to tackle the supply demand balance. The data analytics and visualisation are central to helping look at new ways of making improvements across all of our activities. To help extract the value of smart metering, a new online platform will be available in July. The platform will allow customers to interact with smart meter data about their water for the first time. Customers will understand how and when they use water, see any potential leaks at the property and be provided with tailored water saving tips.

Faster environmental improvements

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. In particular, we'll see aquatic wildlife thrive.

Our Approach

Initiate 34 additional phosphate-removal projects, extra monitoring and investigative measures at 150 sewer overflows, and accelerate improvements at 100 overflows.

Upgrade chemical dosing and invest in new technologies to enhance the removal of tertiary solids. Where possible, use chemical-free methods, such as enhanced biological phosphate removal and, in some cases, constructed wetlands.

Other measures will include raising weir heights and increasing pump capacity on short-duration, low-volume sewer overflows.

Our Progress

There are 45 schemes within this project. More than 50% are into early contractor involvement with our supply chain, with delivery phased from 2025 to 2027. Focus is now on developing new talent within the team, as we aim to recruit graduates, interns and apprentices.

We are developing early feasibility at two of the more complex schemes. This allows us to understand not only Green Recovery improvements but growth and capital maintenance requirements over the project design horizon in the future.

Where possible, we're seeking to utilise modular 'plug and play' technologies. These allow us to design and build at pace, while maintaining the ability to adapt and add to the site in future AMPs as the site requirements evolve. This technology is a first for us and is a really exciting approach to solving traditional problems.

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: Green Power, Operating Services, and Property Development.

Leading on self-generation

As one of the UK's largest producers of renewable energy from food waste, Severn Trent Green Power provides valuable waste recycling services for its local authority and commercial customers. 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. We operate a high-quality portfolio of assets, including nine Anaerobic Digestion ('AD') and five composting facilities, that generate renewable energy and provide valuable recycling services for our local authority and commercial customers across the Midlands, South Wales, and London.

Our Green Power business recycles over 500,000 tonnes of green and mixed food waste each year. The green energy produced from food waste contributes to meeting our net-zero targets and keeping our energy costs down. We were proud to deliver on our commitment to self-generate the equivalent of 50% of the energy we use from renewable sources, and this year we were pleased that Green Power delivered a full year generation of 274GWh; a 3% increase year-on-year across its portfolio. During 2021/22 we spread a record 510,000 tonnes of digestate over land, along with 100,000 tonnes of compost and, importantly, increased our investment in assets to ensure we maintain maximum generation capacity.

Our second Net Promoter Score ('NPS') survey of 24 external customers (c.25% of our customer base) generated a score of 74 (a score of 74 – 100 being classed as the 'best in the industry'). The NPS survey provides tangible encouragement that we're delivering a strong customer-focused service.

Delivering for our customers

Operating Services' full year PBIT was £19.7 million and we achieved our best-ever performance on over 75% of contract KPIs (2020/21: 75%). We performed strongly throughout the year on our MOD contract, delivering our best-ever performance across service failures, and leakage performance was industry-leading.

The Coal Authority contract has delivered best-ever performance, achieving £1.6 million PBIT for the year, with the volume of project work now exceeding pre-pandemic levels.

We have had some pleasing recent successes regarding new contract wins for our Water Hygiene business, forging strong partnerships with some of the large national facilities-management providers.

Our Property Development business also performed well, and we remain on track to deliver £100 million of PBIT from property sales by 2027, with £49.6 million already delivered.

Award winning recycling business

In August 2021 we were delighted to win two awards at the **Awards for Excellence in Recycling and Waste Management and Organics Recycling Business of the Year**. The Awards, run by letsrecycle.com, are the most prestigious event in the environmental calendar, and it is a brilliant opportunity for all areas of the waste-management sector to gain industry recognition for their achievements.

Severn Trent and Octopus Energy Group

Our partnership with Octopus Energy will see us developing renewable energy projects across the Midlands. It is the first time two major utility companies in the UK have teamed up to produce renewable power generation. We have agreed to explore potential opportunities to generate clean, green energy at Severn Trent sites and other third party locations throughout our region. Our first sites are in the early stages of our scoping and development pipeline.

The collaboration agreement will support our Triple Carbon Pledge of reaching net-zero carbon emissions using 100% renewable energy.

Zoisa North-Bond, CEO of Octopus Energy Generation, said: "Severn Trent is one of the most important and vital companies in the Midlands, and we're delighted to be working with them to create even more value for the people of the region in the form of renewable energy."

Oren Environmental Services

Our own environmental focus aligns with the wider Severn Trent Group ambitions and we are proud of the progress our new business 'Oren Environmental Services' is making, promoting the use of reedbeds as a natural filtration system. Not only is this a cost-efficient way for businesses to treat waste water through the use of wetland configurations, it also has the added benefits of reducing the carbon footprint and enhancing local biodiversity. It is believed a healthy reedbed absorbs over ten times more carbon than a neglected one (reeds not weeds!).

274 GWh

record level of generation of renewable energy

£5.6m

Green Power PBIT

500,000 tonnes

of green and mixed food waste recycled this year

Severn Trent Green Power and CPL Industries partner to create low-carbon solid fuel from food waste by-product

CPL Industries, the UK's leading manufacturer and distributor of smokeless fuels, has partnered with Severn Trent Green Power to transform food waste into low-carbon solid fuels that are used for heating.

Utilising hydrothermal carbonisation ('HTC') processing, CPL Industries converts the by-product from our processing of food waste to produce the low-carbon fuels. Processing the by-product at its Immingham plant, CPL Industries is able to convert this material to produce renewable fuels which can be used to heat homes, as well as with district heating schemes and hard-to-heat sectors such as off-grid businesses in the leisure and hospitality industries.

Our JetVac Team happy to educate customers on family day out

In August 2021 our Severn Trent Services JetVac Team attended a family day out at one of our key sites to engage with and educate some of our customers. Our 18-tonne JetVac unit is normally out and about, busy proactively cleansing our sewer networks. However, the Team took the time out of its busy schedule to educate our customers on what they should and should not put down our precious sewers. The Team used its creative skills to set up a jetting system that showed just what happens when wipes are put into the system, and the work involved in having to clear them. Our education packs proved to be popular, with over 400 being handed out for our customers to go away and complete after the event.

Our first 100% electric vehicles

We all know how important it is to provide a fantastic service to our customers, but as a business we also recognise it is vital that we provide these services in a sustainable way. This year, we added our first brand-new 100% electric vehicles ('EVs') to our Severn Trent Services fleet. Based at one of our water treatment works that has the ability to produce 30MW renewable energy using solar energy, the Nissan ENV200s will be used by our technicians to deliver operations and maintenance on our water and waste water assets across our MOD contract.

These EVs are the first step in reducing the carbon emissions produced by our fleet, as part of our Triple Carbon Pledge which includes 100% EVs by the end of 2030 (where possible).

SUSTAINABILITY IS EMBEDDED IN OUR APPROACH

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

Our Sustainability Framework lives through the decisions we make and the way we work every day. We are committed to a wide range of long-term ambitions across the environment and society with the aim of having a positive impact in what we do.

We know there is always more to be done and will continue to challenge ourselves where we feel we can contribute more.

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. To date, we have made good progress in terms of both investment and outcomes, investing £566 million to 31 March 2022. The table below provides further detail on where we have invested and outlines our future investment plans to 2025.

Our Purpose

Taking care of one of life's essentials

Taking care of the **environment**	Helping people to **thrive**	Being a company **you can trust**
Ensuring a sustainable water cycle	**Delivering an affordable service for everyone**	**Living our Values**
Enhancing our natural environment	**Providing a fair, inclusive and safe place to work**	**Balancing the interests of all our stakeholders**
Making the most of our resources	**Investing in skills and knowledge**	**Running our Company for the long term**
Mitigating climate change	**Making a positive difference in the community**	**Being open about what we do and sharing what we know**
Linked material SDGs	***Linked material SDGs***	

We show the material United Nations Sustainable Development Goals ('SDGs') that are relevant to the pillars of our Sustainability Framework.

See our Sustainability Report for full details, available on our website in mid-June 2022.

Across our Annual Report and Sustainability Report, we continue to highlight activities we are undertaking and our performance, making the information accessible.

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	Pages 35 to 51 in Annual Report See our Sustainability Report	**£123m**
Enhancing Nature	Biodiversity Pollutions reductions River water improvements Catchment management	Pages 20 to 27 in Annual Report See our Sustainability Report	**£124m**
Water Resources for the Future	Leakage reduction Per capita consumption reduction Meter installations Interconnector investment	Pages 20 to 27 in Annual Report See our Sustainability Report	**£260m**
Affordability and Accessibility	Reducing water poverty Building our Academy Creating a Community Fund Increasing conservation	Pages 1 to 87 in Annual Report See our Sustainability Report	**£59m**

OUR TCFD DISCLOSURES

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 fourth TCFD disclosure, and provides an update on what we have published previously.

Our Annual Report complies with the requirement of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures below. This is an update on our separate TCFD disclosure published in September 2021, including how we think about governance, strategy, risk management, and the metrics and targets which underpin our approach.

Our strategy focuses on the positive impact we can have on our customers, the communities we serve and on the environment that we rely on and interact with every day.

Our Sustainability Framework (see page 34) is fully embedded into our overall strategy and draws together our environmental, social and governance ambitions which are delivered as part of our Business Plan.

The information provided in this section, in conjunction with the rest of the Annual Report and our separate Sustainability Report, demonstrate how we have embedded climate-related risks and opportunities into our strategy and business model; the progress we are making on our journey; the metrics and targets we have set ourselves over the next several years; and our approach to understanding and mitigating the risks posed. We will continue to evolve and enhance our reporting against the framework provided by the TCFD, and we welcome feedback on our approach.

Thermal Hydrolysis Process

Our Triple Carbon Pledge

This is our pledge to meet operational net zero by 2030 for Scope 1 and 2, as part of the combined UK water sector's net-zero 2030 roadmap.

Net zero carbon

Our net operational carbon footprint (Scope 1, Scope 2 and a subset of Scope 3 emissions) for 2030 will be zero, including deductions, such as those detailed in the following targets, as well as removal and certified offsets.

100% of energy from renewable sources

All our electricity, gas and fuel will come from renewable or 'renewable-backed' sources.

100% electric vehicles

All the vehicles we own will be electrically powered or powered by alternative fuels by the end of 2030, where possible.

Science-Based Carbon targets

Our Science-Based Targets ('SBTs') are in line with the 1.5°C pathway (defined as holding temperature rises of no more than 1.5°C above pre-industrial levels). These targets, which do not include offsets, will drive an ambitious reduction in our Scope 1 (direct emissions arising from owned or controlled sources) and Scope 2 emissions (indirect emissions arising from energy purchase).

We have committed to:

46%

reduction in Scope 1 and Scope 2 emissions by 2031 from a 2019 base

70%

of our supply chain (by emissions) having set a SBT by 2031

13.5%

reduction in emissions from sold products

Climate-related Strategy

Overview

Climate change is one of the key challenges our world will face this century and we are well placed to understand the scale of the problem. The water sector will need to ensure resilience against the predicted impacts of increased population growth and climate change, and fulfil our industry-wide pledge to become net zero by 2030, all the while continuing to deliver the quality and quantity of water our customers demand at a price they can afford.

Providing water and treating waste water is an energy-intensive process that requires a sector-wide approach, innovation and long-term strategic thinking to ensure that the risks affecting our ability to provide these services are mitigated.

STRATEGY

TCFD RECOMMENDATION	PROGRESS THIS YEAR
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning. **Severn Trent has reported against the Strategy TCFD recommendations in full within this 2022 Annual Report.** **Where can you find more information?** – Principal Risks p61-66 – Strategic Direction Statement[1] – WRMP[1] – DWMP[1] – Climate Change Adaptation Report[1] 1 Available on our website severntrent.com	**Strategic Direction Statement and Adaptation Report** During the year, we published consultations of our Strategic Direction Statement 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 Strategic Direction Statement will guide our future strategy and investment choices. **Modelled risks** Since our work presented within our 2021 TCFD report, we have continued to work toward the publication of our Water Resource Management Plan ('WRMP') and Drainage and Wastewater Management Plan ('DWMP'). We are aligning our investment planning approach to that of UK Climate Change Committee capturing a 2 – 4°C degree warming scenario. But the future is uncertain and, as such, we are developing a low regrets plan that is adaptable to future change. We have used best available data to determine different alternative investment pathways open to us and we are reviewing these in light of the recent Ofwat common reference scenarios which ask us to consider RCP2.6, RCP6.0 and RCP8.5 to inform our decision making. Our route through these adaptive pathways will be guided by increased certainty and insight as we iterate planning cycles. **See progress under risks on pages 39 to 44 for further information.**

Our climate change strategy

Our approach is firstly to reduce those emissions directly within our control or influence and hence we set our Triple Carbon Pledge to meet net zero by 2030 for our own direct and indirect operations, as part of the combined UK water sector's net-zero 2030 roadmap. This gives us and the rest of the sector a shared goal. To go further, we also committed to a Science-Based Target to reduce absolute Scope 1 and 2 emissions by 46% (from a 2019/20 base year) by 2031. Working with our supply chain to measure and reduce emissions along the value chain is also crucial and we continue building an understanding of our Scope 3 emissions to gain a more accurate and complete picture of our current position, and use this insight to work with and support our supply chain and deliver our targets. Our Net Zero Transition Plan on pages 46 to 51 shows how we intend to achieve those targets and page 79 expands on our engagement with our supply chain. Over the next five years we are committed to understanding and addressing the climate change risk that sits within our supply chain, and importantly work with suppliers to raise awareness of this issue, influence their actions to build climate resilience and find joint solutions to adaptation challenges.

We will play our part in the UK's Green Recovery and contribute to a clean energy system.

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 the equivalent of c.50% of the electricity we use from our renewables, and this year we delivered record levels of generation — 507GWh of renewable energy from 36 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. You can read more about our Green Power business on pages 32 to 33.

We will maximise the benefits from mitigating and adapting to climate change through our role as a major land owner and encourage others to do the same.

Addressing multiple outcomes in how we manage land is increasingly important, ensuring that we address the crises of biodiversity and climate change. Enhancing and protecting nature is also vital to improving water quality, providing protection against the impacts of climate change, making our region more resilient and also sequestrating carbon. Examples of how we are doing this can be found in our Sustainability Report.

Understanding the impact of our investments to mitigate and adapt to climate change is important to guide future investment. In 2022/23 we are applying a carbon tax of £18 / tCO_2e to each of our departmental budgets. As well as encouraging greenhouse gas ('GHG') reduction, this contribution will generate a fund that we will use to invest in new ideas and innovations to achieve our net zero target (with pricing in line with Department for Business, Energy and Industrial Strategy ('BEIS') assumptions and subject to annual review). In addition, our infrastructure schemes will build a carbon cost into business case assessments, using the UK Government shadow price of carbon each year, to inform full life cost decisions.

Adapting to climate change

In parallel with our efforts to mitigate climate change by delivering our ambitious carbon targets, we need to become more resilient to changing climate conditions and more frequent and extreme events, in order to deliver a great service to our customers over the long term. To do this it is vital that we understand the risks we face as the climate changes, whilst also dealing with climate impacts now, and better plan and adapt for the future. We are planning for 2°C but preparing for 4°C. Our third Adaptation Report describes how the climate impacts our operations, how we assess climate risks and how we plan to manage them.

We rely heavily on our ability to remain resilient to the impacts of climate change in order to deliver essential water and waste water services to the communities in the regions we serve. Our long-term strategy for adaptation is reviewed in collaboration with other stakeholders through a series of detailed studies that take place every five years through our WRMP, DWMP and our Climate Change Adaptation Report. These documents have a 25-year time horizon with the outcomes informing not only our near-term five-year investment plans, but our longer-term investment approach. The longer-term trends coming from our analysis has informed the recently published Strategic Direction Statements for both Severn Trent Water and Hafren Dyfrdwy.

Our 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 page 38. STEC delegates certain climate-related risk and opportunity oversight matters to its management committees. To facilitate effective delegation, the Severn Trent 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 Annual Report.** **You can find additional information throughout this Annual Report, in our Sustainability Report and our third *Adaptation Report*.**	**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 existing 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 delivering for all of our stakeholders As announced, Angela Strank, Independent Non-Executive Director and Chair of the Corporate Sustainability Committee, stepped down from the Board in March 2022 having served eight years. The Board was delighted to announce the appointment of Tom Delay, who brings extensive strategy, sustainability, energy, and engineering experience to the Board, as successor to Angela as Chair of the Corporate Sustainability Committee. **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 regards to sustainability and climate-related matters are considered.
More information on the sustainability and climate-related Board CPD sessions held during the year can be found on pages 94 to 95.	**Meetings** In addition to including sustainability matters as a standing agenda item at regular Board meetings, the Board held seven sessions dedicated to climate-related risks and opportunities and sustainability-related topics to ensure such risks and opportunities are planned into the Board and Board Committee annual forward plans.
You can find out more about the performance targets/milestones for the 2022 Award in the Directors' Remuneration Report on pages 128 to 148.	**Remuneration** We are committed to ensuring that all employees are motivated to deliver our sustainability ambitions, from climate and biodiversity to supporting our customers, across all our incentives. This is supported by our transparent remuneration framework that aligns reward and incentive structures throughout our business from our front-line operatives through to our Executive Team, ensuring that every employee is incentivised and rewarded to deliver the same objectives. This is in addition to Environmental, Social and Governance ('ESG') measures which already form part of the annual bonus scheme metrics. In 2021, the Severn Trent Plc Remuneration Committee agreed the development of a carbon reduction performance measure in the Long Term Incentive Plan ('LTIP') with a weighting of 20%. At the Company's 2021 Annual General Meeting ('AGM'), over 99% of shareholder votes cast were in favour of the replacement LTIP. In March 2022, we announced our commitment to 'Get River Positive' and have also directly linked our River Pledges to our remuneration structures through including them as measures in our Annual Bonus Plan for 2022/23. Read more on page 130.
More information can be found in the Strategic Report on pages 1 to 89.	**Strategy** During the year, the Severn Trent Plc and Severn Trent Water Limited Boards approved Severn Trent Water's Strategic Direction Statement setting out a clear line of sight between the Severn Trent Water Business Plan and the longer-term vision of the Company.
Further information on how stakeholders are considered can be found in our Section 172 Statement on pages 82 to 84.	**Climate change commitments** Demonstrating the Company's commitment to its shareholders, the Board announced on 24 March 2021 its intention to put its long-term approach to climate change before shareholders at the Company's AGM on 8 July 2021. The Climate Change Action Plan received over 99% approval at the AGM. The Company will subsequently seek an advisory vote every three years on any material changes made or proposed to the plan.

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

THE BOARD

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

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. Group CFO James Bowling 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, including over climate-related risks and opportunities;
- 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 relating to areas such as environmental science, climate science and social responsibility (see Board skills matrix on page 105).

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 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. Three 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 on pages 115 to 121	**Further detail of the work of the Committee can be found on pages 124 to 127**	**Further detail on actions and appointments in the year can be found on pages 110 to 114**	**Further detail on remuneration policy can be found on pages 128 to 146**	**Further detail on our Sustainable Finance Framework can be found on pages 122 to 123**

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

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

Sustainability Framework – p34 | **STEC Members – p103**

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
Facilitated by Severn Trent's dedicated Sustainability Team, Executive and senior management oversee performance and progress against our Sustainability Framework. The Committee is responsible for identifying and reviewing climate-related risks and opportunities.	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.

How we identify and understand risks of climate change

The impacts of climate change are closely linked to many of the key risks faced by our business. During the year we have undertaken a review to assess how our overall risks are affected by a range of climate impacts. 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. Our SRF provides a cross business holistic view of ERM risks, challenging the existing risk landscape as well as identifying new and Emerging Risks, including climate-related 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 the Internal Controls and Risk Management section in the Audit and Risk Committee Report on pages 115 to 121 for further information.

Management of climate-related risks is embedded in our everyday business activities and aligns with the way we approach all other Group risks through our ERM framework. Our specific approach to managing climate-related risks is outlined below, highlighting how we think about climate-related risks over differing time horizons.

RISK MANAGEMENT

TCFD RECOMMENDATION	PROGRESS THIS YEAR
Disclose the processes used by the organisation to identify, assess and manage climate-related risks. **Severn Trent has reported against the Risk Management TCFD recommendations in full within the 2022 Annual Report.** **Where can you find more information?** Principal Risks p61-66 Risk management framework p60	**Integration with overall risk management** During the period we have continued to develop the work undertaken in the lead up to our 2021 TCFD report to ensure that our Group-wide ERM process adequately identifies, assesses and manages climate-related risk. **Adaptation Report** During 2021 the Group's Adaptation Report was published in response to the invitation from Defra to report under the Adaptation Reporting Power as set out in the Climate Change Act 2008. Together with reports across a range of sectors, it helps the UK Government to understand the level of risk that society is exposed to nationally and informs the level of response being taken to manage these risks. It also provides visibility to our stakeholders of the actions we are taking to understand our risks and the steps we are taking to be resilient to a changing climate. **Water Resource Management Plan ('WRMP')** We anticipate further investment in new supplies will be needed by 2030, alongside leakage and demand reductions. Our plan will balance regulatory ambitions with affordability and in some areas of our WRMP we have choice – for example, the rate at which we transition to new resilience standards and reduce abstraction in areas identified by the Environment Agency ('EA'). We have and will continue to engage with our customers over the pace at which we respond to these expectations. Severn Trent's draft WRMP will be published in October 2022, with the final WRMP due for publication in autumn 2023 and will set out our approach for ensuring an effective water supply network which is resilient against the impacts of climate change. To our stakeholders of the actions we are taking to understand our risks and the steps we are taking to be resilient to a changing climate. **Drainage and Wastewater Management Plan ('DWMP')** Since the work presented within our 2021 TCFD Report, we have carried out further and extensive modelling to understand potential future impact of climate change on waste water networks, and inform future intervention strategies. This includes risk assessment processes to consider RCP6.0 and RCP8.5. The DWMP will set out our approach to ensuring an effective waste water network which treats and removes waste from properties, and which reduces the likelihood of sewer flooding, and will be used to inform our PR24 Business Plan, due for submission in autumn 2023. Severn Trent's draft DWMP will be published in June 2022, with the final DWMP due for publication in spring 2023.

MANAGEMENT CATEGORY			STRATEGY
TIME HORIZONS	**0 – 2 YEARS**	**UP TO 5 YEARS** (with considerations for up to 25 years)	**UP TO 25 YEARS**
Summary	- Implementing tactical response plans for delivery of our annual performance targets in the face of acute physical risks - Evaluate and make recommendations for future improvements	- Our Business Plan describes the improvements that we will commit to deliver in the next Asset Management Plan ('AMP') cycle	- 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	- Incident Management plans and process-driven response plans - Drought Plan (triggers optimised and aligned with WRMP) - Root Cause Analysis outputs - Localised response strategies - ERM framework	- Regulator approved Asset Management Plan investment approach - Rolling five-year Business Planning approach - ERM framework	- WRMP produced every five years - DWMP – first full publication due spring 2023 - Our draft Strategic Direction Statement was published this year and looks at key trends and future priorities to assess a range of future scenarios and pathways toward them - ERM framework

MANAGEMENT CATEGORY			**STRATEGY**
TIME HORIZONS	**0 – 2 YEARS**	**UP TO 5 YEARS** (with considerations for up to 25 years)	**UP TO 25 YEARS**
Key elements	– 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	– Engagement with key stakeholders to agree response plans including the EA, Ofwat and local communities – Modelling of scenarios to determine response strategies – Capital investment and promotions for delivery of large-scale capital upgrades	– 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
Feedback	Continuous review and feedback		

Integrating climate-related risks within our ERM system

Our risk management system incorporates important climate-related risks identified through business as usual processes. TCFD typology has been assigned to these risks and key causes were assessed where the likelihood could be exacerbated by climate change drivers.

We have developed a three-tiered system which we will use to ensure appropriate actions given the relative risk to the organisation.

What are our key climate-related risks and opportunities?

Several of our key risks are highly sensitive to the physical impacts of climate change. The two risks most vulnerable to climate change are our ability to supply safe drinking water and our ability to effectively transport and treat waste water, and hence these have been quantitatively modelled as described in our 'Physical risks scenario analysis' on page 42. In addition, as a regulated water company, transitional risks, and most particularly changes to the political and regulatory environment, are likely to have a significant impact on the way that we operate.

Our ability to mitigate and adapt to climate change also has potential to impact our reputation and, as a consequence, our attractiveness to investors. The following table outlines our key risks and opportunities and whether they are modelled or focused risks.

RISK AND OPPORTUNITY	DRIVERS AND CAUSES	IMPACT ON BUSINESS (RISK CONSEQUENCES)	RISK MITIGATIONS / METHODS TO REALISE OPPORTUNITIES
ACUTE AND CHRONIC PHYSICAL RISKS			
KEY RISK			
We do not supply a safe and secure supply of drinking water to our customers	- Increased population will increase demand - Chronic higher temperatures, hotter, drier summers, and increased frequency and intensity of droughts will increase demand and reduce water availability - Acute physical risks such as storms and floods may impact upon our infrastructure, or increase the risk of water contamination - Increased frequency and severity of hot spells impact customer behaviour, causing an increase in short-term peak demand, reducing the availability of water in the environment and restricting the amount we can abstract and supply	- Failure to supply enough water to meet demand - Impacts our financial penalty/reward position - Additional operational costs to ensure delivery - Additional infrastructure investment to secure supply	- Comprehensive resilience plans such as our WRMP and DWMP feed into our capital investment programme and Business Plan, and we also provide evidence of our investment propositions to our regulator, Ofwat - Strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change - Increasing resilience and flexibility of our supply network and better preparing for incidents to ensure continuous supply to our customers
LINKED OPPORTUNITIES			
- Minimising water usage and leakage - Enhanced consumer awareness - New technology	- Regulatory requirements could drive down water use - Increased awareness of the value of water in an increasingly resource-stretched world may improve the effectiveness of customer engagement programmes - The implementation of new technology and innovation will improve network operations and detect leaks	- Increased headroom available to meet water demand - Enhanced reputation with customers - Reduced infrastructure requirements	- Educational programmes to reduce water usage - Leakage reduction programmes including early leak detection technology
KEY RISK			
We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment **Short, medium and long term (modelled)**	- Increased population and land cover leading to increased run-off - More intense bursts of heavy rainfall increasing volumes of water entering waste water systems - Additional demands on waste water systems and increased risk of flooding to both properties and the environment - Potential damage to infrastructure	- Alternative actions to ensure safety of waste water removal - Additional infrastructure investment to ensure adequate systems - Environmental penalties - Impacts to our financial penalty/reward position	- Comprehensive resilience plans such as DWMP feed into capital investment programme and Business Plan - Strategic modelling to assess potential changes to population and climate change on our waste water network - Strong compliance culture and effective management systems
LINKED OPPORTUNITIES			
- Enhanced consumer awareness - New technology	- Increased awareness of the value of water in an increasingly resource-stretched world may improve the effectiveness of customer engagement programmes - The implementation of new technologies and innovation to improve our water treatment processes and network operations will enable us to meet or exceed targets	- Reduced pressure on waste water networks - Reduced infrastructure requirements - Enhanced reputation with customers	- Educational programmes with customers to promote safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat
KEY RISK			
We fail to positively influence natural capital in our region **Medium and long term (focused)**	- Increased precipitation may increase the risk of agricultural run-off and sewer overflows, leading to pollution of the waterways - Human impacts of a growing population and increased pressure on natural resources may impact upon biodiversity and our ability to manage natural resources effectively	- Impacts to our financial penalty/ reward position - Changes to valuation of natural capital may have financial impacts in future periods - Pollution events may result in fines or penalties - Investment required in resilient solutions	- Commitments to protect our local environment - Modelling to estimate the impact of increasing pressures on nature such as abstraction and environmental pollution as part of our WRMP and DWMP
LINKED OPPORTUNITIES			
- Adopting a catchment management approach will be more inclusive, and will reduce costs and the need for additional investment - Improved resilience and river quality - Addressing and enhancing biodiversity and eco-system services - Engagement with supply chain	- Strong engagement with our supply chain and customers will promote biodiversity and effective use of our redundant land to lead the way in our region	- Reputational benefits acting as steward of natural capital - Intangible benefits of natural capital	- Strategic plans to enhance biodiversity in our region - A catchment management approach with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients - Extensive in-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity
LEGAL AND REGULATORY RISKS			
KEY RISK			
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)**	- Highly regulated sector with KPIs set by Ofwat - Increased focus on environmental protection/ enhanced climate mitigation targets could change the regulator's target-setting approach - National regulatory changes around costs of carbon (our operations are energy intensive and the waste we deal with has a high GHG impact)	- Changes to penalty/reward position - Increased risks of fines from environmental risk events (e.g. flood events) - Increased costs associated with carbon emissions	- Strong engagement with our supply chain to drive environmental leadership - Ongoing engagement with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector - Our established governance framework, policies and training ensure our ongoing compliance with all applicable laws and regulations
LINKED OPPORTUNITIES			
Engagement with regulators and potential funding to address impacts from climate change	- Opportunities to fast track positive changes alongside regulatory change for our communities and the environment	- Readiness for legal and regulatory changes	- Control frameworks are subject to regular review, on at least an annual basis, to take into account changes to legislation and regulation - External legal advisers provide detailed reviews in respect of upcoming legislation that may affect the Group

Understanding the impact

Our approach to understanding physical risks of climate change

Climate-related scenario analysis helps us to understand the potential impact of climate change on our business to inform our strategy and financial planning. Ofwat has set out expectations for *all water companies to use scenarios to help define alternative* investment pathways. Climate change is one of these scenarios and we are supportive of the concept to help a degree of standardisation in the way we stress test our plans to understand how they might stand up to many possible different future scenarios. This will benefit both customers and policy makers by helping companies make more robust business cases. It will also help strengthen the link and increase transparency between our long-term ambitions and the investments we make each planning period.

We undertake scenario modelling against the two risks that are of potentially greatest vulnerability to climate change: our ability to provide safe and clean water when it is needed and our ability to take waste water safely away. These form part of our WRMP and DWMP respectively.

Whilst the climate models applied are bespoke and tailored for the specific risks assessed, the range of climate scenarios considered broadly aligns with the future worlds considered within the WWF Water Risk Filter Scenarios outlined below, with the physical risks assessed in line with the 'pessimistic' and 'current trend' world views, and the transition risks assessed in line with the 'optimistic' and 'current trend' world views.

Our bespoke assessments consider a range of climate models as outlined below.

We also considered how different levers of change may impact upon our ability to provide services in developing our Strategic Direction Statement.

OPTIMISTIC SCENARIOS

The optimistic scenarios represent a world with sustainable socio-economic development (SSP1) and ambitious reduction of GHG emissions (RCP2.6/RCP4.5) leading to an increase of global mean surface temperature of approximately 1.5°C by the end of the 21st century.

CURRENT TREND SCENARIOS

The current trend scenarios represent a world similar to current socio-economic development trends (SSP2) and intermediate GHG emission levels (RCP4.5/RCP6.0), leading to an increase of global mean surface temperature of approximately 2°C by the end of the 21st century.

PESSIMISTIC SCENARIOS

The pessimistic scenarios represent a world with unequal and unstable socio-economic development trends (SSP3) and high GHG emission levels (RCP6.0/RCP8.5), leading to an increase of global mean surface temperature of approximately 3.5°C by the end of the 21st century.

Physical risks scenario analysis

Key outputs from our modelling looking out to 2050

The table below provides a summary of the assessments carried out to date, but does not take into account the regional complexities, bespoke investment decisions and collaboration with wider agencies and water bodies. A full analysis of the problems we face and the solutions to address those problems will be issued as part of our WRMP and DWMP in 2022. The case study opposite outlines our approach to modelling.

	OUTCOMES AFFECTED		
	WATER ALWAYS THERE / GOOD TO DRINK		WASTE WATER SAFELY TAKEN AWAY
	RISK	OPPORTUNITY	RISK
Key risk	We do not provide a safe and secure supply of drinking water to our customers	Minimising water use and leakage	We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment
Climate driver	*Hotter, drier summers and changes to* precipitation will reduce water availability and the amount of water available for distribution	*Regulatory commitments to reduce leakage*	*Increased rainfall and intensity of rainfall* increase risk of sewer flooding, run-off and the amount of waste water needing treatment
Climate model	RCP6.0, RCP8.5 and 32 climate-related scenarios reflecting the different UKCP18 climate model outputs	We have made a commitment to reduce leakage by 15% by 2025 and 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	As part of our DWMP assessments, we have used industry derived rainfall uplifts for 2050 based on RCP8.5 as indicated by the Met Office Hadley Centre, as well as sensitivity analysis using RCP6.0 to align our work with that for the WRMP. Across our region, we have modelled present day flood risk during one in 10-year, 30-year and 50-year rainfall events (i.e. a rainfall event with a 10%, 3.3% or 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
Timeframe assessed	Current modelling is to 2070s and then extrapolated to 2100	Current modelling is to 2070s and then extrapolated to 2100	Current modelling is to 2050. The below impact looks at a 2050 snapshot
Key outputs from modelling work	Modelling indicates a reduction in the amount of water available for distribution (Deployable Output, 'DO'). In 2050, the expected reduction of DO is. – *4% in a RCP6.0 climate scenario; and* – 9% in a RCP8.5 climate scenario	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: – *reduce demand by 6%, and* – reduce leakage by 8% from our distribution system	Our modelling suggests that there will be increased risk of sewer flooding in 2050. The increased likelihood (probability of a flood event) of sewer flooding in 2050 is expected to be as follows: – Increased risk of flood in the event of a 1 in 10-year storm: 41%, and – Increased risk of flood in the event of a 1 in 30-year storm: 38%
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 financial impacts include increased remediation and investment needs, and enhanced capital spend, which will be outlined in detail in our DWMP

CASE STUDY

Results of quantitative modelling

Hotter, drier summers

Hotter, drier summers will have a significant impact on future water availability when compared to 2021 water availability (see below graph for an indication of how water availability (Deployable Output) will reduce in RCP6.0 and RCP8.5 to 2085) Fig. 1.

Different regions may also have particular attributes that make them more or less sensitive to climate – we also therefore 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 from Fig. 2, 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.

Changing precipitation

Traditional climate models such as UKCP18 look more at seasonality changes over time, and so further analysis is needed to determine sub-daily uplifts to assess impacts of summer extreme rainfall events to assess sewer flooding and storm overflow performance.

If our entire region was subject to 1 in 10-year, 30-year or 50-year rainfall events (i.e. a rainfall event with a 10%, 3% or 2% probability of occurring in a year) our hydraulic sewer models provide an indication of the volume of spills that could escape from our sewers. We then use rainfall uplifts derived from climate change projections to understand how the future climate is likely to affect rainfall intensities. The graph below shows the increased volumes of water that could be expected in 2050 as a result of climate impacts, population changes and changes to land use.

It is important to consider the influence of inlet capacity restrictions (i.e. road gully and roof drainage) which can limit the amount of water that enters our systems. To reflect this, the most intense storms we model are a 1 in 50-year storm (rather than the 1 in 1,000-year storms which are more often associated with extreme river flooding events).

Find out more – published in:

WRMP
Severn Trent's draft WRMP will be published in October 2022, with the final WRMP due for publication in autumn 2023. The WRMP will set out our approach for ensuring an effective water supply network which is resilient against the impacts of climate change.

DWMP
Severn Trent's draft DWMP will be published in June 2022, with the final DWMP due for publication in spring 2023. The DWMP will set out our approach to ensuring an effective waste water network which treats and removes waste from properties, and which reduces the likelihood of sewer flooding.

CASE STUDY

Finding solutions to help ourselves

Our WRMP plan is identifying a requirement for new large-scale water resources to counter climate change and Environmental Destination-based reductions. As an example of how we are addressing this is, we are investigating expanding the Upper Derwent Valley Reservoirs, working in partnership with Yorkshire Water.

- Insufficient storage in Howden, Derwent and Ladybower to support Bamford and Rivelin WTWs output at all times – 1976, 1995 and 2018 reservoir levels were so low that Derwent village was exposed.
- Bamford WTW is one of Severn Trent's lower-cost sources of treated water which is deployed by gravity so is a great source from a carbon reduction perspective.
- Expanding storage in the Upper Derwent Valley would remove the need for Yorkshire to develop new sources of water and construct high-carbon, high-OPEX new treatment works, pipeline and pumping stations.
- The investigations will examine the complex environment around the Upper Derwent Valley reservoirs and on the River Derwent, and identify improvements for the people and nature within the region.
- We will work with local stakeholders to understand local needs and help identify opportunities where benefits could be delivered.
- Increased storage could improve management of flows in the River Derwent. During these investigations, we will model how changes in storage and flow can improve flood risk and habitats on the downstream River Derwent.

Transition risk scenario analysis

This year, we refreshed our Strategic Direction Statement ('SDS'), which was last published in 2007. This was published in December 2021 as a consultation to allow interested stakeholders to comment. The consultation period has now closed and we are in the process of reviewing the responses received to consider how best to reflect that feedback in our final SDS.

As part of this process, we investigated which trends we believed would be most influential in shaping the next 30 years and considered different alternate visions for how 2050 might look. These alternate visions considered how the key levers of change (technological, behavioural and regulatory) may develop and broadly covered a range of warming outcomes between 1.5°C and 4°C by 2050. These visions were used to understand how our priorities and level of ambition might differ if alternate scenarios were to occur.

8 KEY TRENDS

1
A GROWING POPULATION

2
CHANGING DEMOGRAPHICS

3
EVOLVING CUSTOMER EXPECTATIONS AND ATTITUDES

4
INCREASING USE OF MATURING TECHNOLOGIES

5
RISING CONCERNS OVER ENVIRONMENTAL POLLUTION

6
MOUNTING CONCERNS OVER DAMAGE TO THE ENVIRONMENT

7
GREATER IMPACT/EXPERIENCE OF CLIMATE CHANGE

8
ADOPTION OF EMERGING SOLUTIONS TO DECARBONISE

By looking at trends and different levers of change, we built a picture of the stressors that may arise in a low-carbon transition, looking out to 2050. This allowed us to identify the most important challenges which we would face in an optimistic and current-trend scenario. Additional challenges such as population growth, reduced water availability, more extreme weather and affordability are discussed as part of the SDS. Those of most relevance from a climate perspective are outlined below.

Concern about climate may drive a shift in attitudes towards the environment
Our customers will look for us to inform and support their endeavours to use less water and make it cheaper to be more environmentally friendly. We will need to adopt more innovation, more principles of the circular economy and reduce the impact of effluent returned to the environment. We will need to ensure we make the best use of our land and improve natural capital.

Combating climate change could lead to more regulation and policy interventions
We will need to be prepared for more stringent laws, regulations and standards centred around environmental matters. We will need to ensure resilience around changes to carbon taxes and ensure readiness to act with nature-based solutions or new markets — such as hydrogen and carbon.

Mitigating climate change will require rapid decarbonisation
We will need to focus our efforts to reduce our total annual operational emissions from 315,698 (market based) tonnes CO_2e to zero through using less carbon and finding renewable energy alternatives.

Resilience of our approach
In our SDS, we identify priority areas for our business which we believe are key to delivering for our customers, ensuring resilience against the challenges of the future, and fulfilling our wider environmental and societal goals. We will use the finalised SDS to both inform and guide our future strategy and long-term investment plans, and to set the over-arching tone and approach for future price review submissions – and in particular, to shape our adaptive pathways and long-term delivery strategies which Ofwat is seeking as part of PR24 and beyond.

Our Sustainability Report, net zero ambition, SDS and this Annual Report outline the activities being undertaken to ensure we succeed in our eight priority areas. Further information can also be found on our website stwater.co.uk.

Find out more
The latest version of our Strategic Direction Statement is available on our website at stwater.co.uk/about-us/our-other-plans/strategic-direction-statement/

Climate-related 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 Annual Report.** **This year, we are continuing to improve our understanding and measurement of all of our GHG emissions, and are disclosing more information about our net zero plans.** - Our Net Zero Transition Plan p46-51 - Sustainability Report - Annual Performance Report	Our SBTs, in line with a 1.5°C pathway, were approved this year. We have published a Sustainable Finance Framework under which the Severn Trent Group can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across its activities. The Framework takes into account, where possible, the technical screening criteria of the EU Taxonomy. We have held the Carbon Trust Standard continuously since 2009, which recognises our consistent emissions reductions and effective carbon management processes. We were one of the first organisations to participate in the Carbon Trust new route to Net Zero Standard as an important step in working with others to ensure our journey to net zero is credible and rigorous. We were awarded an A rating from the Carbon Disclosure Project ('CDP'). Our climate change information is publicly accessible. CDP requests information about climate change from companies on behalf of investors and scores each company on the quality and completeness of responses.

Measuring our progress

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. Further information on the time-specific and quantitative targets can be found on pages 35. Our metrics go above and beyond what the Sustainability Accounting Standards Board ('SASB') recommends and the table shows how our measures map across. More detail around how our reporting maps to the recommendations of SASB can be found within our Sustainability Report. The following pages outline our Net Zero Transition Plan and current GHG performance.

OUR NET ZERO TRANSITION PLAN

Our Net Zero Transition Plan brings together targets associated with our Triple Carbon Pledge, and our SBTs, creating a comprehensive system for assessing our actions and measuring results, as well as commitments to work with our suppliers on their emissions reduction (Scope 3). We need to achieve these targets whilst continuing to provide the quality and quantity of water our customers expect, at a price they can afford. This is an ambitious *undertaking and one which we are proud of.*

Achieving our plan will require us to re-think every aspect of our business processes and adopt new ways of working. Our approach is *to follow the carbon hierarchy, prioritising solutions to reduce first,* replace or remove emissions, and then only offset where we can't remove any residual emissions. Our approach is therefore as follows:

- We **Reduce** our emissions through process and behaviour changes, innovation and technology.
- Where we need electricity for our facilities or gas for our vehicles, we **Replace** fossil fuels with green energy, and produce it ourselves where possible.
- *We **Remove** carbon emissions from the atmosphere by facilitating* the growth of carbon sinks such as forests and peatbogs on our land.
- Where reduction, replacement or removal is not feasible in the short term, we can **Offset** any residual emissions we have through accredited removal offsets, preferably through the products we create but, where required, through externally accredited schemes.

Glidepath

This chart shows our trajectory (red line) towards our net zero operational emissions target. (We also show our Scope 3 emissions for transparency).

Pressure on emissions increases due to population growth in the *region and more energy-intensive technologies being deployed to* meet compliance requirements. Wherever possible, we are reducing and replacing our emissions, and we will outperform our Science-Based Target for Scope 1 and 2 reduction by 2031.

We can't achieve operational net zero without offsets, but we only use *them for residual emissions that can't be reduced any other way.*

Science-Based Targets

Our SBTs are in line with the 1.5°C pathway (defined as holding temperature rises of no more than 1.5°C above pre-industrial levels). These targets will drive an ambitious reduction in our Scope 1 (direct emissions arising from owned or controlled sources) and Scope 2 emissions (indirect emissions arising from energy purchase). We have committed to:

- a 46% reduction in Scope 1 and Scope 2 emissions by 2031 from a 2019/20 baseline;
- 70% of our supply chain (by emissions) having set a SBT by 2026; and
- a 13.5% reduction in emissions from the use of sold products by 2031.

To ensure that our plans will deliver net zero, understanding and measuring our impact is essential for helping us to invest in the right areas. Improving the granularity and confidence of our data will take time as we move from estimates to actual data as much as possible across all our scope emissions and is a key priority for us. While our understanding of total emissions is changing due to better data, and some areas of emissions are rising due to operational requirements, we are building a plan of action that we believe can deliver a net zero business.

Innovation and new technologies are central to the challenges we face, so we are conducting multiple trials, with the understanding that no-one can guarantee results so we are building a portfolio of innovations and solutions, and engaging with our supply chain.

While we do not have definitive results across the board as yet, it is important that we are transparent about our efforts and the rationale behind each project.

For some areas of our work, there are no feasible alternatives or technology readily available on the market. Where we cannot develop the solutions alone, we need markets to innovate, adapt and make these available so we can find the best way to adopt the solutions.

Our key emissions (Scope 1 and 2) areas are:

81% emissions from waste and sludge

Methane and nitrous oxide emissions from our sewage and sludge treatment processes make up 81% of our direct emissions, and have respectively 28 and 265 times higher global warming potential than CO_2 over a 100-year period. Emissions from waste water treatment represent 1.3% of all anthropogenic emissions.

This issue is one of the major challenges in our path to net zero and requires new science, technology and innovation to understand and solve. Minimising unintended escapes of biogas, and making improvements to processes, would improve the figures only slightly. To make significant headway, we need deeper technological innovation, as well as changes to future asset design and strategy. We are establishing our options, often in partnerships, based on impact, cost, likelihood and timing, with many innovations and solutions not yet ready for full-scale deployment.

More information can be found on pages 35 to 45 and our 'Climate Change' pages within our Sustainability Report. Details of how sustainability-focused performance measures are included in our LTIP can be found on page 130.

14% emissions from on site fossil fuel use

We will appraise options and invest to replace fossil fuels before offsetting any remaining emissions. For example, we use diesel generators and gas oil in our anaerobic digesters. Alternatives could include use of biofuels, ground-source and solar-thermal heating and green hydrogen to replace diesel.

We generate equivalent to over half of the electricity Severn Trent Water uses, from our own renewable assets, which include anaerobic digesters, and solar, wind and hydro-power plants.

However, our emissions did go up 24kt CO_2e in 2021/22, due to increased use of natural gas in our new thermal hydrolysis plants, which create better quality sludge digestate and additional renewable biogas; as well as natural gas in our combined heat and power ('CHP') engines to manage the impact of rising energy prices.

By 2030, we will have the potential to meet 100% of our electricity needs from our own renewable sources or through Power Purchase Agreements that provide capital for new renewable energy projects while guaranteeing stable future energy prices.

5% from the fuel to power vehicles

All new company cars will now be electric and we have begun to replace our vans. Electric HGVs and tankers may not be available by 2030, so we are looking into alternative low-carbon options such as hydrogen and biogas. We have now installed over 352 charging points at 70 sites. We continue to join global and UK industry partnerships to both learn from and support other companies with a similar approach for their fleets. We encourage efficient driving, eliminating unnecessary journeys, and have launched a scheme to encourage employees to switch to electric vehicles.

We are transitioning our fleet from fossil fuels to electric vehicles with the aim of 100% by 2030, where available. 17% of our company cars and 1% of our company vans are now electric and we continue to deploy more dedicated site charging points.

Energy efficiency

We continually invest in improving energy efficiency and we have a dedicated Energy Management Team focused on driving operational change to reduce energy. This is supported by a network of energy champions across our business, overseen by an Energy Steering Group.

We have invested £6.2 million over 2021/22 and £32 million over the last seven years in energy efficiency. This includes proactive maintenance on 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 follows the best practice laid down in ISO50001, the international energy management standard.

To reduce our operational emissions further, we will continue to focus on improving our energy efficiency to offset the additional demands of a growing population.

Greenhouse Gas Performance

2021/22 is the ninth year Severn Trent has been required to report GHG emissions. For Severn Trent Water, which accounts for 96% of our total Group emissions, we have been publicly reporting our emissions since 2002. For the third year, we are also reporting our energy use and generation data and provide more detail on how we manage energy use.

Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO_2e), for the period 1 April 2021 to 31 March 2022. We report our location-based and market-based emissions separately and now report on ten Scope 3 categories.

The GHG data we report is tracked internally during the year with the Corporate Sustainability Committee and to the Board. We have subjected our GHG data and processes to external assurance by Jacobs. Our approach to reporting follows the GHG Protocol Corporate Accounting and Reporting Standard. In Scope 1 and 2, we have included the emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary. Emissions from our supply chain and from assets which we do not own but operate on behalf of others are included in our Scope 3 category.

Our overall emissions have fallen by 31% against a 2019/20 baseline for our net zero operational emissions driven by moving to 100% renewable electricity from our suppliers. However, our Scope 1 emissions (market based) in 2021/22 rose by 11% compared to last year.

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

The most significant change to our GHG emissions reporting this year results from the industry-leading monitoring programme, which has improved our understanding and reporting of process emissions from the treatment of sewage and sludge. These emissions have historically been broadly estimated using an industry-standard factor. Our work, combined with a review of the available international science, shows that our process emissions are substantially higher than the previous UKWIR Carbon Accounting Workbook calculations. We are therefore reporting a value based on our own work for the first time this year.

Our new method for estimating process emissions reflects guidance from the IPCC which highlights the need to improve on broad emission factors by taking measurements at the facility-specific level. We now have the first dataset in the UK for nitrous oxide emissions from a sewage works over a full year for one of our medium sized treatment assets. This is the basis of our new reported number. The data significantly improves the accuracy of our total estimations compared to the previous method by taking detailed specific measurement and taking to account seasonal emissions. We recognise that our methodology requires further development and this will be the focus of the next year. For example, we recognise that good practice demonstrated in monitoring programmes elsewhere in Europe show the importance of quantification across multiple sites in order to estimate a representative emissions factor in order to apply this. We are working towards this practice, with monitoring being installed at sites responsible for 40% of our total process emissions over the next year and with more validation checks and standard approaches to be completed and developed. This is likely to mean our estimation of total process emissions will change in future years as we continually improve our data set and method. Importantly, it also allows us to consider emissions mitigation going forward, from a credible baseline at these sites.

We believe that reporting transparently on the basis of the latest data we've collected is a key component to building a credible reduction plan, particularly as we know the magnitude of our process emissions is higher than we have assumed in the past. This gives us more evidence and understanding and places us in a better position to deliver real reductions.

Our Scope 3 programme

We have now baselined our Scope 3 emissions and this year we report on ten categories of Scope 3 emissions. We already have robust data collection from business travel, energy transmission and distribution losses and outsourced sludge tanker activity as part of our operational footprint. We report on emissions from our other Scope 3 categories in a separate table.

A key focus for us over the coming year will be to engage with our supply chain and improving visibility of our Scope 3 emissions across our supply chain. Our Scope 3 emissions are equal to, or potentially greater than, Scope 1 and 2 emissions combined, and the challenges inherent in reducing them will take time to solve. Like many industries, we in the water sector have not been able to take significant action yet, but we are collecting data and gathering the support we need to being planning, and we expect to begin seeing Scope 3 reduction solutions from at least 2025 onward.

Annual operational emissions – location and market based

	ST Plc Baseline		ST Plc 2020/21		ST Plc 2021/22	
OPERATIONAL GREENHOUSE GAS EMISSIONS (TONNES CO_2E)	**LOCATION BASED**	**MARKET BASED**	**LOCATION BASED**	**MARKET BASED**	**LOCATION BASED**	**MARKET BASED**
Scope 1 Emissions (Combustion of fossil fuel on site)	14,116	14,116	29,945	29,945	53,666	53,666
Scope 1 Emissions (Process Emissions) – CAWv16[1]	125,811	125,811	116,257	116,257	118,136	118,136
Scope 1 Emissions (Process Emissions) – Revised methodology[2]	278,553	278,553	287,421	287,421	299,631	299,631
Scope 1 Emissions (Transport Fleet)	16,087	16,087	17,914	17,914	18,968	18,968
Scope 2 Emissions (Electricity purchased for own use)	199,635	163,851	182,768	1	159,638	–
Scope 3 Emissions (Business Travel)	1,467	1,467	343	343	620	620
Scope 3 Emissions (Outsourced Sludge Tankers)	3,187	3,187	3,340	3,340	2,424	2,424
Scope 3 Emissions (Electricity Transmission and Distribution)	16,985	14,658	15,718	–	14,127	–
Total Annual Gross Operational Emissions[3]	**530,030**	**491,919**	**537,449**	**338,964**	**549,073**	**375,308**
Emissions benefit of the renewable electricity we export	(46,954)	(46,954)	(40,648)	(40,648)	(33,961)	(33,961)
Emissions benefit of the renewable electricity we export (for which we retire green gas certificates)	(12,924)	(12,924)	(21,354)	(21,354)	(25,649)	(25,649)
Total Annual Net Operational Emissions[3]	**470,152**	**432,041**	**475,447**	**276,962**	**489,463**	**315,698**

ANNUAL GHG INTENSITY RATIO (TCO_2/UNIT)[3]	**ST Plc Baseline**	**ST Plc 2020/21**	**ST Plc 2021/22**
Gross Location-Based Operational GHG emissions of Severn Trent per £m turnover	287.5	294.1	282.5

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 48 for more details

3 These values use the revised process emissions numbers

Supply Chain Emissions

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

SCOPE 3 EMISSIONS	**BASELINE (2019/20)**	**GROUP (2020/21)**	**GROUP (2021/22)**
1) Purchased goods and services	161,171	160,710	219,777
2) Capital goods	250,546	250,546	197,376
3) Fuel and Energy-related activities – Transmission and Distribution	21,148	15,718	14,127
3) Fuel and Energy-related activities – Upstream Well to Tank Emissions		8,715	13,909
4) Upstream Transportation and Distribution	17,140	17,140	16,682
5) Waste Generated in Operations	6,440	6,440	10,280
6) Business Travel	1,121	343	620
7) Employee Commuting	3,471	–	5,250
9) Downstream transportation and distribution	1,823	–	2,348
11) Use of Sold Products	32,052	–	33,113
13) Downstream Leased Assets	10,469	–	15,104
Total Scope 3	**505,381**	**459,612**	**528,586**

Categories 8, 10, 12, 14 and 15 are not applicable.

Report on energy

In line with the latest energy and carbon reporting requirements, below is further information on our energy consumption and generation for the last three years across the Severn Trent Group. This is source data for the carbon data reported above and is tracked internally on a monthly basis. All data is collected from metered data for electricity and gas imports and exports. Biogas combustion information is calculated using assumptions based on metered data. Fuel use is reported based on financial records of fuel purchased. We have applied assumptions on standard calorific values to convert all liquid and gas fuel types to a common energy metric (GWh) and data is reported for the period 1 April 2021 to 31 March 2022. All energy is used in the UK.

The figures below include the large quantity of renewable biogas from organic waste, which we generate from sludge and food waste and then either combust in combined heat and power engines or export to the national gas grid. Our most significant change is a large increase in natural gas import which has been driven by the commissioning of two new heat-intensive sludge treatment processes and our deployment of natural gas CHP. We have also increased our export of biomethane into the gas grid and decreased the amount of biogas we combust in CHP.

Having said that our total electricity use and our total use of energy both reduced 1% compared to last year. Our renewable energy generation rose again this year to a record 507 GWh. Generating renewable energy and managing our energy use down is now more important than ever as prices have risen to record levels and we aim for reliable, net zero energy networks.

ENERGY TYPE	SOURCE	UNITS	2018/19	2019/20	2020/21	2021/22
Electricity	Electricity Imported	GWh	771	780	784	752
	Electricity Generated from Renewable Sources and Used on Site	GWh	198	194	184	170
	Electricity Generated from Renewable Sources and Exported	GWh	114	184	174	160
	Electricity Generated from fossil gas and Used on Site	GWh	0	0	12	43
Gas Fuels	Gas Imported from the Grid	GWh	52	44	120	208
	Biogas Generated and Combusted on Site	GWh	745	922	872	801
	Biomethane Generated and Exported to the Grid	GWh	166	181	245	296
Liquid Fuels	Fuel Used by Plant (gas oil and diesel)	GWh	20	20	23	31
	Fuel Used by Company Fleet	GWh	62	70	77	71
	Fuel Used for Business Travel (personal cars)	GWh	7	6	4	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**
	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**
Normalised Metrics	Total energy per Unit of Revenue	GWh/£m	1.05	1.11	1.13	1.05
	Energy Imported per Unit of Revenue	GWh/£m	0.52	0.50	0.55	0.55
	Clean Water Electricity Use per Unit Treated	kWh/Ml	714	698	718	693

Energy efficiency

We continually invest in improving energy efficiency and we have a dedicated Energy Management Team focused on driving operational change to reduce energy. This is supported by a network of energy champions across our business, overseen by an Energy Steering Group.

Over the course of the last year, we have invested £6.2 million of capital in specific energy efficiency and flexibility schemes to control energy demand and reduce energy use. Over the course of the last seven years, we have invested £32 million in energy efficiency. These capital schemes include proactive maintenance on our most energy-intensive assets, such as pumps and air blowers, and investment in improved controls and monitoring to reduce energy use. Through our energy management and efficiency work, we invest on people and assets, find more efficient innovative alternatives, reduce waste and offset rising demands for energy. Our energy management policy and programme follows the best practice laid down in ISO50001, the international energy management standard. We are also reducing the volumes of water we need to pump and treat by reducing leakage and catchment management helps us avoid unnecessary energy-intensive treatment.

We use our half-hourly meter data, regular internal communication and performance reporting to understand energy efficiency and drive behaviour, minimise waste and identify opportunities. We have energy e-learning for all employees.

We are transitioning our fleet from fossil fuels to electric vehicles with the aim of 100% by 2030, where available. 17% of our company cars and 1% of our company vans are now electric and we have now installed 360 dedicated charging points.

We generated more renewable energy this year than ever before. 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 with Renewable Energy Guarantees of Origin ('REGO') or green gas certificates. Achieving this target will require electrification, which will increase in our use of electricity in order to phase out the use of fossil fuels in our business and the use of biofuels and green hydrogen to replace diesel.

Disclosure under Sustainability Accounting Standards Board Standards

SUSTAINABILITY ACCOUNTING STANDARDS BOARD 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 50	We report on the change in energy usage expressed in GWh over three years from 2018/19 baseline
Distribution network efficiency	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	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
		Mains bursts	Annual Performance Report[1]	Our reporting considers the number of mains bursts per thousand kilometres of total length of mains
		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
End-use efficiency	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	Annual Performance Report[1]	We report the number of people who have agreed to change their behaviour as a result of our educational activities
		Per Capita Consumption ('PCC')	Annual Performance Report[1]	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
	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

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

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

CHIEF FINANCIAL OFFICER'S REVIEW

Our financial performance in the year reflects our robust recovery from the impacts of COVID-19 in the previous year. We have a strong balance sheet, well positioned to deliver real RCV growth over AMP7 of 10.8%, equivalent to 28.6% nominal growth

James Bowling
Chief Financial Officer

Our financial performance in the year reflects our robust recovery from the impacts of COVID-19 in the previous year. Non-household revenue returned to pre-pandemic levels and while there was upward pressure particularly on power and chemical costs, our PBIT and adjusted earnings per share grew in line with expectations.

With rising inflation, partly driven by higher energy costs, impacting our business and our customers, we face new challenges as we move into the third year of the AMP. We are ready to face these, having already invested in the capacity to generate over 50% of our energy needs, and keeping in line with our totex allowance for the first two years of the AMP. For our customers, we're expanding our financial support to an additional 100,000 customers who struggle to pay their bills through a £30 million package of help, enabled by improved efficiencies in our retail operations, including better management of void properties and more efficient use of our existing assistance programmes, with the balance being contributed by the Group.

We have a strong balance sheet, well positioned to deliver real regulatory capital value ('RCV') growth over AMP7 of 10.8%, equivalent to 28.6%[1] nominal growth. We successfully raised £245 million (net of issue costs) in the first half of the year from an equity placing to fund our Green Recovery programme and end the second half with regulatory gearing of 59.5% (down from 64.5%). Our net pension deficit is £128 million (2021: £368 million) down more than £400 million since 2017, reflecting strong asset performance and our effective investment hedging strategy.

Higher inflation has increased the cost of our index-linked debt, but our cash interest cost (which excludes the non-cash indexation adjustment) was 10 bps lower year-on-year, due to active treasury management and our strategy to switch to a greater weighting of fixed rate debt as we moved from AMP6 into AMP7. We issued £500 million of new debt in the year, all at rates below the iBoxx index.

Our ODI rewards of £79 million, tight control of totex and financing outperformance of 300 bps, helped by higher inflation and a relatively low level of index-linked debt led to a strong annual RoRE of 8.7%.

Our proposed dividend is in line with our policy for AMP7 to grow the dividend in line with CPIH.

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

	2022 £m	2021 £m	Change £m	Change %
Turnover	**1,943.3**	1,827.2	116.1	6.4
Adjusted PBIT	**508.3**	472.8	35.5	7.5
Adjusting items	**(2.1)**	(2.1)	–	–
PBIT	**506.2**	470.7	35.5	7.5
Net finance costs	**(269.4)**	(187.1)	(82.3)	(44.0)
Gains/(losses) on financial instruments, share of net loss of joint venture and reduction in expected credit loss on loan receivable	**37.3**	(16.4)	53.7	327.4
Profit before tax	**274.1**	267.2	6.9	2.6
Tax	**(361.3)**	(55.0)	(306.3)	(556.9)
(Loss)/profit for the year	**(87.2)**	212.2	(299.4)	(141.1)

Financial KPIs

Group adjusted PBIT[1] (£m)

Group adjusted PBIT is a measure of the profit generated by the Group's operations excluding distortions caused by large and unusual income or costs that are classified as exceptional items. Commentary on the performance in the year is set out in the CFO's Review on page 52.

Regulated gearing (percentage)

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

Group adjusted EPS[1] (pence)

EPS is a key financial metric that indicates the Group's profitability after finance costs and tax. Adjusted EPS excludes distorting factors such as exceptional gains and losses and accounting adjustments for gains and losses on valuations of financial instruments and deferred tax. Commentary on the performance in the year is set out in the CFO's Review and the calculation of adjusted EPS is set out in note 15 to the financial statements.

Commentary on the performance in the year compared to the previous year is set out in the CFO's Review on page 53.

RoRE outperformance (basis points)

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 Final Determination.

Commentary on the performance in the year compared to the previous year is set out in the CFO's Review on page 55.

1. Alternative Performance Measures are defined in note 43 to the Group financial statements.

Our turnover was at the top of our expected range as non-household consumption returned to pre COVID-19 levels. We also saw an increase in diversions income, due mainly to HS2, of £26 million. This revenue represents the recovery of costs incurred and is entirely offset by a corresponding increase in infrastructure renewals expenditure.

Adjusted PBIT was up 7.5% to £508.3 million. The increase in regulated revenue was partially offset by increases in operating costs, particularly energy and chemicals, but helped by a strong performance in our Business Services division.

Reported Group PBIT was up 7.5% to £506.2 million (2020/21: £470.7 million).

Our net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. Our effective interest cost was 130 bps higher at 4.7% (2020/21: 3.4%) but our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was 10 bps lower at 3.0% (2020/21: 3.1%).

Our full effective tax rate excluding the exceptional deferred tax charge this year was 24.4% (2020/21: 20.6%) and our adjusted effective tax rate was 0.6%, down from 11.4% in 2020/21. In his 2021 Budget the Chancellor introduced the 'super deduction' of 130% capital allowances. As expected, the benefit of this reduced our current tax payable in the year to nil.

An increase in the corporation tax rate to 25% from 2023/24 was also announced and this resulted in an exceptional deferred tax charge to the income statement of £294.4 million from recalculating our opening deferred tax balances at the new rate, which is included in our reported tax charge of £361.3 million. Deferred tax is an accounting adjustment that reflects differences in timing between when profits are recorded in financial statements and when they are subject to tax. Because of the nature of our business, including our significant rolling capital programme and the long lives of our assets, these timing differences will not reverse for the foreseeable future, and may never do so.

As a result of the exceptional deferred tax charge there was a reported Group loss after tax of £87.2 million (2020/21: profit of £212.2 million), and a basic loss per share of 35.2 pence, (2020/21: earnings of 89.1 pence). Adjusted basic earnings per share (which excludes the exceptional deferred tax charge) was 96.9 pence per share (2020/21: 105.4 pence).

Operational cash flow was £848.9 million, (2020/21: £860.3 million). EBITDA increased by £57.3 million but our pension contributions were £23.8 million higher and there was a reduction in working capital of £60.9 million in the previous year that increased operating cash flow. Cash capex was £594.3 million, in line with the prior year. Net cash outflow before changes in net debt was £76.7 million (2020/21: £170.2 million).

Our net debt was £6,507.8 million (2021: £6,443.8 million) and regulatory gearing was 59.5% (2021: 64.5%) reflecting strong capital management, the benefit of our recent equity placement and higher inflation on our RCV. Our cash flow requirements are now funded to February 2024.

Severn Trent Water's RoRE for the year was 8.7%, 480 bps above the base return of 3.9%. Outperformance came mainly from our Customer ODIs, with 88% 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 assumption in the Final Determination.

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

[1] Nominal RCV is measured using the Office for Budget Responsibility's March forecast.

Regulated Water and Waste Water

	2022 £m	2021 £m	Increase/(decrease) £m	Increase/(decrease) %
Turnover	**1,804.4**	1,693.9	110.5	6.5
Net labour costs	**(165.3)**	(156.0)	(9.3)	(6.0)
Net hired and contracted costs	**(190.0)**	(187.5)	(2.5)	(1.3)
Power	**(114.1)**	(100.0)	(14.1)	(14.1)
Bad debts	**(24.8)**	(40.5)	15.7	38.8
Other costs	**(250.7)**	(242.8)	(7.9)	(3.3)
	(744.9)	(726.8)	(18.1)	(2.5)
Infrastructure renewals expenditure	**(198.2)**	(151.0)	(47.2)	(31.3)
Depreciation and amortisation	**(385.0)**	(364.0)	(21.0)	(5.8)
Adjusted PBIT	**476.3**	452.1	24.2	5.4

Turnover for our Regulated Water and Waste Water business was £1,804.4 million (2021/22: £1,693.9 million) and adjusted PBIT was £476.3 million (2021/22: 452.1 million).

Turnover increased by £110.5 million with the main movements being:

- A £62.0 million net increase from higher non-household consumption and lower household consumption, returning to more normal patterns following the easing of COVID-19 restrictions earlier in the year;
- An increase of £25.9 million in diversions income largely due to the increased activity related to HS2; an offset is seen in higher infrastructure renewals (see below);
- An increase of £4.7 million in non-household revenue due to additional properties successfully being brought into charge under the Voids and Gaps Incentive Scheme; an offset is seen in higher operating costs (see below);
- An increase of £12.1 million in renewable energy income in our Bioresources business; and
- Other net increases of £5.8 million, including higher miscellaneous sales and the adjustment for inflation in the year.

Net labour costs of £165.3 million were 6.0% higher year-on-year. Gross employee costs increased due to the annual pay award of 2.3% and an increase in FTE due to insourcing activity and mobilisation of the Green Recovery programme. This was partially offset by higher capitalisation of employee costs, largely related to insourcing activity.

Net hired and contracted costs increased by £2.5 million (1.3%). An increase in biodiversity and catchment spend, along with additional cloud storage costs and increased debt management activity partly offset by the reduction from insourcing activity.

Power costs were £14.1 million (14.1%) higher than the previous period, much less than the average market wholesale energy price increase of more than 250% year-on-year. We benefited from self-generation in bioresources and internal hedges between our regulated business (a net consumer of energy) and our non-regulated business (a net generator).

Bad debt charges reduced by £15.7 million and represented 2.1% of household revenue. The outlook for unemployment has improved, and we have not seen a deterioration in our collection performance. However, pressure on household budgets from increasing energy bills, other cost of living inflation and higher national insurance has led us to retain most (£8.5 million) of the forward-looking provision taken since the start of the pandemic at the balance sheet date.

Other costs increased by £7.9 million. Higher chemical and fuel costs during the period resulted in an increase of £2.9 million and the higher voids / gaps incentive payments referred to above increased costs by £2.2 million. The remaining increase came from a resumption of employee training and a prior year rates refund.

Infrastructure renewals expenditure was £47.2 million higher in the period, reflecting the planned step up in the programme and diversions activity related to HS2 referred to above.

Depreciation and amortisation of £385.0 million was £21.0 million higher year-on-year in line with the growing asset base.

Return on Regulatory Equity ('RoRE')

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

Severn Trent Water's RoRE for the year ended 31 March 2022 and for the two years ended on that date is set out in the following table:

	2021/22 %	AMP7 to date %
Base return	3.9	3.9
Enhanced RoRE reward[1]	0.3	0.3
ODI outperformance[2]	1.6	1.6
Wholesale totex performance	–	–
Retail cost performance	(0.1)	(0.3)
Financing outperformance[3]	3.0	1.7
Regulatory return for the year[4]	**8.7**	**7.2**

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

2 ODI performance includes Per Capita Consumption ('PCC') and forecast C-MeX and D-MeX outturn.

3 Includes 1.0% for the variance on tax from the benefit of super deduction capital allowances and a prior year tax credit.

4 Calculated in accordance with Ofwat guidance set out in RAG 4.10, which excludes Ofwat's AMP7 true-up mechanism.

We have delivered RoRE of 8.7% in the year, outperforming the base return by 480 bps as a result of:

- ODI performance of 1.6%, driven by strong performance across the majority of measures, with 88% meeting or exceeding regulatory targets;
- Our neutral totex position reflecting good cost control and efficient spend over the year; and
- Financing performance of 3.0%, driven by our AMP7 financing strategy of maintaining a low level of index-linked debt and the tax benefit of super deduction capital allowances.

Business Services

	2022 £m	2021 £m	Increase/(decrease) £m	Increase/(decrease) %
Turnover				
Operating Services and Other	**88.1**	82.8	5.3	6.4
Green Power	**55.5**	51.9	3.6	6.9
	143.6	134.7	8.9	6.6
Adjusted PBIT				
Operating Services and Other	**19.7**	20.9	(1.2)	(5.7)
Green Power	**5.6**	2.6	3.0	115.4
Property Development	**13.2**	2.3	10.9	473.9
	38.5	25.8	12.7	49.2

Business Services turnover was £143.6 million (up 6.6%) and underlying PBIT was £38.5 million (up 49.2%).

In our Operating Services business, turnover was up £5.3 million due to increased activity on the MOD contract. Adjusted PBIT was £1.2 million lower mainly due to legal costs related to the industry-wide property searches claims (see note 39 for further details).

In Green Power, turnover increased by £3.6 million and adjusted PBIT increased by £3.0 million. Higher energy prices and incentive income from increased gas generation was partially offset by lower gate fee income, as domestic waste volumes received under local authority contracts were higher in the previous year due to lockdown whereas volumes of commercial food waste improved this year. Intra-group energy price hedges, which benefited the regulated business, limited the increase in Green Power's revenue that would have been achieved if all energy had been sold at prevailing wholesale market rates.

Profits from Property Development were £10.9 million higher than the prior year, when there were no large disposals. We remain on track for our target of £100 million PBIT from Property Development over the ten years to 2027, having now generated c.£50 million since setting the target in 2017.

Corporate and other

Corporate costs were £8.2 million (2020/21: £5.9 million). The increase is largely due to releases in the prior year of provisions that were no longer required. Our other businesses generated PBIT of £1.3 million (2020/21: £0.7 million).

Net finance costs

Net finance costs for the year were £82.3 million higher than the prior year at £269.4 million. Average net debt was broadly flat at £6,292.2 million (2020/21: £6,263.6 million) but higher inflation in the year increased the cost on our index-linked debt by £87.3 million. Our effective interest cost was 4.7% (2020/21: 3.4%).

We issued £500 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 lower at 3.0% (2020/21: 3.1%).

Capitalised interest of £34.5 million was £4.1 million higher year-on-year due to the higher cost of finance compared to last year.

Our earnings before interest, tax depreciation and amortisation (EBITDA) interest cover was 3.5 times (2020/21: 4.7 times) and adjusted PBIT interest cover was 1.9 times (2020/21: 2.6 times). See note 43 for further details.

Gains/losses on financial instruments

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

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

We hold interest rate swaps with a net notional principal of £650 million floating to fixed, and cross currency swaps with a sterling principal of £141 million, which economically act to hedge exchange rate risk on certain foreign currency borrowings.

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

Where hedge accounting is not applied, if the risk that is being hedged does not impact the income statement in the same period as the change in value of the derivative, then an accounting mismatch arises and there is a net charge or credit to the income statement. During the year there was a gain of £51.5 million (2020/21: loss of £8.2 million) in relation to these instruments.

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

As part of our power cost management strategy, we have fixed the wholesale price for around 90% of our estimated wholesale energy import for 2022/23 through physical hedges with suppliers, financial hedges with bank counterparties and natural hedges from export of self-generated energy.

Share of loss of joint venture

We have seen the expected improvement in Water Plus's performance during the year following the recovery in economic activity in the UK and the re-financing carried out last year.

Our share of Water Plus's loss after tax for the year was £2.2 million (2020/21: £8.9 million excluding £4.9 million of exceptional losses).

Taxation

We are committed to paying the right amount of tax at the right time. We pay a range of taxes, including business rates, employers' national insurance and environmental taxes such as the Climate Change Levy as well as the corporation tax shown in our tax charge in the income statement. In his 2021 Budget, the Chancellow introduced the 'super deduction' of 130% capital allowances. As expected, the benefit of this reduced our current tax payable in the year to nil.

	2022 £m	2021 £m
Tax incurred:		
Corporation tax	**1.2**	30.0
Business rates and property taxes	**83.4**	83.6
Employers' National Insurance	**30.5**	28.0
Environmental taxes	**6.1**	6.7
Other taxes	**5.9**	5.5
	127.1	153.8

Further details on the taxes and levies that we pay can be found in our report, "Explaining our Tax Contribution 2021/22", which will be made available at severntrent.com when our Annual Report and Accounts is published in June.

The corporation tax charge for the year recorded in the income statement, before exceptional taxes, was £66.9 million (2020/21: £55.0 million) and we made net corporation tax payments of £1.2 million in the year (2020/21: £23.2 million). The difference between the tax charged and the tax paid is summarised below:

	2022 £m	2021 £m
Tax on profit on ordinary activities before exceptional taxes	**66.9**	55.0
Tax effect of timing differences	**(71.7)**	(28.2)
Current tax credits recorded in Other Comprehensive Income or equity	**–**	(0.4)
Overprovisions in previous years	**4.8**	3.6
Corporation tax payable for the year	**–**	30.0
Overpayments in prior years offset in the current year	**1.2**	(6.8)
Net tax paid in the year	**1.2**	23.2

Net tax paid in the year of £1.2 million relates to amounts paid to Water Plus for consortium relief (2020/21: £4.9 million paid to Water Plus).

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

The current tax credit for the year was £4.8 million (2020/21: charge of £26.8 million) and the deferred tax charge (before the exceptional charge arising from the change of rate) was £71.7 million (2020/21: £28.2 million).

Our effective tax rate excluding the exceptional deferred tax charge this year was 24.4% (2020/21: 20.6%), which is higher than the UK rate of corporation tax (19%), mainly due to deferred tax on temporary differences arising during the year charged at 25%, partly offset by the permanent difference that arises from the additional 30% deduction included in the super deduction (2020/21: higher due to items of expenditure that are not deductible for tax).

Our adjusted effective current tax rate was 0.6% (2020/21: 11.4%) (see note 43).

UK tax rules specify the rate of tax relief available on capital expenditure. Typically this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. And in the current year,

this has been enhanced by the super deduction for certain capital expenditure, which gives 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. By the same token we make a provision for the tax that we will pay in future periods, when the tax relief on the capital expenditure has already been received and we receive no allowance for the depreciation charge arising on that expenditure. This is the most significant component of our deferred tax position.

Result for the year and earnings per share

Total loss for the year was £87.2 million (2020/21: profit of £212.2 million).

The basic loss per share was 35.2 pence (2020/21: earnings of 89.1 pence). Adjusted basic earnings per share was 96.9 pence (2020/21: 105.4 pence). For further details see note 15.

Cash flow

	2022 £m	2021 £m
Operational cash flow	**848.9**	860.3
Cash capex	**(594.3)**	(593.2)
Net interest paid	**(185.0)**	(186.2)
Proceeds on sale of subsidiary	**–**	0.7
Net cash flows from swap terminations	**5.6**	(0.2)
Net tax paid	**(1.2)**	(23.2)
Free cash flow	**74.0**	58.2
Dividends	**(254.5)**	(240.2)
Issue of shares	**257.2**	11.8
Change in net debt from cash flows	**76.7**	(170.2)
Non-cash movements	**(140.7)**	(42.1)
Change in net debt	**(64.0)**	(212.3)
Opening net debt	**(6,443.8)**	(6,231.5)
Closing net debt	**(6,507.8)**	(6,443.8)

	2022 £m	2021 £m
Bank loans	**(782.5)**	(1,011.1)
Other loans	**(5,823.5)**	(5,471.3)
Lease liabilities	**(117.4)**	(121.3)
Net cash and cash equivalents	**107.7**	44.0
Cross currency swaps	**28.3**	31.9
Loans due from joint ventures	**79.6**	84.0
Net debt	**(6,507.8)**	(6,443.8)

Operational cash flow was £848.9 million (2020/21: £860.3 million). Increased PBIT and higher depreciation and amortisation were more than offset by increased pension contributions and a large decrease in working capital in the prior year.

Net cash capex of £594.3 million (2020/21: £593.2 million) was within our expected range.

Our net interest payments of £185.0 million (2020/21: £186.2 million) were broadly in line with the previous year as the impact of higher net debt was largely offset by the lower effective cash cost of interest, and the majority of the increase in interest costs was due to non-cash indexation. Our net tax payments were £1.2 million, a decrease of £22.0 million, mainly due to the impact of the super deduction which resulted in an overall loss position for tax.

Our equity placing in May 2021 raised net proceeds of £245.3 million and we received £11.9 million (2020/21: £11.8 million) from the exercise of options under the employee Save As You Earn share scheme. Our dividends paid increased in line with our policy.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £64.0 million in net debt (2020/21: £212.3 million).

At 31 March 2022 we held £107.7 million (2021: £44.0 million) in net cash and cash equivalents. Average debt maturity was around 13 years (2021: 13 years). Including committed facilities, our cash flow requirements are funded until February 2024.

Net debt at 31 March 2022 was £6,507.8 million (2021: £6,443.8 million) and balance sheet gearing (net debt/net debt plus equity) was 83.7% (2021: 85.0%). Regulated gearing (net debt of our regulated businesses, expressed as a percentage of estimated RCV) was 59.5% at 31 March 2022 (2021: 64.5%).

The estimated fair value of debt at 31 March 2022 was £1,075.8 million higher than book value (2021: £1,454.9 million higher). The increase in the difference to book value is largely due to the impact of higher inflation expectations on the fair value of our index-linked debt.

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 2022 interest rates for 69% (2021: 67%) of our gross debt of £6,731.1 million were fixed; 4% were floating and 27% were index-linked. We continue to carefully monitor market conditions and our interest rate exposure.

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

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

Pensions

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

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

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

In addition to these payments, the Group will directly pay the annual PPF levy incurred by the STPS (£1.0 million in 2021/22).

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

In June 2021 we executed a bulk annuity buy-in for the MIPS, which represents around 4% of the Group's defined benefit liabilities. Under the buy-in, the liabilities of this scheme are 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 of the Water Companies Pension Scheme (DVWS). DVWS funds are administered by trustees and are 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 to DVWS are required.

On an IAS 19 basis, the net position (before deferred tax) of all of the Group's defined benefit pension schemes was a deficit of £128.0 million (2021: £367.7 million). To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the nature of the schemes' assets or their expected returns.

On an IAS 19 basis, the funding level increased to 95% (31 March 2021: 88%).

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	2,600.4	(2,968.1)	(367.7)
Amounts credited/(charged) to income statement	49.0	(59.7)	(10.7)
Actuarial gains taken to reserves	68.9	119.6	188.5
Net contributions received and benefits paid	(58.9)	120.8	61.9
At end of the period	**2,659.4**	**(2,787.4)**	**(128.0)**

The income statement includes:

- Current service costs of £0.2 million on the DVWS, which remains open to further accrual but is closed to new members.
- Scheme administration costs of £3.8 million; and
- Net interest on scheme liabilities and expected return on the scheme assets – together a cost of £6.7 million.

Higher interest rate expectations increased the discount rate, which is derived from yields on high quality corporate bonds, by 80 bps. Inflation expectations have increased by around 40 bps since the previous year end. The impacts of these changes are offsetting and resulted in a net decrease in the scheme liabilities of around £193 million.

Changes to demographic assumptions reduced scheme liabilities by around £6 million. This included an update to the most recent CMI data tables and also a weighting to allow for the high mortality experienced in 2021.

The actual outturn in the year for inflation and other assumptions was worse than expected and this increased scheme liabilities by £79 million.

The scheme assets increased in value by around £69 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 (£25.6 million); and
- A deficit reduction payment of £35.6 million that was deferred from the March 2021 to April 2021.

There were also normal contributions of £0.2 million to the DVWS and payments of benefits under the unfunded scheme amounting to £0.5 million.

In April 2022 the deferred deficit reduction payment from March 2022 of £32.4 million was paid.

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 61.28 pence per share for 2021/22 (2020/21: 60.95 pence per share). This gives a total ordinary dividend for the year of 102.14 pence (2020/21: 101.58 pence).

The final ordinary dividend is payable on 13 July 2022 to shareholders on the register at 6 June 2022.

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 objectives and optimise our risk exposure within our risk appetite.

2021/22 risk landscape

2021/22 has been a year in which COVID-19 and its economic and societal consequences have continued to evolve. The global economic outlook remains weaker than it would have been without the pandemic. Geopolitical instability, including the conflict in Ukraine, cyber crime, rising inflation, commodity and energy prices, and debt levels, have all disrupted the world economy, and have introduced new risks that need to be considered.

At a local level, we have seen an acceleration in changing stakeholder attitudes to climate, nature and the environment, and the part corporations play in protecting them, all relevant to our sector.

Risk appetite statement

Severn Trent's Purpose is 'taking care of one of life's essentials'. No business is free of risk and to achieve our strategic objectives we often need to take calculated risks. We will, however, only 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

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.

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.

Overseeing risk

Our approach to risk management is designed to enable the business to deliver its strategic objectives. 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 model 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 groups involved in risk across Severn Trent.

Top-down

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

The 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 objectives 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 objectives.

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 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.

Risk management framework

Risk Governance and Oversight

Board:
- Sets the risk culture.
- Defines and regularly reviews risk appetite.
- Challenges the level of risk taken to pursue objectives.
- Makes risk-informed decisions and provides oversight for key strategic risks.
- Responsible for effective risk oversight of enterprise-wide risks at Group level.
- Undertakes annual assessment of Principal Risks.

Audit and Risk Committee:
- 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:
- Supports the Board in the management oversight of risk.
- Assesses the level of risk taken in achieving objectives by challenging the AMP7 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

Top-down

1ST LINE OF DEFENCE

Strategic Planning:
- Longer-term, holistic risk response plans, e.g. Water Resources Management Plan ('WRMP') and our AMP7 Business Plan.
- Establishes critical controls for ensuring the operational effectiveness of essential services.

Service Area Boards:
- Capital investment programme management.
- Implement strategic risk management processes, such as WRMP.
- Identify and monitor Emerging Risks and opportunities.
- Assess all categories of risk at an operational level.

Business Unit and Risk Champions:
- 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.

2ND LINE OF DEFENCE

Strategic Risk Forum ('SRF'):
- Assesses the business unit's ('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/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:
- 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 process.

3RD LINE OF DEFENCE

Internal Audit:
- Provides assurance for significant risk mitigation strategies.
- Assesses effectiveness of the risk programmes by analysis of key controls.
- Evaluates internal control environment.

Bottom-up

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.

We have made significant progress in the year in integrating the elements of our risk system with other compliance programmes within the Company. This has also had the benefit of improving the reporting to the Board and Audit and Risk Committee.

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 2021/22 are detailed on pages 61 to 66 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.

Strategic outcomes

A company you can trust	Good to drink
A positive difference	Water always there
Lowest possible bills	Waste water safely taken away
A service for everyone	A thriving environment
An outstanding experience	

Stakeholders

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

Movement

Increase in risk exposure	Decrease in risk exposure
No change in risk exposure	New risk

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 outcomes **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

- In 2021/22, we did not experience any major safety incidents or fatalities. During the year we recorded 19 incidents where our colleagues were temporarily unable to work. This is a rate of 0.14 per 100,000 hours worked.
- We have approval to establish a central Dangerous Substances and Explosive Atmospheres Regulations Compliance Team.
- We have made progress and are on track to complete improvement actions against some of our higher-risk activities.

Key risk indicators

- Lost Time Incident ('LTI') rate target[1]

[1] **Refer to KPIs p21**

INFRASTRUCTURE FAILURE AND ASSET RESILIENCE

RISK 2

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

Strategic outcomes **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 in-house capability to bolster repair teams and facilitate accelerated response times.
- We operate a 24/7 control centre monitoring of our operations and assets, including real-time telemetry coverage from our loggers. See Principal Risk 3.
- 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 9.
- We regularly review and update processes, standards, and operational procedures.

Change in year

- Our CRI performance in 2021 was adversely impacted by a coliform failure at Strensham in January 2021 (with a 1.1 CRI impact). Despite this, our underlying CRI performance has been industry-leading for a company of our size, with performance this year at 2.43.
- Our Distribution Service Reservoirs ('DSR') failures have also reduced again in calendar year 2021, marking three years of year-on-year reduction in coliforms at DSRs.
- The DWI has complimented us for the continued reduction in the number of recommendations since 2019 and the success of Severn Trent's water quality performance improvement.

Key risk indicators

- Supply interruptions (no. of minutes)[1]
- Leakage % (Ml/d) target[1]
- CRI (index)[1]
- % Water Quality Competency training completed target
- Priority Services Register ('PSR') (percentage)[1]

1 **Refer to KPIs p20-27**

INFRASTRUCTURE FAILURE AND ASSET RESILIENCE

RISK 3

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

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- We run strategic modelling to assess potential changes to supply and demand on our waste network, to reduce service issues and potential damage to the environment. See Principal Risk 9.
- Our 24/7 control centre monitors our asset performance, including real-time telemetry coverage. We operate an in-house Waste 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.

Change in year

- As part of our continuous improvement activity, in early 2021 we reviewed site flow to full treatment ('FFT') performance, which led to several site improvements. We have enhanced our site performance monitors with the installation of Event Duration Monitors ('EDM') on both storm weirs and discharges to the environment which have given an improved view of site performance, not previously available.
- We have a regular review schedule for refreshing our contingency plans to ensure that they remain appropriate for the risk posed by an asset failure.

Key risk indicators

- Internal sewer flooding (no. of incidents)[1]
- External sewer flooding (no. of incidents)[1]
- Public sewer flooding (no. incidents)[1]
- Pollutions incidents (no. of incidents)[1]
- Blockages (no. of incidents)

1 **Refer to KPIs p27**

SUPPLY CHAIN AND CAPITAL PROJECT DELIVERY

RISK 4

Key suppliers cannot meet contractual obligations causing disruption to capital delivery (cost and quality) and/or critical operational services.

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- 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 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.

Change in year

- The risk of supply chain disruptions has increased worldwide resulting from the effects of COVID-19 and the current geopolitical climate as well as an associated increase in the cost of global commodities.
- We have made improvements to our immediate payment terms for our contracted SME partners.
- One of our supply chain partners entered administration this year. We were able to seamlessly transition to a new partner, protecting the Severn Trent deliverables and obligations in AMP7.

Key risk indicators

- Number of project milestones completed on time (no. of projects)
- Ratio of critical single source supplier (%)

CYBER SECURITY AND TECHNOLOGY RESILIENCE

RISK 5

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 outcomes **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 developed disaster recovery plans that are stress tested.

Change in year

- There has been a general increase in the risk of cyber-attacks due to geopolitical instability.
- We continue to make good progress on the delivery of our NIS-R Programme, which is improving cyber security both generally and within the operational technology environment.

Key risk indicators

- Number of high and medium priority incidents (no. of incidents)

POLITICAL, LEGAL AND REGULATORY

RISK 6

Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance.

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- Our fast-tracked Final Determination provided early sight over the AMP7 period enabling a prompt start on our plans.
- We are preparing for early engagement with key stakeholders for PR24 planning.
- 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, 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 have made improvements to our site performance monitors with the installation of EDM on both storm weirs and discharges to the environment, giving an improved view of site performance not previously available.
- Ofwat and the Environment Agency have each issued their own investigations in the waste water industry to investigate compliance; these investigations are ongoing.

Key risk indicators

- Changes in regulatory framework

FINANCIAL LIABILITIES

RISK 7

We fail to fund our Severn Trent defined benefit pension scheme sustainably.

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- Our deficit recovery plans are agreed by the Company setting out the cash contributions required from Severn Trent to the Scheme.
- The Company agreed the triennial actuarial valuation as at 31 March 2019, including repair payments of c.£60 million per annum until 2022.
- Interest rate, inflation and equity risk are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustee in considering The Pensions Regulator's consultation on its funding code of practice.
- The Company is represented on the Investment Committee of the Scheme and the investment policy is formally approved by the CFO.

Change in year

- Our IAS 19 deficit has reduced to £128 million as of March 2022.
- We are £140 million ahead of the journey plan agreed as part of the 2019 valuation.

Key risk indicators

- Pension deficit (£m)[2]

2 **Refer to CFOs Report p52-58**

FINANCIAL LIABILITIES

RISK 8

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

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- The Group's Treasury activity is overseen by our Treasury Committee with support from dedicated advisers.
- The Group has a diversified capital structure, in both tenor and access to global debt capital markets to mitigate risks.
- The Group maintains liquidity headroom of at least 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.

Change in year

- We use a diverse range of funding sources with access to a variety of markets.
- During 2021/22 we completed a £250 million equity placement (to fund the Green Recovery programme), agreed £1.1 billion of new committed debt facilities, and raised £500 million of new debt (a £400 million bond and two £50 million private placements).

Key risk indicators

- Available liquidity[2]

2 **Refer to CFOs Report p52-58**

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY

RISK 9

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

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- 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).
- We have introduced new climate monitoring[3].
- Our AMP7 Business Plan supports increased resilience against the potential impacts of climate change through capital scheme delivery. See Principal Risk 4.
- Our climate change strategy[3].
- Our Triple Carbon Pledge – committing us to net-zero carbon emissions, 100% renewable energy and an all-electric fleet (where available) by 2030[3].
- We have committed to significantly reducing our greenhouse gas emissions by 2030[3].

3 Read more on pages 35 to 45

Change in year

- Securing water supplies – as part of our Green Recovery programme, we are improving the biodiversity of an additional 46 hectares, helping to protect customers' water supplies during the longer, drier summers we can expect in the future.
- We will be creating a new low-carbon/reduced-chemical treatment capacity for 65 Ml/day, in the East Midlands.
- We are also installing more than 157,000 smart meters across our network through Coventry and Warwickshire, helping to increase water efficiency and reduce leakage, and with a potential for customers to save money.

Key risk indicators

CLIMATE CHANGE, ENVIRONMENT AND BIODIVERSITY

RISK 10

We fail to influence positively the natural capital in our region.

Strategic outcomes **Stakeholders**

Examples of risk mitigation

- 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 9) and biodiversity loss that has potential to impact ecosystems.
- Our in-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.
- In the last two years we have improved the biodiversity of over 4,600 hectares. We have planted almost half a million trees, with a target of 1.3 million to be planted by 2030.

Change in year

- Our Green Recovery programme – we have secured £566 million (2017/18 prices) in funding to deliver six schemes aimed at making environmental and customer targeted improvements, including improvement of 500 km of rivers five years earlier than planned.
- We have worked with 72 different organisations and more than 80 landowners, receiving 429 applications from farmers in our region to our STEPS biodiversity options.
- We have already launched five new, industry-leading pledges with the aim of enhancing our rivers and habitats.

Key risk indicators

- Biodiversity (no. of hectares improved (ha))[1]

1 **Refer to KPIs p23**

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 MARKET	Increasing energy prices impacting both our costs and the total household bills of our customers.	POLITICAL AND ECONOMIC	**SHORT – MEDIUM**
GEOPOLITICAL TENSIONS	The ongoing conflict in Ukraine and resulting sanctions could increase commodity prices and result in an economic slowdown. We have seen an increase in cyber threats following the Russian invasion of Ukraine earlier in 2022.	ECONOMIC	**SHORT – MEDIUM**
SUPPLY CHAIN DISRUPTION	Post COVID-19 recovery and disruptions caused by the ongoing conflict in Ukraine may cause critical supply chain shortages and resource security pressures resulting in increased commodity prices globally. We are dependent on our supply chains, including foreign suppliers, which could be impacted by ongoing global matters.	OPERATIONAL	**SHORT – MEDIUM**
ACCELERATING CUSTOMER EXPECTATIONS	We have already experienced a shift in the expectations of customers and regulators in recent years and this is likely to evolve further and place different demands on our plans. We will need to be flexible in adjusting our plans over the coming years to meet the changing expectations of our key stakeholders.	REPUTATIONAL	**SHORT – MEDIUM**

STATEMENT ON THE CONFLICT IN UKRAINE

At the time of writing, geopolitical events in Ukraine continue to be the focus of the world. While not previously recorded as a Principal Risk, such events do feature on our horizon scanning and associated risks are captured within our ERM framework. Management continues to assess the impact of the conflict, and the sanctions imposed on Russia, on the Company's operations and finances, including within our supply chain.

The potential impacts that we have considered are as follows:

- **Energy prices higher for longer.** Gas and electricity prices were already at historically high levels before the Russian invasion of Ukraine. This has only been exacerbated by the conflict. If the EU moves to extend sanctions against Russia, this would likely lead to higher energy prices for a more sustained period. However, current forward prices indicate prices returning to their *pre-crisis levels in the medium term.*
- **Customers' household incomes squeezed further.** Higher energy prices, together with higher interest rates, tax increases and general inflation, were already squeezing our customers' household incomes. The potential higher energy prices referred to above would add to this. We set out the anticipated impact of lower household incomes on our customers' ability to pay their bills in note 4 to the financial statements.
- **Economic slowdown.** The impact on the global economy of sanctions on Russia and loss of key commodities from Ukraine might result in lower economic growth in the UK economy, leading to lower revenue from our non-household customers.

We have considered specific risks as part of the scenarios modelled for our Viability Statement. Details of the scenarios considered and the results of our modelling, together with the underlying assumptions, are set out in our Viability Statement on pages 68 to 71.

The Board continues to receive regular updates on the Group's response in order to assess, monitor and promptly respond to the impact of evolving geopolitical events in Ukraine on our operations *and our stakeholders.*

VIABILITY STATEMENT

Assessment of current position and long-term prospects

The Directors' assessment of the Group's current financial position is set out in the Chief Financial Officer's review on pages 52 to 58. Important aspects of that assessment that are most relevant to the assessment of viability are:

- The Group's regulated gearing is 59.5%, close 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 February 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 reduced to £128 million in the year. The next triennial valuation is underway, and we do not anticipate a significant increase in contributions as a result.

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 Asset Management Periods ('AMP's) 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 three 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 13 years.

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

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

Impact of COVID-19 on the Group's prospects

As expected, the consumption and revenue from the Group's non-household customers recovered to close to their pre-pandemic levels in the year. We have also seen continued strong collection performance on our household customers as unemployment did not reach the levels forecast at the outset of the pandemic. The cost-of-living pressures now being experienced by our customers are expected to have some impact on cash collection, notwithstanding our additional support to help make bills affordable for our customers most in need. We have made allowance for this in our balance sheet at 31 March 2022 and in our medium-term plan.

Period of assessment

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

However, the changing nature of regulation of the water industry and the 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 61 to 66, 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
We 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 fail to provide a safe and secure supply of drinking water.	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 fail to effectively transport and treat waste water.	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.
Key suppliers are unable to 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.
We fail to maintain our critical technology capabilities due to cyber threats or system failures.	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; 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 £200 million in each year of the forecast.
ODI penalty	A penalty of £100 million in a single year.
Financial penalty	A penalty of £100 million in a single year.
Increased pension contributions	Contributions increase by £47 million per annum.
Combined scenario	An increase of totex of £150 million in each year, an ODI penalty of 1.5% in one year, and a financial penalty of £50 million in one year.
Higher inflation in one year	Increase of 3% in CPIH.
Lower inflation in one year	Decrease of 3% in CPIH.
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.

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.	Earnings in the year are lower than our dividend policy. 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.
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.	Short term impact on profit after tax and dividend cover would be positive. 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.	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.
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 was 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 this Annual Report.

This statement is subject to review by Deloitte, our External Auditor. Their audit report is set out on pages 154 to 161.

Assessment of viability

The Board has assessed the viability of the Company over a seven-year period to March 2029, 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 2029.

Going Concern Statement

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

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 ('S172') Statement on pages 82 to 84, which sets out our approach to S172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making.

The principles underpinning S172 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, 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 90. You can also read more in our separately published Sustainability Report, which can be found on our website from mid-June. 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.

Our Customers

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

How we engage at Board level

- Customer-shareholders engage with the Board and submit questions in advance of our AGM.
- Customer delivery performance is discussed at every Board meeting.
- Customer perceptions of value for money are reported to our Corporate Sustainability Committee.
- Our Board-approved extensive customer engagement shapes our strategy and Business Plan.

How we engage across the Company

- 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 have 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, and Apple Chat channels.

Outcomes from engagement

- **Improved ODI performance scores during the year with c.88% of ODIs (across water, waste, environment, customer and communities) having met or exceeded target**
- **Improvements in our C-MeX ranking**
- **Helped over 150,000 customers through our financial schemes (2020/21: 150,000)**
- **Launched our Affordability Strategy in order to support an additional 100,000 customers in water poverty by 2025**
- **5.7% of our customers signed up to our Priority Services Register**
- **Year-on-year we're supporting 13% more customers through our Help to Pay When You Need It Scheme**

Link to KPI

- Value for money
- Help to Pay When You Need It
- Priority Services Register
- C-MeX
- D-MeX
- CRI
- Drinking water quality
- Supply interruptions
- Leakage
- Internal sewer flooding
- Internal sewer flooding

Refer to KPIs p20-27

What they tell us matters to them

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

How we delivered on feedback this year

- **Established our Money Adviser Network customer programme**
- **C-MeX customer campaign 'Caring for you'**
- **Water scarcity TV advertisement**
- **New digital billing opportunities**

Link to strategic outcomes

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.

Link to KPI

- Employee engagement
- LTIs

Refer to KPIs p21

How we engage at Board level

- Our second dedicated virtual employee engagement event, 'Ask Our Board', was held in May 2022.
- *Employee-shareholders have the* opportunity to meet the Board and submit questions prior 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 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 survey – QUEST – results and steps taken to address feedback.

What they tell us matters to them

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

How we engage across the Company

- Employees are invited to attend the 'Ask Our Board' events.
- In addition to Board attendance, our *Company Forum brings together* employee representatives at quarterly meetings, including Trade Union representatives.
- Continual communication to employees on COVID-19 impacts and mental and physical health awareness.

How we delivered on feedback this year

- **Established a Women in STEM and Ops advisory group**
- **Three menopause education events held with a total of over 80 attendees**
- **2021 leadership event**
- **New diversity groups**
- **YuLife – new wellbeing app**
- **Continued to narrow our gender pay gap**

Outcomes from engagement

- **8.2 out of 10 for employee engagement in our QUEST results**
- **10% reduction in LTIs compared with 2020/21**
- **793 attendees at our 2021 Leadership event**
- **c.15% of our graduates and apprentices are from Black, Asian or other minority ethnic backgrounds**
- **73% participation across our Sharesave schemes**

Link to strategic outcomes

Our Communities

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

Link to KPI

- Education programme
- Biodiversity
- External sewer flooding
- Public sewer flooding
- Pollution

Refer to KPIs p20-27

How we engage at Board level

- Employees who live and work in our communities 'meet' the Board at the Company 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 2022.
- Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings.
- Environmental matters are regularly considered by the Board.
- Business Community Representatives presented to the Board.

What they tell us matters to them

- Operational impact and disruption
- Local employment
- Economic contribution
- Protection of the environment

How we engage across the Company

- 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 through our Community Champions programme, working to improve our communities and environment.

How we delivered on feedback this year

- **Welcomed 77 new apprentices and graduates in 2021**
- **Official sponsor for Coventry City of Culture**
- **40 years of WaterAid celebrated**
- **Welcomed four new Hereford college interns this year (22 across six years)**
- **Hosted a 'Walk in COP26' event**
- **100,000 Employability Hours Scheme**
- **1,360 employee volunteering days**
- **Sustainability Partner for the Commonwealth Games**
- **80,656 commitments made to change our behaviour following our bespoke customer education programme**

Outcomes from engagement

- **Financial support was given to care leavers through our Big Difference Scheme**
- **Donated c.£2 million to 73 projects through our Severn Trent Community Fund**
- **Donated £103,000 to 34 projects through our COVID-19 Emergency Fund**
- **466,745 trees planted to date**
- **Over 340 'Kickstarters' across the business as part of the Government Kickstart scheme**
- **Improved the biodiversity of over 4,600 hectares of land over the last two years**

Link to strategic outcomes

Our Shareholders and Investors

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

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

How we engage at Board level

- The Board approves quarterly trading statements, the full and half-year results and Annual Report.
- The Chair, Senior Independent *Director, Chief Executive, Chief* Financial Officer, Executive Committee Members and Non-Executive Directors attend investor meetings and feedback is reported to the Board.
- The Chair of the Remuneration *Committee offers meetings on* Remuneration Policy matters and proposed changes to the Group's Policy.
- 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.

How we engage across the Company

- When safe to do so, investor site visits take place so that shareholders can experience our operations and culture first-hand.
- *Regular dialogue with shareholders* to support them in their investments.
- Regular Investor Roadshows are held throughout the year.

Outcomes from engagement

- **Group underlying PBIT of £508.3 million**
- **AMP7 dividend policy with a growth rate of at least CPIH – 2021/22 final dividend of 61.28 pence**
- **All resolutions received over 94% of votes at our 2021 AGM**
- **Capital investment exceeding £604 million including accelerated activity on strategic renewable projects**

Link to KPI

0.6%

dividend increase

2021: 1.5%

What they tell us matters to them

- *Strategy and business model*
- Financial performance and returns
- Reputation
- ESG performance
- Financial risk management
- Strong leadership
- Company culture

How we delivered on feedback this year

- **Hosted a Capital Markets Day in September 2021 with over 100 external attendees**
- **During the year we held around 120 investor meetings and met with over 130 existing and potential investors**

Link to strategic outcomes

Regulators and Government

The policy framework for the water sector in England and Wales is set by the English and Welsh governments, respectively.

We seek to engage constructively 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.

How we engage at Board level

- To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year.
- *Regulatory matters are regularly* considered by the Board, including Price Review Plans, the Water Resources Management Plan and the Scheme of Wholesale Charges.
- Regulatory stakeholders attend Board meetings, including from Ofwat, the DWI, the EA, CCW and Defra.
- Regulatory consultation updates are considered by the Board.

How we engage across the Company

- 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.

Our Suppliers and Contractors

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

How we engage at Board level

- Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers.
- Supplier representatives attend the Employee 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 Supplier Code of Conduct and approval of our Anti-Slavery and Human Trafficking Statement.

How we engage across the Company

- 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.
- Our supplier conference in 2021: 'Thinking Differently'.

Outcomes from engagement

- **Registered by the Chartered Institute of Procurement and Supply ('CIPS') with the Ethics Mark**
- **78 pledges from suppliers at our 'Thinking Differently' supplier conference in 2021**
- **35 suppliers signed up to EcoVadis, our online Sustainability Assessment Platform**
- **Leadership status with the Carbon Disclosure Project**
- **All contracts now require a net 15% biodiversity gain for site construction works clause**

Link to KPI

As at 31 March 2022, the average time Severn Trent Water Limited took to pay supplier was

28 days

What they tell us matters to them

- Fair engagement and payment terms
- Collaboration
- Responsible supply chain
- Sustainable procurement
- Reputation

How we delivered on feedback this year

- **Hosted 'Thinking Differently: Supplier Conference 2021'**
- **Net-zero engagement with supply chain**
- **Executive Safety Forum with our Tier 1 capital supply chain**

Link to strategic outcomes

Link to KPI

£79m

net ODI reward

2021: £77m

What they tell us matters to them

- Outcomes for customers, the environment and long-term resilience
- Performance against regulatory targets
- Trust and transparency
- Governance and compliance
- Environmental impact
- Sustainable procurement

Outcomes from engagement

- **Maintained top-ranking position in the Tortoise Responsibility100 Index**
- **£566 million (2017/18 prices) of Green Recovery investments**

Link to strategic outcomes

ENGAGEMENT IN ACTION

Our Customers

Customers are at the heart of everything we do, and our continuous engagement with them ensures that we are truly able to understand what matters to them and deliver improvements in service.

Caring for our customers campaign

In August 2021, we started our six-week long 'Caring for our Customers' campaign, focusing on how we want to be there to help and put our care at the heart of our communities, whether that is through financial support for those struggling to pay their bills or the projects we help through our Community Fund.

You can read more about how we are here to help you at: stwater.co.uk/my-account/help-when-you-need-it/

Enhancing our digital engagement

Throughout the year we have increased our focus on being there for our customers – 24 hours a day, seven days a week – through whatever channel they choose, always providing easy, friendly, personable and affordable customer service. A number of our customers choose to contact us through digital channels and, as such, we have set ourselves the ambition of leading the water industry in 'digital'. Customers can contact us via social media (Facebook, Twitter, Instagram), WhatsApp, Apple Chat and Webchat. Throughout the year we have focused on connecting our people to our customers on a deeper level through our cultural programme, Connected Customer Culture.

35% of the feedback we receive from customers about their web experience tells us that they still struggle to find what they are looking for, and helping our customers navigate our website is the first step in our next stage of improvements and one of our priorities for improving customer experience online. As part of our strategy this year, we have given digital billing a makeover with new and improved email templates, introduced more direct links for customers clicking through via emails, and improved our technology to include speech analytics and better call handling to improve our services even further.

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

Introducing Wavemakers

In March 2022, we introduced our exciting Wavemakers initiative, a brand new annual ideas challenge that is looking to nurture talent and create innovation in our communities. The project, specially created to find unique and innovative ideas in the world of water, will turn to local talent to help develop new ideas that could be rolled out across the Midlands. We believe that working collaboratively is the best way to create innovative ideas that have the potential to change *the lives of individuals within our communities.*

The first round of Wavemakers will give potential future innovators aged 16+ the opportunity to develop ideas on how to reuse and/or save water, and in return could potentially see a participant rewarded with either a one-year university course or a £2,000 cash prize towards supporting their development.

Read more at www.severntrent.com/wavemakers

214,430

customers supported with paying their bills (a 27% year-on-year increase)

5.7%

of our customers, requiring bespoke support, signed up to our Priority Services Register

Keeping connected to our customers

We were delighted to receive a Gold Award at the European Contact Centre and Customer Service awards ceremony, coming out on top in the 'Most Effective Application of Technology' category for 'keeping connected to our customers during the height of the pandemic'.

Water Scarcity TV AD

In November 2021, we launched our Water Scarcity TV advert, talking about the important (but often tricky) topic of water scarcity and how we can all do our bit to save water for generations to come. Customers were also able to find out how nature has a huge part to play, and what every one of us can do to reduce the effects of climate change.

Emma Bird, the Campaign and Content Officer who led the campaign, said: *"We were super excited to partner with ITV's* Home Planet as part of their Climate Action week! It was a brilliant opportunity for us to show how we're caring for nature in our region to reduce the effects of climate change and protect our future supply, and of course inspire our customers to do their bit by saving water and getting involved in planting trees."

Our Colleagues

Providing opportunities for our employees to be involved in business decisions is a key part of our culture.

The Board participated in an 'Ask the Board' event in May 2022

Ask Our Board

As part of our response to COVID-19, we enhanced the already significant dialogue we have with our employees through the introduction of a virtual employee engagement event, 'Ask Our Board'. This year we hosted our second 'Ask Our Board' event and employees were invited to pose questions to the Board in a live Q&A environment, without management present or scripted briefings, in order that the Board could listen to the views of the workforce first-hand. Questions included performance highlights over the year, the Commonwealth Games, innovation, river quality and affordability initiatives.

QUEST

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 8.2 out of 10 this year, placing us in the top 10% of utility companies globally, and we were thrilled to receive a score of 8.2 out of 10 when colleagues were asked if they would recommend Severn Trent as a workplace to a friend.

As important as the range of opportunities provided is how our colleagues feel about them. We continue, therefore, to ask colleagues several 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 7.2 out of 10, 1.0 above benchmark. When asked whether their job enables colleagues to develop and learn new skills, 8.1 agreed. It is truly lovely to see how our teams feel supported in their development and see pathways to develop and progress.

You can read more on how we have engaged on remuneration-related matters within the Directors' Remuneration Report on page 128 and more about Our People on pages 85 to 88.

Company Forum

Providing opportunities for our employees to be involved in business decisions is a key part of our culture and the Board's selected workforce engagement mechanism, our Company Forum, helps to facilitate this.

The Company Forum meets at least 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 Managing Director of Customer Operations and the Joint Secretaries. A different Board Director is invited to attend and participate at each meeting and, over the last twelve months, John Coghlan, Christine Hodgson and Kevin Beeston have all attended meetings, in addition to Liv Garfield, to listen to the discussions and to talk about their areas of responsibility and interests. Directors also provide a written report to the Board following each meeting.

The agenda is wide-ranging and topics for discussion this year have included workforce learning and development through our Severn Trent Academy, the Green Recovery investment programme, executive remuneration, diversity and inclusion in the wider workforce and at the Board, and progress towards the Group's net-zero commitments. The Company Forum attendees consistently feed back on the value that they get from Board attendance and the national officers highlight how different this is to the experience that they have in other organisations.

Leaders from across the business at our leadership event at Draycote Water in Septemoer 2021

Engagement with all employees

We know that coming together and taking time to connect with our company strategy and ambitions is important to our colleagues and drives engagement and curiosity in our teams. We take pride in delivering engaging leadership events each year, that bring our leaders together to build networks and performance opportunities. This is an important foundation of our culture.

With restrictions largely lifted, we have been able to run in-person events once again and to provide more opportunities for colleagues to comment on our strategy and to ask questions and engage on our focus areas.

In September 2021, we held our leadership events at Draycote Water, with 793 attendees from across the business, and in March 2022, we held our annual Business Leaders event. Sessions included Getting River Positive and Keeping our Promises to our Customers. The event was hugely engaging, with colleagues saying that it was a positive use of their time, and they were confident in being able to communicate the message to their teams. To ensure that the messages reached across the whole organisation, a cascade pack was provided for managers to use with their teams.

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 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.

Our 100,000 Employability Hours Scheme

In October 2021, we officially launched our 100,000 Employability Hours Scheme, aimed at helping some of our customers struggling to get back into work following the pandemic. As part of the scheme, we have opened the doors of our Severn Trent Academy to offer our communities 100,000 hours of free, valuable skills and training. By making the most of our amazing trainers and facilities, we are able to provide a full range of sessions that will really help to make a difference to people's lives, whatever situation they might find themselves in.

Whether it is building self-confidence, finding work, or developing skills to make themselves more employable, we know that our courses will really make a difference in the communities that we serve. Our training team will deliver the sessions in person at the Academy, virtually and out in our communities. This will support social mobility across our region and make a huge difference to people's lives.

Getting River Positive

Rivers transform the communities around them, and although we have improved the health of our region's rivers significantly in the last 30 years, we recognise that as a sector there is more we need to do. As a leading environmental company, it's our commitment that we will Get River Positive by 2030. Our five pledges are underpinned by a range of measures and metrics developed with partners and stakeholders, addressing our customers' concerns and taking a leading role in ensuring our region's rivers are as healthy as possible.

Severn Trent Career Discovery Days at our Severn Trent Academy

We were thrilled to run a number of pilot Career Discovery Days at our Academy that have been open to young people who want to find out more about careers at Severn Trent. We have worked in partnership with local schools and colleges so that students can come along for the day and have a hands-on experience trying out some more of our technical roles. The Career Discovery Days have been so successful that we now have a programme of events planned throughout 2022, which started with the National Apprentice Week in February. We are also working on extending our offer into work experience programmes for interested students across our partner schools.

STEM Women's Online Careers Fair

In February 2022, we attended the STEM Women's Online Careers Fair, giving a presentation and taking part in the panel interview. The New Talent Team was on hand to support individuals with career coaching, job application support and interview preparation. 915 women attended the event and, as a result, over 50 applications to work at Severn Trent were received.

627,500

***customers supported* through the Big Difference Scheme to date**

214,430

***customers supported in* paying their bills**
(a 27% increase year-on-year)

13%

***more customers supported* year-on-year through our Help to Pay When You Need It Scheme**

How we have helped support our communities this year

5.7%

customers signed up to our Priority Services Register

c.£2m

donated to 73 projects through our Community Fund

1,360

employee volunteering days

Our Suppliers and Contractors

We recognise that supplier engagement is integral to our success.

Benefits from our strong supplier engagement include ensuring a resilient supply chain; being able to share knowledge and expertise to find the right solutions for our customers; ensuring continuous sustainable development; and developing responsible business strategies. Our enduring relationships with our suppliers in turn help us to reduce the risks we face as a business, all for the benefit of our wider stakeholders, including our customers and communities.

Thinking differently with our suppliers

On 11 November 2021, we brought together 100 of our suppliers at our Severn Trent Academy and shared with them our current priorities and future ambitions. Faced with fresh supply-chain challenges in a post-COVID-19 and post-Brexit environment, the conference provided a great opportunity to speak directly with our suppliers about our vision and how they play a crucial part, and to have meaningful discussions and debates about how we can work closer and better together.

The agenda for the day included our vision on customer, sustainability, digital, and health and safety, communicating our passion on why it is so important to 'think differently' about these four areas, and how engagement with our suppliers can help us unlock new ways of working with our supply chain and pave a stronger foundation upon which new opportunities and collective success can be realised. The event was a brilliant success, with 78 pledges collected from suppliers, particularly around improving customer service and experience.

Our Sustainability Team introduced our SBTs and how they can bring operational and financial benefits to our business and suppliers.

Engaging with our suppliers to cut Scope 3 emissions

Emissions from our supply chain make up a significant part of our overall emissions and so collaborative engagement with our suppliers is critical to achieving success in reducing our impact. We engage directly with our supply chain to measure and improve carbon emissions. We have aligned to SBTs and, as part of this, we set a target to engage with our top 70% of suppliers, by emissions, to set an SBT by 2026. We have made great progress against this target, with 38% already committing to set targets by 2023.

We approach supplier engagement in a number of ways, including one-to-one sessions to discuss the importance and benefits of setting an SBT. We also encourage our suppliers to sign up to our online sustainability assessment platform, EcoVadis, which provides an objective assessment of how sustainable each of our suppliers are.

We were delighted that our supplier engagement approach recently received recognition through the Carbon Disclosure Programme, for which we were awarded Leadership status. The award was a glowing endorsement of the work we have done over the last twelve months to help tackle climate change.

Notwithstanding this excellent progress, we will increase further direct engagement with our high carbon impact suppliers and continue to utilise the increased insights which the EcoVadis platform offers; for example, by agreeing corrective action plans with individual suppliers.

Engaging on modern slavery

Collaboration is key to mitigating modern slavery, so we actively engage with other organisations to gain insight and maintain best practice. We entered our second three-year partnership with the 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 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.

You can read more on our approach and engagement in our 2022 Severn Trent Plc Anti-Slavery and Human Trafficking Statement online, published in summer 2022 stwater.co.uk/about-us/responsibility/modern-slavery-statement/

Suppliers at our Supplier Conference in 2021: 'Thinking Differently'

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 offering our customers the lowest prices.

We continue to maintain a positive relationship with our economic regulator, Ofwat, grounded in our sector-leading performance for customers and investors. We are the only water company in the sector that Ofwat rated in the top three for both performance and financial resilience in its latest reports (on 2020/21 performance). Ofwat also awarded Severn Trent 66% of the sector's Green Recovery funding in summer 2021.

The case studies opposite offer examples of how we engaged with regulators during the year.

Winner in Ofwat's Water Breakthrough Challenge

We were delighted to have secured funding for three ground-breaking projects, after being named a winner in Ofwat's latest Water Breakthrough Challenge, and having been awarded a total of £1.6 million through Ofwat's flagship innovation programme.

This trio of projects, which will be delivered with multiple partners, collectively, could deliver significant benefits for our customers, society and the environment. The projects include the following:

- Catalysing a net-zero future – looking to develop innovative techniques for capturing bacteria that could potentially help reduce greenhouse gas emissions during the waste water treatment process.
- The Home Energy Recovery Unit ('HERU') – a waste recovery system developed to manage domestic and commercial waste on site and turn it into recycled energy.
- Tap water forensics – aiming to develop the use of genetic sequencing in drinking water treatment, which, unlike current tests, can determine every bacterial species present in water. This new approach could significantly improve the speed and accuracy of water quality investigations in the future.

To find out more, visit waterinnovation.challenges.org/

Engagement with the Environment Agency

John Curtin was appointed Executive Director for Local Operations of the Environment Agency in early 2021 and visited us in July. We took the opportunity to show him a broad overview of the work we do, with particular focus on our approach to innovation and in protecting the environment.

The visit started at our Spernal waste water treatment works with a presentation from our Chief Engineer Team on our innovation projects and the benefits they could bring. A number of our innovation projects are being tested at Spernal, so a site tour was conducted to see them in action.

We then visited a farm in the Leamington Spa area to see first-hand the catchment management work our agricultural advisers undertake with local farmers. This activity included increased biodiversity habitats through wildflower buffer strips along the edges of fields, together with investment in agricultural machinery to reduce drift when applying chemicals. This not only saves farmers money, but also protects the wider environment and water courses. The final part of the visit was to see our new Thermal Hydrolysis Process ('THP'), which was being installed at Finham waste water treatment works. This process takes the biosolids that are a product of the waste water treatment process, and puts them under pressure and high temperature to improve the amount of green energy that can be generated.

Engaging with the Treasury Net Zero Minister

In August 2021, we hosted Treasury Net Zero Minister Kemi Badenoch MP at our Severn Trent Academy and our Finham waste water treatment works in Coventry. During the course of the visit, we showcased the innovations we were trialling to combat process emissions in the waste water process as we work towards delivering our ambitious plan to be net zero by 2030 and included a site visit to see the new THP. During the visit, we also updated the Minister on our catchment management work with farmers to protect and enhance the environment and shared our ambitious regional investment plans through our Green Recovery projects.

Our Shareholders and Investors

Our intention is to drive value for all of *our stakeholders, delivering a high-quality,* sustainable service for the long term. Engagement with our investors is critical to our success.

Investor meetings

Investor meetings are predominantly attended by our CEO, CFO and Head of Investor Relations, although other Executive Committee members also attend. During the financial year ended 31 March 2022, we held around 120 investor meetings and met with over 130 existing and potential investors. These meetings were attended by 51 shareholders, representing around 66% of our register. We have strived to meet our investors in person, when it is safe and possible to do so, and where it was not, we have arranged virtual meetings.

The meetings focused on the Group's financial performance, our AMP7 strategy, our environmental impact, our approach to net zero, climate change adaptation, COVID-19 impact response and long-term growth opportunities. The Chair and individual Directors regularly engage with major shareholders to understand their views on governance and performance against strategy. Committee Chairs also engage with shareholders on significant matters related to their area of responsibility.

Capital Markets Day 2021

On 24 September 2021, we held our Capital Markets Day to provide more detail on three key areas of differentiation that we believe will drive outperformance in the years ahead, benefiting all our stakeholders:

1. Our sector-leading customer ODI performance and how we can continue to deliver outperformance into AMP8 and beyond.
2. Strong RCV growth, with a particular emphasis on our six Green Recovery schemes.
3. Our approach to net zero, and how we will achieve our Triple Carbon Pledge target by 2030.

We held the Capital Markets Day event at our Draycote Water Reservoir. We also held three engaging virtual events to accommodate our international stakeholders, allowing those who were unable to travel to enjoy the event despite COVID-19 restrictions. In total, we were joined by around 100 external attendees, higher than our prior year attendance, with representation from a range of investors and analysts as well as wider stakeholders. For those unable to attend, we issued a detailed announcement to the market on the morning of the event, and published content on our corporate website dedicated to the day, which included all of the materials and videos of each session.

Annual General Meeting

Our 2021 AGM was held on 8 July 2021, at which 77.18% of our shareholders voted. We were delighted to receive in excess of 94% votes in favour for all of our resolutions, including over 99% approval for both our Remuneration Policy and our new LTIP. The AGM was held as a hybrid meeting, which means that shareholders were able to follow the business of the meeting by virtual meant as well as in person. In light of the COVID-19 pandemic, the Board considered carefully a range of alternative mechanisms by which shareholders could engage with the Company in advance of the AGM. Shareholders were invited to submit questions to a dedicated AGM mailbox 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, 7 July 2022 at 11.00am. Following its success in 2021, 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.

As the AGM provides an opportunity for the Board to meet and engage with shareholders in person, we are looking forward to welcoming our shareholders, following the relaxation of COVID-19 restrictions.

In addition to the AGM, the 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.

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 Company Secretary to request a copy.

Corporate website

We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders. The website has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section containing information which may be of interest to our shareholders.

Capital Markets Day at Draycote Water in September 2021

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 and 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 S172 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 S172 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 2021/22, the Directors have had regard to the matters set out in S172 of the Companies Act 2006. You can read more on how the Board had regard to each matter, during the year, as follows:

S172 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 DISCLOSURES					
page 2 – 5 Company Purpose page 6 – 7 Our Business Model page 20 – 27 Performance Review page 150 Dividend Policy page 34 Sustainability	*page 20 – 27* Performance Review page 85 – 88 Our People page 86 Diversity and Inclusion page 85 – 88 Employee Engagement page 118 Whistleblowing page 92 Company Culture	page 152 Responsible Payment Practices page 20 – 27 Performance Review page 127 Modern Slavery page 34 Sustainability page 6 – 7 Our Business Model page 118 Whistleblowing	*page 2 – 5* Purpose and Vision page 34 Sustainability page 35 – 45 TCFD	*page 2 – 5* Purpose and Vision page 118 Whistleblowing page 118 Internal Controls page 34 Sustainability	*page 72 – 81* Stakeholder Engagement page 81 Annual General Meeting page 150 Dividend Policy page 34 Sustainability

Principal decisions in 2021/22

The principal decisions taken by the Board in the year are detailed on pages 100 to 101 of the Governance Report.

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

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

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

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

Follow up actions with Board oversight

BOARD INFORMATION

BOARD STRATEGIC DISCUSSION

BOARD DECISION

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

Board papers include a table setting out S172 factors and relevant information relating to them

S172 factors considered in the Board's discussions on strategy, including how they underpin long-term value creation and the implications for business resilience

The Chair ensures decision making is sufficiently informed by S172 factors

Engagement and dialogue with stakeholders

severntrent.com

S172 reflected in our governance documentation:

- Matters Reserved to the Board
- Board Committee Terms of Reference
- Doing the Right Thing, our Code of Conduct

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other S172 considerations, have been considered in its decision making are set out below.

Key stakeholder groups considered

Customers | Communities | Shareholders and Investors | Employees | Suppliers and Contractors | Regulators and Government | Sustainability and ESG

STRATEGIC DIRECTION STATEMENT

Context

At its Board Strategy Day, the Board considered the requirement for the Company to refresh its Strategic Direction Statement, which had last been published in 2007. The Board discussed initial thoughts on key trends and identified emerging priority areas. Using this insight, the Strategy and Regulation Team developed a draft Strategic Direction Statement for the Board's consideration and feedback.

Additionally, Ofwat reinforced the necessity for such a document within its PR24 guidance, including that companies' future delivery plans should be set in the context of long-term strategies.

The Board reviewed the priorities set out in the Strategic Direction Statement, particularly the proposals to deliver for customers and wider stakeholders.

Consideration of S172 impacts by the Board in its decision making

Customers:

The Board was satisfied that the Strategic Direction Statement was focused on the Company's priority to provide safe and consistently high-quality drinking water to customers, ensure that supply interruption and low-pressure events were effectively managed and ensure that bills remain affordable and represent good value. The Board also considered that the Strategic Direction Statement would facilitate a continued high-quality customer experience.

Environment and the Communities:

The Board reviewed the appropriateness of the Strategic Direction Statement to support 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.

Employees:

The Board considered that the Strategic Direction Statement would also provide clarity to employees on its strategic priorities which would in turn support internal planning activity. The Strategic Direction Statement also provided clarity on the skills and capabilities required to deliver upon the priorities outlined, increased employee engagement through creating an aligned Purpose for employees at all levels of the organisation, giving back to the communities in which we serve and reinforcing the Group's socially purposeful culture.

Regulators:

The Board has a strong track record of engagement with its regulators in respect of strategic topics. As such, the Board engaged with key regulators (including Ofwat) on the intended approach. The Board considered that releasing the Strategic Direction Statement as a consultation document provided an invaluable opportunity to engage with the Company's regulators and broader stakeholders, and reinforce that the Company's thinking process was maturing but not fixed. This approach would also allow incorporation of areas of interest from regulators and wider stakeholders.

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

As we enter a period of potentially increased investment across the water sector to meet higher resilience and environmental standards, it is critical that we have a clear view of our long-term direction. This will enable us both to plan investments more effectively, but also to optimise our drivers of value creation across AMPs. Our Strategic Direction Statement defines the Company we want to be in 2050 and the supporting 30-year investment roadmap required to achieve it.

In December 2021, the Strategic Direction Statement was published for consultation to ensure the consideration of stakeholder views were factored into its final form.

AFFORDABILITY STRATEGY

Context

We have a range of support measures in place to help support customers who are experiencing affordability pressures. Recent events have compounded the financial pressures faced by our customers and communities – including high energy prices, rising inflation, falling Universal Credit, and rising National Insurance contributions. As a socially-responsible company that genuinely cares about its customers and the communities it serves, the Board determined that the Company's Affordability Strategy should be reviewed. The review focused on how the Company could further improve its approach and outcomes for customers, including increasing the number of households supported overall and improving the way in which support is targeted. In developing our refreshed approach, the Company engaged with all of its stakeholders, including customers, shareholders, Ofwat, CCW and local communities, to listen to and understand their views and the affordability challenges they face. The Company's strategy was then developed in full consideration of these discussions, with the objective of addressing affordability in the immediate term and proposing a multi-AMP strategy to eradicate water poverty in our region.

Consideration of S172 impacts by the Board in its decision making

Customers:

The Board considered the Company's Affordability 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 good customer outcomes, by ensuring that every pound is spent wisely and efficiently. Following careful analysis, the Board determined that the combined impact of the affordability initiatives would provide both: immediate support to customers experiencing affordability pressures, through the creation of a £30 million fund to support to households in water poverty (customers that spend more than 5% of their income after housing costs on water); and optimisation of our social tariff, the Big Difference Scheme, to improve support provided to customers. Together these will result in support being available for an additional 100,000 customers. Potential impacts to customer bills were central to Board discussions and, as such, the Affordability 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.

Communities:

The Board considered the role that the Company should play in reducing water poverty in our region by changing life chances of people in our communities and equipping them with the experience and skills that will stand them in good stead as they look to find employment opportunities. As such, it was determined that the Affordability Strategy should also focus on bolstering skills capability in our region, utilising the Academy training facility to support this activity and improve skills across the region we serve. It was also considered that promotion of the support programmes should be enhanced at a community level to ensure those in difficulty are aware of our support schemes and also reduce issues around access or social stigma.

Investors:

The Board carefully considered the need to deliver value for customers and shareholders. As such, the Board determined that the Affordability Strategy should be funded within the existing Business Plan revenue in AMP7, whilst still delivering benefits to customers five years ahead of the Company's 2030 commitment and delivering the Company's five-year plan, strong RoRE performance and, crucially, with no increase in cost to any non-water poor customers above the level assumed within the Final Determination.

Regulators:

The Board has a strong track record of engaging with its regulators in respect of strategic topics. As such, the Board engaged with key regulators (including Ofwat and CCW), who indicated their support to the affordability proposals. The Company also engaged with local Government and MPs in respect of the proposals.

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

Our Affordability Strategy will provide financial support for the most financially vulnerable customers in our region. The combined impact of these initiatives will mean that we will be able to support around an additional 100,000 of our customers and 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.

You can read more about our Affordability Strategy on page 28.

Key stakeholder groups considered

Customers | Communities | Shareholders and Investors | Employees | Suppliers and Contractors | Regulators and Government | Sustainability and ESG

GETTING RIVER POSITIVE BY 2030

Context

Waste water systems provide an essential service, supporting the day-to-day routines of our customers and protecting the environment, public health, and homes from flooding. These systems are facing increased stresses from climate change and population growth, and there is growing public, media and political attention on the water quality of the nation's rivers. There is also a shift in communities' attitudes towards rivers, evidenced through an increased focus on river quality, and the main contributors to river health, and the desire for more recreational use.

As a socially-responsible company that genuinely cares about the environment and the communities it serves, the Board reviewed the Company's Cleanest Rivers Programme, with the objective of bringing together the people and activities involved in river protection, driving the rapid evolution of our river management activities and improvements, and ensuring that capacity and capabilities are in place to manage the magnitude and pace of change required to become River Positive in the future.

Consideration of S172 impacts by the Board in its decision making

Environment and the Communities:

The Board considers updates in respect of environmental performance at every Board meeting. The Board also considered dedicated River Quality updates throughout the year and, further to these, agreed that a Cleanest Rivers Programme should be considered, with the objective of developing a strategy to protect our region's rivers, create more opportunities for communities to enjoy our region's rivers, and provide new habitats so wildlife can thrive.

The Board also reviewed the arrangements for the dedicated NGO advisory body being constituted to oversee this activity, with the objective of ensuring that the river quality information stakeholders wanted was in place and available on the Company's website by the end of 2022.

Company employees:

Our people are passionate about making a positive impact on the communities and the environment where we live and work, including rivers within our region. Our River Ranger Team is now established and is already proving an invaluable resource in helping monitor river quality, being the eyes and ears on key aspects of our asset base and establishing strong community relationships to help challenge customer perceptions and behaviour. Additionally, employees regularly participate in river health campaigns through our established volunteering programme.

The Board and Remuneration Committee considered potential mechanisms to align employees' interests with our river health commitments and determined that these should be incorporated into company-wide remuneration arrangements to align the activities of all employees to support delivery of the Cleanest Rivers Programme After careful consideration, the Remuneration Committee approved changes to the Annual Bonus Scheme measures and targets to align with the Company's river health commitments. You can read more about these changes on page 141.

Regulators:

The Board has a strong track record of engaging with its regulators in respect of strategic topics. As such, the Board consulted extensively with NGOs, regulators, and other key stakeholders and river user groups to capture their views in respect of the Company's approach to river health. The views of these stakeholder groups were considered by the Board in the development of the Company's River Pledges. The Company also engaged with other companies within the sector, including Anglian Water, to develop a shared approach and learn from the experiences of other companies.

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

Our Get River Positive commitments have been developed in full consideration of our stakeholders – including customers, local communities and campaign groups – through establishing the following five pledges:

- Ensure storm overflows and sewage treatment works do not harm rivers;
- Create more opportunities for everyone to enjoy our region's rivers;
- Support others to improve and care for rivers;
- Enhance our rivers and create new habitats so wildlife can thrive; and
- Be open and transparent about performance and our plans

Our five pledges are underpinned by a range of measures and metrics developed with partners and stakeholders, addressing our customers' concerns and taking a leading role in ensuring that our region's rivers are as healthy as possible. You can read more on page 17.

CLIMATE CHANGE – PROGRESS AGAINST NET ZERO PLAN

Context

Climate change is at the centre of many Board considerations and its decision making throughout the year. Sustainability-related discussions take place at all Board meetings and the Chair of the Corporate Sustainability Committee provides a detailed update on sustainability matters at every Board meeting, through a standing agenda item. Throughout the year, the Board held seven sessions dedicated to climate-related risks and opportunities and sustainability-related topics.

At the April 2022 Board meeting, the Board considered an update in respect of the Company's Net Zero Transition Plan, including the leading role taken within the sector and UK economy to drive down GHG emissions. At that time, the Board discussed progress made during the year – including improving our understanding of the key drivers of our process emissions, creating credible, innovative solutions to reduce, replace, remove, and offset GHGs. The Board scrutinised the Company's plans to deliver its net-zero commitments within the required timeframe, and the innovative trials underway to bring GHG reduction activity into operations.

Consideration of S172 impacts by the Board in its decision making

Customers:

Our customers have told us that they expect us to protect and improve the environment and that our response to climate change is important to them. The Board took this response into account when approving the Strategic Direction Statement in which we identify priority areas for our business that we believe are key to delivering for our customers, ensuring resilience against the challenges of the future, and fulfilling our wider environmental and societal goals. The Strategic Direction Statement both informs and guides our future strategy and long-term investment plans, and shapes our adaptive pathways and long-term delivery strategies, ensuring we continue to deliver safe and consistently high-quality services to our customers.

Environment and the Communities:

The Board considers updates in respect of environmental performance and the Company's activity to achieve its Net Zero Transition Plan commitments at every Board meeting. The Board also considered a dedicated Net Zero Transition Plan update during the year.

Company employees:

Our people are passionate about making a positive impact on the communities and the environment where we live and work, including delivery of our Net Zero Transition Plan commitments. This is supported by our transparent remuneration framework that aligns reward and incentive structures throughout our business from our front-line operatives through to our Executive Team, ensuring that every employee is incentivised and rewarded to deliver the same objectives. In order to align delivery of our Net Zero Transition Plan with the interests of our employees, sustainability-based performance measures are built into the Group's remuneration policies. You can read more on page 130.

Regulators:

The Board has a strong track record of engaging with its regulators in respect of strategic topics. As such, the Board consulted extensively with regulators, suppliers and other key stakeholders to understand their views in respect of the Company's Net Zero Transition Plan. The views of these stakeholder groups were considered by the Board in consideration of progress made during the year. The Company also engaged with other companies within the sector and our supply chain to develop and share ideas and learn from the experiences of other companies in developing its approach.

Investors:

Investors demand that our external commitments stand up to scrutiny when benchmarked against the best companies globally and our approach to achieving net zero is credible to our stakeholders, including expert climate bodies and our investors, who voted in favour of our approach to climate change at the 2021 AGM.

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

As we enter a period of potentially higher investment across the water sector, it is critical that environmental and climate change factors are incorporated into investment decisions. Many of our intended delivery activities are still in relative infancy. Innovation and collaborative working across the globe will be required to tackle some common problems, as well as co-operation from our supply chain partners. Broader macro and geopolitical considerations will have a bearing on potentially competing Government priorities for net zero and energy security. Continual oversight of the Company's plans in consideration of these factors is built into the Board forward plan.

OUR PEOPLE

Our people are fundamental to taking care one of life's essentials and we believe our culture is what makes us special.

Our teams are passionate about the positive role they can play in helping customers and communities thrive and they care that we create an environment where everyone can feel comfortable to bring their whole self to work.

This section is dedicated to showcasing our people and our culture. You can read more about how we have listened to and engaged with our colleagues on page 77.

Top 10%

Our employee engagement survey ranked us in the top 10% of utility companies globally.

10%

reduction

in Lost Time Incidents compared with 2020/21 (our best ever LTI rate).

8.2

Achieved 8.2 out of 10 employee engagement score in our QUEST results.

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 19 LTIs this year, our best ever performance. Though 19 of our colleagues getting hurt whilst working is still too many, we delivered a 10% reduction in LTIs compared with the last performance year.

We have seen consecutive year-on-year improvement since 2018/19 following the refresh of our already established Goal Zero strategy. We have delivered a 50% reduction in LTIs since the launch of our refreshed strategy, and a 42% reduction in all incidents since 2019/20, giving us confidence that our strategy will continue to drive improvement in performance year-on-year.

At the start of the COVID-19 pandemic, we committed to no furloughing, no redundancies, honouring of our all-employee bonus and agreeing a 2.3% annual pay increase for three years for our front-line teams, with 2022 being the final year of that deal. Our Severn Trent colleagues have been remarkable throughout the pandemic and we have continued to support them through a comprehensive approach to health, safety, mental wellbeing and financial security as they have returned to our offices.

If there are any positives to come from a global pandemic, it seems that we are all more aware of our wellbeing than ever before. Following the success of our 'Caring for our Colleagues' campaign and 'Share a Smile' initiative over the last two years and having received great engagement from our colleagues, this year we launched our 'Tap into Wellbeing' programme, designed to showcase the five key ways that our colleagues could all help to look after their wellbeing.

In August 2021, we launched YuLife, a new free wellbeing app offering our employees 24/7 virtual GP services, mental wellbeing support, nutritionist consultations and rewards for daily healthy activities. Since we launched the app, a quarter of our employees have now downloaded it, with the figure continuing to grow month on month.

In April 2022, we introduced our new Severn Trent Elective Treatment Fund, a temporary, short-term solution aimed at offering financial support for our colleagues, for a range of elective treatments that have been significantly and disproportionately affected by the increased NHS waiting lists as a result of the pandemic.

Introducing our first specific PPE headscarf

We were delighted to support and welcome the addition of our (industry first) personal protective equipment ('PPE') headscarf, designed by our very own Aminah, when she found there was no PPE headscarf option for her to wear when visiting operational sites.

We have made the product available to our 7,000 plus workforce to have as part of their usual PPE kit and are pleased to see others in the industry following suit.

Aminah said, "It's really important that to run a successful business there's different people from all walks of life who bring different experiences and knowledge. That's why it's really vital that people know they can be themselves at work, which is why something like the PPE headscarf will hopefully show others that, working at a place like Severn Trent, you will feel included."

Wonderfully You – providing a diverse and inclusive place to work

At Severn Trent, we positively 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 be really comfortable in being themselves is a vital part of our future success.

Our Diversity and Inclusion ('D&I') strategy is included within our Sustainability Framework under the 'Providing a Safe, Inclusive and Fair Place to Work' pillar. In September 2021, we launched 'Wonderfully You', our new D&I ambition, which for the first time also includes targets.

Our diversity ambition is 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 all 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 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 put particular focus on championing the voices of colleagues from diverse backgrounds. We now have four active employee advisory groups for LGBTQ+, Ethnicity, Disability, and the new addition of our Women in STEM and Ops group. You can read more about our attendance at the STEM Women's Online Careers Fair on page 78.

Each group is sponsored by an Executive Committee member and has a voluntary employee Chair. They work alongside external experts like the Disability at Work Charter and Stonewall to help shape our policies and interventions. They have been fundamental to our progress so far and, going forward, we see them playing an even more active role.

We are proud of our track record on gender diversity. We were delighted to be recognised as the top FTSE100 utility company for both representation of women on the Board and combined Executive Committee and direct reports in the FTSE Women Leaders Review 2022. Severn Trent remains just one of four companies in the FTSE100 to have a female CEO and Chair, and is just one of eight to have a female CEO at the helm.

As at 31 March 2022, our Executive Team comprised four female and five male members (44% and 56% respectively). 17 members (44%) of our senior leaders were female and 22 were male (56%). Female representation in the Group was 29% (2,121 women), with male representation at 71% (5,248 men). Five members of our Board were female (50%) and five were male (50%). Page 113 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 at as 31 March 2022.

Our November 2021 employee engagement survey results showed that we are still well ahead of benchmark on both engagement (8.2 against a benchmark of 7.6), and our equality measures (8.7 against a benchmark of 8.1). Females now score higher than males, at 8.8 compared with 8.7, but we still have work to do on minority ethnic inclusion parity where there is still a gap. To tackle this, we have developed and piloted a package of measures, including extensive D&I engagement sessions for our leaders.

Wonderfully You D&I Champions Event at the Academy

During the year, we hosted our first Wonderfully You D&I Champions event at the Severn Trent Academy. Over 75 colleagues from the business came together to understand our current D&I position, our targets and how they could help us create a truly inclusive workplace. It was a hugely moving and powerful event as colleagues openly shared their stories and the overwhelming support they have felt working at Severn Trent.

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

Ranked 5th in the Social Mobility Employer Index

Ranked 40th in the Stonewall Workplace Equality Index

Consistently in the top 10

Climbed 374 places in two years

Ranked 1st in the Tortoise Responsibility100 Index

Rated 4.3 out of 5 overall on Glassdoor

Ranked 16th in Equileap's Gender Equality Global Report

Attracting and retaining talent

An inclusive environment is the foundation of a truly diverse organisation, with all of the rewards that brings. Whilst the recruitment market has been buoyant after COVID-19 and Brexit, our in-house recruitment model has proven beneficial, enabling us to continue to attract and retain quality talent. Our team of in-house recruiters are able to work directly with candidates, demonstrating our Purpose and culture first-hand and attracting individuals who embody our Values. Our successful in-house model has also enabled us to ensure 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 our graduates and apprentices come straight from school, our work in schools and colleges is helping to improve the diversity of our intakes. Our apprentice ethnicity is above the sector average of 7%, at 9.4%, and we have almost tripled the number of females in apprenticeship roles during the year. We have made female appointments for the first time in our Leakage and Farm Liaison Teams, and have an 'all female' intake in the Visitor Experience Team. We are committed to making our apprentice intake much more diverse in the future, with a specific focus on attracting more women into the mainly operational apprenticeships that we have for 2022.

As part of the #10000BlackInterns programme, we will welcome 72 students on 8 – 12 week internships this summer. We are working with the business to ensure we provide the optimal experience for all of our interns and will be keeping in touch with them in the hope that some will join us permanently once they complete their degrees.

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 – our first set of 'Kickstarters' joined us in January 2021. We are delighted that to date 340 'Kickstarters' have joined us, with 40% of those having secured jobs or gone back into education. We have also offered an additional 77 graduate and apprentice placements this year, our widest intake ever and across the widest range of roles.

Green Recovery recruitment event

In October 2021, we were pleased to run a recruitment event to support our Green Recovery programmes at the NEC in Birmingham. We publicly promoted the event as well as approaching potential candidates on LinkedIn to invite them along. Each of our Green Recovery project leads gave presentations, with our wider resourcing team engaging with potential candidates and capturing their details so that we could follow up with them on relevant vacancies.

It has been our most successful recruitment event to date, with over 100 people attending, resulting in 37.5% of the hires being female and 18.75% being from a minority ethnic background. Appointments have been made for a wide variety of roles from engineers, customer liaison officers, frontline operatives and project management roles.

Fairly rewarding our people

In 2021, we published our Gender Pay Gap Report highlighting a continued reduction in the median gender pay gap between women and men for the fifth consecutive year. The Report shows a median pay gap of 9.1%, down from 9.3% in 2020, as it continues to be positively impacted by a high proportion of women within our management and senior management roles. Severn Trent is proud to have such strong female representation throughout our senior management team, and 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.

Over the same period, we have seen a slight increase in our mean gender pay gap, partly due to small changes within our Executive population. Our total number of employees grew by 2.1%, with the number of women growing by 2.3%, and men by 2.0%. As the fastest growing quartiles were the lower middle quartile for women, and the upper quartile for men, this also contributed to the higher mean gender pay gap this year.

We have been working hard to create a consistent framework which includes transparent pay ranges to support us in measuring our fair pay processes. The full Gender 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 128 to 148.

We look forward to sharing our ethnicity gender pay gap once Government legislation is published, to ensure that our reporting is consistent with best practice.

All of our employees have the opportunity to become part-owners of the Company through our popular Sharesave scheme and an amazing 73% participate, with 26% of participants saving the maximum of £500 per month. A total of 3,870 employees applied to join the latest scheme during the invitation window, representing 53% of eligible employees. We are especially delighted that so many employees decide to retain their shares – 73% of our employees are also shareholders in the Company.

73%

of our employees participate in our Sharesave scheme.

Developing our people

This year we celebrated the first official birthday of our Severn Trent Academy at Hawksley Park. The 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, retrain and develop with us in our industry.

During the past year, over 17,000 learners have passed through the doors, we have hosted over 2,600 events and we have committed to delivering 100,000 hours of free employability training for our communities. We have made some wonderful partnerships in the delivery of our community offer. An example of true collaboration is our relationship with the charity Sense, helping to ensure our learning is accessible to all. You can read more about our partnership in the case study opposite.

Everyone learns in different ways and that is why the Academy goes beyond classroom learning, using a combination of the latest technology, with virtual reality, simulation and online learning. We have developed some exciting virtual reality learning solutions for manual handling, sewage treatment and chemical deliveries, offering a safe place for individuals to practice and build essential practical skills.

Operatives developing their skills on the training rig at The Academy

19,000

Number of Learning Hours

12.5%

of Future Leaders Programme cohorts having been promoted to a line management position

As part of our Academy offering, we also facilitate mentoring and coaching, helping employees develop or giving them the chance to help develop others.

To continue to build long-term skills resilience, we remain one of only two water companies who are fully accredited and delivering apprenticeships as an employer apprenticeship provider, meaning we can add Ofsted to our list of regulators and can now deliver our own apprenticeship pathways for waste treatment and water networks.

Future Leaders Programme

We have recently designed and implemented our six month Future Leaders Programme, designed to help those who do not have line management experience develop their skills in a practical way so they can successfully step into their first manager role within twelve months of completing the programme. Since its launch in July 2021, we have completed two cohorts consisting of 32 people, with four people having already been promoted to a line management position.

Sense

In October 2021, we partnered with the national UK charity Sense, to help ensure the learning that we provide to colleagues and communities is more accessible and to provide us with resources to be able to better support and provide learning around disability awareness. Through this exciting partnership, Sense will help Severn Trent deliver workshops on Different Assistive Technologies, Disability Awareness and Deaf Awareness, as well as e-learning modules such as Introduction to Different Communication Styles and Basic BSL learning videos. Although in the early stages of our partnership, we have already been shortlisted in the Partner of the Year category for the Sense Awards.

Zoe Bates, Employment and Benefits Co-ordinator at Sense, said, "It has been a great privilege to work with Severn Trent, and assist them in their learning and training programmes, specifically working to make them accessible to people with complex disabilities. It is an excellent opportunity for both Sense and Severn Trent to collaborate to improve the employment gap of people living with complex disabilities in the local community."

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.

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 page 77.

Remuneration: Find out more

The Company Remuneration section, in the Directors' Remuneration Report, sets out the steps we take to make sure that our pay and reward framework, below Executive and senior management, is transparent in a way that is meaningful and useful. You can read more on pages 138 to 139.

NON-FINANCIAL INFORMATION STATEMENT

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

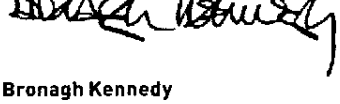
REPORTING REQUIREMENT	*POLICIES AND STANDARDS WHICH* GOVERN OUR APPROACH	*ADDITIONAL INFORMATION* AND RISK MANAGEMENT
STAKEHOLDERS	– Our **Customer Policy** outlines how our people are responsible in ensuring we keep our promises and deliver great customer service. – Our **Group Data Protection Policy** supports our people in protecting our employee and customer data when performing their work and making decisions. – Our **Group Commercial Policy** outlines what is expected of those involved in procurement activities, enabling them to uphold our Values and maintain proper standards of fairness and integrity in our relationships with all stakeholders.	Stakeholder Engagement, pages 72 to 81 Section 172 Statement, pages 82 to 84 Key Activities of the Board, pages 100 to 101
ENVIRONMENTAL MATTERS	– 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.	Sustainability Framework, pages 34 Corporate Sustainability Committee Report, pages 124 to 127 Sustainability Report, severntrent.com Our TCFD Disclosures, pages 35 to 45 Stakeholder Engagement, pages 72 to 81 Section 172 Statement, pages 82 to 84
EMPLOYEES	– **Group Health, Safety and Wellbeing Policy** – We believe no one should be hurt or made unwell by what we do and this policy outlines expectations of all employees to ensure we achieve our Goal Zero. – **Group Speak Up Policy** – Our Values are an essential part of Severn Trent, and we take seriously any reports about illegal practices or inappropriate conduct. We 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, supportive and nurturing, and which makes the most of everyone's growth potential.	Our People, pages 85 to 88 Stakeholder Engagement, pages 72 to 81 Gender Pay Gap, page 87 Culture, page 92 Governance Report, pages 90 to 152 Audit and Risk Committee Report, pages 115 to 121 Directors' Remuneration Report, pages 128 to 148
RESPECT FOR HUMAN RIGHTS	– **Anti-Slavery and Human Trafficking Statement**, available on our website – **Diversity and Inclusion Policy – Wonderfully You**	Governance Report, pages 90 to 152 Corporate Sustainability Committee Report, pages 124 to 127
ANTI-CORRUPTION AND BRIBERY	– 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. – Our **Group Conflicts of Interest Policy** provides guidance around managing conflicts of interests arising from obligations pursuant to the CA2006, the 2018 Code and FCA rules and guidance. – Our **Group Security Policy** aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions. – **Group Competition and Competitive Information Policy** – We take our position within the market, and our compliance with competition and antitrust laws, seriously. In everything we do, we strive to do it with openness, fairness and honesty.	Governance Report, pages 90 to 152 Audit and Risk Committee Report, pages 115 to 121
SOCIAL MATTERS	– **Doing the Right Thing**, our Code of Conduct, helps us put our Values into practice and embody the principles by which the Group operates, and provides a consistent framework for responsible business practices. – **Group Environment Policy** – **Customer Policy**	Sustainability Framework, pages 34 Corporate Sustainability Committee Report, pages 124 to 127 Directors' Report, pages 149 to 152 Sustainability Report, severntrent.com Stakeholder Engagement, pages 72 to 81
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		Our Approach to Risk, page 59 to 60 Principal Risks, pages 61 to 66 Emerging Risks, pages 67 Our Business Model, pages 6 to 7
DESCRIPTION OF THE BUSINESS MODEL		Our Business Model, page 6 to 7
NON-FINANCIAL KEY PERFORMANCE INDICATORS		Strategic Report, pages 1 to 89 Our Performance and Key Performance Indicators, pages 20 to 27

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

Approval

This Strategic Report was approved by the Board.

By order of the Board.



Bronagh Kennedy
Group General Counsel and Company Secretary
24 May 2022

CHAIR'S INTRODUCTION TO GOVERNANCE

Christine Hodgson
Chair

Purpose beyond the pandemic

Behind the headline, our Purpose has remained consistent and deeply embedded throughout the COVID-19 pandemic, enabling us to focus on the long term, whilst adapting to the new world around us in order to make a positive difference for all of our stakeholders.

Board focus areas in 2021/22

- Scrutinised operational performance at every meeting.
- Considered the Company's approach to addressing society's expectations in relation to river quality.
- Reviewed the Group's strategy, five-year plan and budget.
- Scrutinised progress against the Board's objectives and ensured they continued to align with the Company's Purpose and Values.
- Discussed and reviewed regular updates on the Group's culture and employee engagement, including satisfying itself that workforce policies and practices were consistent with the Company's Values and culture.
- Considered our Affordability Strategy to ensure the Company continues to support our most vulnerable customers in the post-pandemic environment.
- Reviewed the role the Company must play in the Levelling Up agenda, including opportunities within under-invested areas of our region.
- Discussed and reviewed regular updates on the Group's Green Recovery programme and individual projects.
- Appointed Gillian Sheldon and Tom Delay as Independent Non-Executive Directors and ensured the Nominations Committee oversaw that effective induction programmes were designed and delivered.

Read more about the key activities of the Board on pages 100 – 101.

This year has taught us some valuable lessons and underlined the importance of our Purpose in everything we do. Our strategy is working and we are confident that we are in a strong position for the challenges and opportunities ahead. As the effects of the COVID-19 pandemic continue to present themselves, the Board remains focused on ensuring that Severn Trent is a successful, socially-purposeful company, making long-term decisions for the benefit of all our stakeholders.

The development of our Board objectives during the year has strengthened our commitment to our Purpose of 'taking care of one of life's essentials', which comes to life through our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride. Our Values are integral to the way we behave and the way we do business, in order for us to promote the long-term success of the Company.

The Board spent time considering a number of important strategic topics during the year, and you can read more about the key activities of the Board on pages 100 to 101.

Corporate governance

The Group's long-term success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything outlined within this Annual Report. We do not see governance as something we do because we have to. We see it as something that is ingrained in the way we behave, how we make decisions, how we run our business and, ultimately, how we build trust. The Board is fully committed to open and transparent reporting and we welcome enhancements to the corporate governance landscape, including any future outcomes from the Department of Business, Energy and Industrial Strategy ('BEIS') consultation on 'Restoring trust in audit and corporate governance'. Two themes in particular remain central to our governance approach – living our Purpose and culture, and balancing the interests of our stakeholders.

Living our Purpose and culture

As outlined within my Chair's Statement on pages 11 to 13, the opportunity to meet employees throughout the year has highlighted the clear sense of Purpose we have at all levels of our organisation – from our frontline operational teams to the Boardroom. Our Purpose of 'taking care of one of life's essentials', forms the foundation of our relationships with stakeholders – including our customers, communities, suppliers, investors, regulators and our people. And this Purpose has remained consistent throughout the COVID-19 pandemic, enabling us to focus on the long term, whilst adapting to the new world around us, in order to deliver mutual benefits for our stakeholders. I was fortunate to be able to meet many of our people this year, and when listening to them, it is clear that they are wholly connected to our Purpose – evident in the dedication they have shown in delivering for our customers and the loyalty they have shown to Severn Trent in a challenging labour market.

The Board places great importance on ensuring that our culture is established throughout the Group, aligned across directorates and demonstrated within teams. Our participation in the Company Forum (our workforce engagement mechanism), our review of QUEST engagement results, our 'Ask Our Board' session and the range of site visits we undertook throughout the year are all crucial to understand our culture and how this flows through into the essential services we provide, the environment we protect and the communities we support. Pages 92 and 93 set out in more detail how our culture is interwoven in all we do.

In addition, the Board recognises the need to foster an inclusive culture and encourages all colleagues to bring their whole selves to work, fulfil their potential and perform at their best. The COVID-19 pandemic has shone a light on issues such as mental health, racial equality and the importance of maintaining work-life balance. The Board and Executive Team have applied focus to these topics during the year. This important work is focused on careers and career progression for colleagues from minority ethnic, LGBTQ+ and disabled groups and women working in Science, Technology, Engineering and Mathematics ('STEM') and Operational roles. We have also embraced the Government Kickstart Scheme, with ambitious plans to support 500 unemployed 16 to 24 year-olds into employment with paid work experience and skills development. The Board enjoyed an engaging and informative visit to the new Severn Trent Academy in April 2021 to observe the range of programmes available to develop and support our people and nurture leaders of the future, with a particular focus on careers and career progression, and creating a working environment where everyone can thrive. You can read more on pages 85 to 88.

Stakeholders and sustainability

The Board values the insight gained from stakeholder engagement and places significant importance on maintaining close relationships with stakeholders, taking account of and responding to their views. *I am delighted that, following the easing of restrictions, I have been* able to meet a range of stakeholders over the past year, including shareholders at our AGM, employees during site visits and investors at our Capital Markets Day and Governance Roadshow. I also met with our key regulators, including Ofwat, DWI, CCW, Defra and the EA during the year, and many of our regulators also attended our Board meetings. We continue to listen to these stakeholders and their insights help shape our strategy and the decisions we take as a Board. It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on competing priorities. Our stakeholder engagement processes enable Board members to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the highest standards of business conduct and success of Severn Trent in the long term. Our approach to Section 172 ('S172') of the Companies Act 2006 is set out on pages 82 to 84 and provides examples of decisions taken by the Board and how stakeholder views and inputs as well as other S172 considerations have been taken into account in its decision making.

During the year, I have also enjoyed meeting customers and *individuals from our local communities who undoubtedly share our* views on prominent sustainability topics such as the environment, river quality, Levelling Up and affordability.

The Board is responsible for overseeing the delivery of the Group's Sustainability Framework and, as such, sustainability is a key theme of Board and Committee discussions. The role and responsibilities of the Board and each of its Committees in relation to sustainability is set out within our dedicated Sustainability Governance Framework on page 34.

Our bold *sustainability ambitions are deeply rooted and owned* across the whole of the Company and placed right at the heart of our governance. We strive for excellence in these areas and we welcome collaboration with our employees, suppliers, customers and external partners to learn from each other and achieve our ambitions in an efficient and effective way. Our partnership with the Birmingham 2022 Commonwealth Games is one example, as is the work we are continuing to undertake in relation to river quality. At our 2021 AGM, over 99% of shareholder votes cast were in favour of our long-term approach to climate change, demonstrating the emphasis placed on climate change within our overall governance agenda. The Board is focused on the leading role the Company must play in addressing the impact of climate change and the contribution we can make as a business to mitigate our own impact and that of our supply chain and adapt to the challenges that climate change may bring in the future. Further detail on our climate change action plan can be found within our dedicated Sustainability Report, which will be published in mid-June.

The Board

My ongoing focus is to maintain a strong, value-adding Board, with a diverse range of professional backgrounds, skills and perspectives. Angela Strank retired from the Board on 31 March 2022, having served on the Board for over eight years. On behalf of the Board, I would like to thank Angela for her service to Severn Trent and her valuable contribution to the Board's work, and also in her capacity as the Chair of our Corporate Sustainability Committee.

We continued to make good progress with succession planning and the evolution of the Board and its Committees this year, and were delighted that Gillian Sheldon and Tom Delay joined the Board in November 2021 and January 2022 respectively. Their extensive induction programmes are underway and further detail can be found on pages 108 to 109. Diversity remains a key consideration in our succession planning and whilst our female representation on the Board dropped following Angela Strank's retirement from the Board in March 2022, we still exceed our Board Diversity Policy target of 40% female Board Directors. Further detail on Board changes made during the year and Board diversity can be found in our Nominations Committee Report on page 113.

The Nominations Committee also considers succession planning for the Executive Committee and other key roles within the senior leadership team, as well as initiatives underway to develop talent internally. The Group has robust succession plans in place, with credible succession plans in place for all key roles.

Our annual Board Effectiveness evaluation concluded that the Board continues to operate effectively. You can read more about the process and outcomes of this year's evaluation on pages 106 to 107.

Looking forward

Throughout its discussions this year, the Board has spent a significant amount of time considering the important role the Company must play to thrive in the post-pandemic economic recovery. As a Board, *our overarching objective is to ensure that Severn Trent remains* a successful, socially purposeful company, making decisions for the benefit of all our stakeholders and promoting the long-term success of the Company. I would like to thank all of our stakeholders again this year – our customers, communities, shareholders, my fellow Board members and, of course, our inspiring colleagues, who continue to show unfaltering commitment to fulfil our Purpose of 'taking care of one of life's essentials' for our customers and the communities we serve.

Christine Hodgson
Chair
24 May 2022

CULTURE

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

Living Our Values
Our people are fundamental to taking care of one of life's essentials and we believe our culture is what makes us special. We strive to work together as one community – a community which supports each other to succeed, recognises and rewards each other's contribution and listens and talks to each other.

Playing a Leading Role
We are committed to taking a leading role to protect our planet and act as a leader in combating climate change in our industry. We are pioneering innovation on net zero, playing our part in the UK's Levelling Up agenda and operating within a strong governance framework.

Customers and Communities at the Heart
Our customers and communities are at the heart of everything we do and our colleagues' passion and commitment shine through in everything they do. We create and foster an environment where everyone can feel comfortable bringing their whole selves to work.

Our people are fundamental to our success and critical to us being a company you can trust. Our people have told 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 truly awesome place to work. This is borne out by our excellent engagement score of 8.2 out of 10, putting us in the top 10% 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 – 24 hours a day, 365 days a year – as they work determinedly to deliver our essential service. This is evident in the dedication they show in delivering for our customers and communities. Our people are also supported by the systems and processes we have in place that enable us to deliver consistently outstanding 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.

Our unique footprint connects the interests of our stakeholders – with many shareholders also being our customers, employees and pensioners – and this is evident in our bold ambitions to support the Government's Levelling Up agenda through our Green Recovery, affordability and employability initiatives. The role we can play in the UK's post-pandemic recovery presents an exciting opportunity to accelerate the pace on these really fundamental topics. We are not at all complacent in this endeavour, and many lessons will be learned and shared with others along the way, but through being bold and taking action on the fundamental issues our customers and communities care about, we will play our part in society and, in doing so, support the creation of long-term value for the mutual benefit of our shareholders, employees, customers and communities we serve. You can read more in the Our People section on pages 85 to 88.

The Board understands the importance of collectively 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 our unique culture is aligned to the Purpose, Values and strategy that it has established, and as such, one of the Board's key focus areas is to monitor and assess the culture across the Group.

How we engage with colleagues to monitor and assess culture

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 strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity. The Board places great importance on employee engagement and regularly reviews its approach to engaging with the workforce, taking into account the provisions of the 2018 UK Corporate Governance Code (the '2018 Code').

Ask Our Board

As part of its response to COVID-19, the Board enhanced the already significant dialogue it has with the workforce through the introduction of a virtual employee engagement event, 'Ask Our Board', where employees are invited to pose questions to the Board in a live Q&A environment, without management present or scripted briefings, in order that the Board can listen to the views of the workforce first-hand. As a result of the positive feedback from our employees, the 'Ask Our Board' event has become part of the Board's ongoing engagement activity to ensure a direct dialogue with the workforce across the Group. The most recent event in May 2022 saw over 140 colleagues dial in, and feedback from the Board and employees was very positive. Questions included performance highlights over the year, our partnership with the Commonwealth Games, innovation, river quality and affordability initiatives.

QUEST

During the year, the Board has focused on deepening its understanding of the Group's culture even further, through a dedicated Employee Voice session in November 2021. The session was centred on the results of our employee survey, QUEST, and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus. The annual QUEST survey was held in November 2021, and an interim survey was held again this year (ahead of the November survey taking place). The Board takes seriously the results and comments that arise from these surveys and it is a main focus of the Board to make sure that management implements any required interventions in a timely manner. The Board was delighted that our strong employee engagement score was maintained again this year, with an average score of 8.2 (out of 10). Further detail on this year's QUEST survey can be found on page 77.

Company Forum

The Board's selected workforce engagement mechanism, our Company Forum, met in person and virtually during the year. The Company Forum provides an opportunity for employee and Trade Union employee representatives to meet with Board members on a regular basis. It ensures that views from a diverse cross section of the workforce – in terms of seniority, gender, ethnicity, tenure of employment and job types – are considered in Board discussion and decision making, and each meeting generates wide-ranging exchanges of opinion and insights.

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.

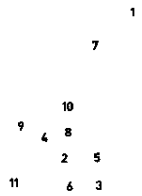
Diversity and inclusion working groups

The Board recognises the importance of ensuring that the Severn Trent culture positively celebrates diversity and inclusion, truly embracing individuals' contributions, no matter what their age, gender, race, ethnicity, disability, sexual orientation, social background, religion or belief. The Board was delighted that Severn Trent was recognised as the top FTSE100 utility company for both representation of women on the Board and combined Executive Committee and direct reports in the FTSE Women Leaders Review 2022. Read more on page 86.

Board members are looking forward to attending meetings of the four active employee advisory groups – LQBTQ+, Ethnicity, Disability and Women in STEM and Ops roles – over the next twelve months to hear directly about the progress made against the action plans across the business.

Site visits

In addition to the regular programme of Board meetings held at operational sites, a number of site visits were undertaken by Board members this year. Such visits enable the Board to understand the culture of the Group and assist with measuring progress against the Group's People Strategy, which focuses on employee health and wellbeing, diversity and inclusion, and talent development. Site visits also allow the Board to observe the Group's operations in action and reinforce their knowledge. Locations of sites visited by Board during the year are set out on the map.



1. ST Searches, Nottingham
2. Meriden Reservoir
3. Eathorpe
4. Shustoke
5. Draycote
6. Lake Vyrnwy
7. Derby
8. Finham
9. Minworth
10. Hartshill, Nuneaton
11. Spernal, Redditch

GOVERNANCE AT A GLANCE

Highlights

8.2 (out of 10)

Employee engagement score for 2021/22

Top 10% for utilities globally

1st

The Tortoise Responsibility100 Index

Ranked 1st in the FTSE100 for our commitment to key social, environmental and ethical objectives (October 2021)

11

Visits to operational sites

Undertaken by Board members throughout the year

Read more on page 77

See the map of the site visits on page 93

Major Board Decisions

- *River Quality Action Plan – and incorporation of River Pledges* into the Group's all-employee bonus scheme.
- Affordability Strategy and Societal Strategy.
- Strategic Resource Options for submission to Ofwat.
- Green Recovery financing.

→ **Read more on pages 100 – 101**

Governance improvements

- Development of our Governance Strategy.
- Updated and approved the Board Committee Terms of Reference and Charter of Expectations to explicitly require consideration of stakeholders and wider societal expectations.

Board changes

- The Board spent a significant amount of time considering succession planning during the year, in relation to both Board and Committee membership.
- Gillian Sheldon joined the Board as an Independent Non-Executive Director on 1 November 2021.
- Tom Delay joined the Board as an Independent Non-Executive Director on 1 January 2022.

Read more on pages 108 – 109

Board CPD Sessions and Deep Dive Topics 2021/22

April 2021

Board and Committee meetings

B A N R

- Making a Positive Difference in the Community
- Diversity and Inclusion

Link to stakeholders

May 2021

Board and Committee meetings

B A C N R T

- Strategic Resource Options
- Green Recovery

Link to stakeholders

March 2022

Board and Committee meetings

B A N R T

- Net Zero Transition Plan
- Affordability
- Board Succession
- Risk

Link to stakeholders

February 2022

Board and Committee meetings

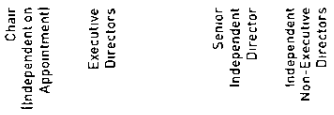
C

- Governance Strategy
- Diversity and Inclusion
- River Quality Pledges

Link to stakeholders

BOARD COMPOSITION DASHBOARD

Board independence as at 24 May 2022



July 2021

Board and Committee meetings

B A N R

- River Quality, including FFT, CSOs and Treatment Works Compliance
- Customer Experience

Link to stakeholders

September 2021

Board and Committee meetings

B A C N T

- Design
- Water Sector Developments
- Task Force on Climate-related Financial Disclosures
- Water Quality

Link to stakeholders

October 2021

Board Strategy Day

- Affordability
- The Business of Nature

Link to stakeholders

January 2022

Board and Committee meetings

B R T

- Innovation
- Waste Water Cycle
- Societal Strategy

Link to stakeholders

December 2021

Board and Committee meetings

A C

- Circular Economy

Link to stakeholders

November 2021

Board and Committee meetings

B A R T

- Cyber Security
- Employee Voice

Link to stakeholders

Board and Committee meetings key

B Board

A Audit and Risk Committee

C Corporate Sustainability Committee

N Nominations Committee

R Remuneration Committee

T Treasury Committee

Stakeholders key

Customers

Communities

Shareholders and Investors

Employees

Suppliers and Contractors

Regulators and Government

Sustainability and ESG

BOARD OF DIRECTORS

We have a strong, value-adding 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. Succession planning during the year has complemented the existing composition of the Board, with an emphasis on sustainability and strategic corporate finance experience to ensure that we continue to build upon the excellent progress we have made in delivering for all of our stakeholders.

Christine Hodgson, CBE
BSc (Hons), FCA
Chair

(N) (C) (R)

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

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

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

In January 2020, Christine was appointed Commander of the Order of the British Empire ('CBE') in the Queen's New Year Honours for services to education.

External appointments:
- Senior Independent Director of Standard Chartered Plc
- Chair of The Careers and Enterprise Company Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Adviser to Spencer Stuart Management Consultants NV

Liv Garfield, CBE
BA (Hons)
Chief Executive

(D) (E)

Appointed:
Chief Executive on 11 April 2014

Skills, competences and experience:
Liv brings to the Board a wealth of experience of customer service delivery, 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 of Commercial and Brands, Global Services and UK Customer Services Director. From 1998 to 2002, Liv worked for Accenture as a consultant in the Communications and High Tech Market Unit, designing and implementing business change solutions across a number of industry sectors.

In October 2020, Liv was appointed Commander of the Order of the British Empire ('CBE') in the Queen's Birthday Honours for services to the water industry

External appointments:
- Non-Executive Director of Water UK
- Chair of the Council for Sustainable Business for Defra
- Member of the Takeover Panel, and its Hearings Committee and Nomination Committee
- Director of Water Plus Limited – joint venture with United Utilities
- Member of The 30% Club
- Member of the UK Investment Council
- Chair of the West Midlands Regional Business Council

James Bowling
BA (Hons) Econ, ACA
Chief Financial Officer

(D) (E)

Appointed:
Chief Financial Officer on 1 April 2015.

Skills, competences and experience:
James is a chartered accountant, who started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the Board. Prior to joining Severn Trent, James was interim Chief Financial Officer of Shire Plc, where he had been since 2005.

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

External appointments:
- Director of Water Plus Limited – joint venture with United Utilities

Kevin Beeston
FCMA
Senior Independent Non-Executive Director

(A) (N) (R) (T)

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

Skills, competences and experience:
Kevin has significant commercial, financial and high-level management experience. Kevin spent 25 years at Serco plc until 2010, where he held the roles of Finance Director, Chief Executive and finally Chairman. Kevin subsequently served as Chairman of Taylor Wimpey plc, Equiniti Group plc, Elysium Healthcare Limited, Domestic & General Limited and Partnerships in Care Limited, and he was also a Non-Executive Director of IMI Plc, Marston Corporate Limited and The Premier League.

Kevin has recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants, was previously Finance Director at Serco Plc and has served as both Chair and a member of a number of audit committees.

External appointments:
- Chair of Turnstone Equityco 1 Limited (Trading as Integrated Dental Holdings)

John Coghlan
BCom, ACA
Independent Non-Executive Director

(A) (T) (N)

Appointed:
Independent Non-Executive Director on 23 May 2014

Skills, competences and experience:
John has a wealth of experience in financial and general management. He spent 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.

External appointments:
- Non-Executive Director of O.C.S Group Limited
- Non-Executive Director, Vice Chair and Senior Independent Director of Clarion Housing Group

Director serving for part of the year

Dominique Reiniche MBA
Independent Non-Executive Directorship ceased on 8 July 2021.

Dominique stepped down from the Board on 8 July 2021, having served as a Director since 20 July 2016

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

Director	Position	Board	Audit and Risk Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Christine Hodgson	Chair	7/7	–	4/4	5/5	6/6	–
Liv Garfield	Chief Executive	7/7	–	–	–	–	–
James Bowling	Chief Financial Officer	7/7	–	–	–	–	–
Kevin Beeston	Senior Independent Non-Executive Director	7/7	7/7	–	5/5	6/6	5/5
John Coghlan	Independent Non-Executive Director	7/7	7/7	–	5/5	–	5/5
Tom Delay	Independent Non-Executive Director	2/2	–	1/1	1/1	–	–
Sharmila Nebhrajani[1]	Independent Non-Executive Director	6/7	5/7	3/4	5/5	2/3	–
Philip Remnant	Independent Non-Executive Director	7/7	7/7	–	5/5	6/6	5/5
Gillian Sheldon	Independent Non-Executive Director	3/3	1/1	–	1/1	–	2/2
Angela Strank[2]	Independent Non-Executive Director	7/7	–	4/4	5/5	5/6	–

1 Sharmila Nebhrajani was unable to attend the November and December 2021 Board and Committee meetings due to illness and extended hospitalisation.

2 Angela Strank was unable to attend a Remuneration Committee meeting due to a long-standing personal commitment. Angela was provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

Tom Delay, CBE
BSc (Hons), MBA, CEng MIMechE
Independent
Non-Executive Director

(C) (N)

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 CO_2 Initiative at the University of Michigan. In 2018, he was awarded a CBE by the Queen for services to sustainability in business.

External appointments:
- Chief Executive of the Carbon Trust

Sharmila Nebhrajani, OBE
MA (Hons), ACA
Independent
Non-Executive Director

(A) (C) (N) (R)

Appointed:
Independent Non-Executive Director on 1 May 2020

Skills, competences and experience:
Sharmila brings extensive board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. She brings sectoral experience from a range of regulated sectors including medicine, bioethics, financial services and the media. She is Chairman of the National Institute of Health and Care Excellence ('NICE'), the organisation that assesses clinical and cost effectiveness of drugs, medical devices and interventions in health and social care.

Her previous executive roles include Chief Executive of the Association of Medical Research Charities and Chief Operating Officer at BBC Future Media & Technology, where she managed the business functions of bbc.co.uk, including the launch of iPlayer. Previous non-executive roles include Chair of the Human Tissue Authority, Deputy Chair of the Human Fertilisation and Embryology Authority and Non-Executive of the Pension Protection Fund.

Sharmila read Physiological Sciences (Medicine) at the University of Oxford. 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 National Savings & Investments (until June 2022)
- Non-Executive Director of Coutts & Co
- Trustee Director of Glyndebourne Productions Limited

Philip Remnant, CBE
FCA, MA
Independent
Non-Executive Director

(R) (A) (N) (T)

Appointed:
Independent Non-Executive Director on 31 March 2014

Skills, competences and experience:
Philip is a senior investment banker and brings substantial advisory and regulatory experience to the Board.
A chartered accountant, he now holds a number of non-executive roles. Previously, Philip was Vice Chairman of Credit Suisse First Boston Europe and Head of the UK Investment Banking Department. Philip was Director General of the Takeover Panel for two years between 2001 and 2003, and again in 2010, before his appointment as Deputy Chairman in 2012 until 2022. He served on the Board of Northern Rock Plc from 2008 to 2010, and from 2007 to 2012 was Chairman of the Shareholder Executive.

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

External appointments:
- Senior Independent Director of Prudential Plc
- Trustee of City of London Endowment Trust
- Director of The Salters' Management Company Limited

Gillian Sheldon
BSc (Hons)
Independent
Non-Executive Director

(A) (N) (T)

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, and a Corporate Board member for the Royal Academy of Arts.

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 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 has recent and relevant financial experience gained through her roles in the banking and finance sectors.

External appointments:
- Member of the Salesforce European Advisory Board
- Senior Adviser at Credit Suisse – Investment Banking Division
- Corporate Board Member – Royal Academy of Arts

Angela Strank, DBE
FRS, FREng, CEng, FIChemE, DSc, PhD
Independent
Non-Executive Director

Appointed:
Independent Non-Executive Director on 24 January 2014.

Retired: 31 March 2022.

Skills, competences and experience:
Angela brought a wealth of strategic, technical and commercial experience to the Board. Until July 2020, Angela was BP's Chief Scientist and Head of Downstream Technology at BP Plc with responsibility for delivering the strategic business agenda through the development of differentiated technology advantage across the refining, fuels, lubricants and petrochemicals businesses, as well as shaping its transition to a lower-carbon future.

In 2010, Angela was the winner of the UK First Woman's Award in Science and Technology, recognising pioneering UK women in business and industry. In 2017, she won the prestigious Energy Institute's Cadman Award for outstanding contribution to the oil and gas industry.

In June 2017, Angela was recognised in the Queen's Birthday Honours List with the title Dame Commander of the Most Excellent Order of the British Empire ('DBE') for services to the Oil and Gas Industry and encouraging women into STEM careers. She is an honorary professor at the University of Manchester and she has been awarded honorary degrees from Bradford and Royal Holloway London Universities.

External appointments:
- Non-Executive Director of Rolls Royce Holdings Plc
- Non-Executive Director of SSE Plc
- Non-Executive Director of Mondi Plc

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 p96-97 **Board Activities p100-101** **Roles and Responsibilities p102**

INFORMING

REPORTING

The Board delegates certain matters to its principal Committees – which report to the Board at every meeting

Audit and Risk 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 p115-121

Corporate Sustainability Committee

Provides guidance and direction to the Company's Sustainability Strategy and reputational matters linked to policies, pledges and commitments made including River Quality, Anti-Slavery and Human Trafficking, the Severn Trent Community Fund and the Triple Carbon Pledge.

Report p124-127

Nominations Committee

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 p110-114

Remuneration Committee

Determines the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Chair of the Board. The Committee also reviews workforce policies and practices.

Report p128-148

Treasury Committee

Provides oversight of treasury activities in implementing the policies and the funding and treasury risk management plan approved by the Board. The Committee also reviews and approves the Group Treasury Policy Statements.

Report p122-123

INFORMING

REPORTING

The Chief Executive and the Severn Trent Executive Committee ('STEC')

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive, who is supported by STEC.

INFORMING

REPORTING

Disclosure Committee

An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

CORPORATE GOVERNANCE STATEMENT

Board leadership and company purpose

An effective Board

The Board's role is to be effective in securing the long-term success of Severn Trent by ensuring the delivery of our strategy and that its overarching objectives remain aligned with the Company's Purpose and Values. Maintaining the highest standards of governance is integral to this, together with ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our shareholders, customers, employees and the communities we serve.

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

The requirements of the Board are clearly documented in the Severn Trent Plc Articles of Association, Charter of Expectations and Schedule of Matters Reserved to the Board. The Board reviewed and approved the Schedule of Matters Reserved to the Board in March 2022. All of these documents are available on the Severn Trent Plc website.

As outlined on page 102, 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 requests for further information are welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly. The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness. You can read more about this year's internally facilitated Board Effectiveness evaluation on pages 106 to 107.

Strategy

Responsibility to all of our stakeholders for the approval and delivery of the Group's strategy and for creating and overseeing the framework to support its delivery sits with the Board. As well as standing strategic items at every Board meeting, the Board also holds a dedicated strategy meeting with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Group's strategy and overall commercial objectives rests with the Chief Executive who is supported by the Executive Committee.

The Directors present their report and the audited Group financial statements for the year ended 31 March 2022. 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 2022.

Stakeholder engagement

Stakeholder engagement is central to our strategy. Our dedicated Stakeholder Engagement and S172 statements on pages 72 to 81 and 82 to 84 respectively set out how the Board engages with and balances the interests of stakeholders. A detailed overview of the Board's engagement with the workforce is set out on page 93.

Annual General Meeting ('AGM')

Our 2021 AGM was held on 8 July 2021, at which 77.18% of our shareholders (by voting capital) voted through the Chair of the AGM as their proxy or by submitting their proxy forms either electronically or by post. We were delighted to receive in excess of 94% votes in favour for all of our resolutions, including over 99% approval for both our Remuneration Policy and our replacement Long Term Incentive Plan ('LTIP'). 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 or during the AGM.

This year's AGM is to be held on Thursday, 7 July 2022 at 11.00am. 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 our Annual Report as accessible as possible. Shareholders can opt to receive a hard copy in the post, a PDF copy via email or download a copy from our website. Please contact the Company Secretary to request a copy.

Corporate website

We continually monitor our website, severntrent.com, to ensure it is user-friendly for our stakeholders. The website has a dedicated investor section which includes an overview of Severn Trent Plc and our history, our Company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section containing information which may be of interest to our shareholders.

KEY ACTIVITIES OF THE BOARD IN 2021/22

Key activities of the Board

The key activities considered by the Board during the year are set out opposite.

The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Group's Purpose. The Group's key stakeholders and their differing perspectives are taken into account as part of the Board's discussions. You can read more in our S172 Statement on pages 82 to 84. Board meeting discussions are structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Company Secretary. A typical Board meeting will comprise the following elements:

Written Committee 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 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.

Financial

Group Budget

The Board considered performance versus the 2021/22 Group budget and approved a revision to the budget following Ofwat's allocation of £566 million (2017/18 prices) Green Recovery investment. The Board also agreed the 2022/23 Group budget.

Viability Statement

The Board agreed the Viability Statement period to be reported in the Annual Report and Accounts. *Read more on pages 68 to 71.*

Green Recovery Financing

The Board approved the financing of the Group's Green Recovery programme, which comprises six projects that will deliver long-term growth for the Company and support the Group's ESG ambitions. The Board also considered regular updates on progress against the key programme targets.

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

Enterprise Risk Management ('ERM')

The Audit and Risk Committee and Board conducted regular reviews of the Group's ERM Risk Register, covering core internal and external risks, risks driven by business change and Emerging Risks. During the year, the Board also took part in a psychometric survey developed to incorporate impressionistic data into the Group's existing quantitative and qualitative ERM data.

Review of Effectiveness of Risk Management and Internal Controls

The Audit and Risk Committee and Board assessed the effectiveness of the risk management and internal controls in place across the Group and determined that the Group's systems had operated effectively throughout the year. Read more on page 118.

TCFD Disclosures

The Board considered and approved the Group's Task Force on Climate-related Financial Disclosures ('TCFD'), in particular the approach to managing risk and climate-related risks.

Linked stakeholders

- Customers
- Communities
- Shareholders and Investors
- Employees
- Suppliers and Contractors
- Regulators and Government
- Sustainability and ESG

Linked strategic outcomes

- A company you can trust
- A positive difference
- Lowest possible bills
- A service for everyone
- An outstanding experience
- Good to drink
- Water always there
- Waste water safely taken away
- A thriving environment

Sustainability and Environmental

Our Sustainability Agenda and Our Societal Strategy

Alongside the regular sustainability updates discussed at Board meetings, including progress made in delivering the Group's sustainability agenda, the Board also considered and approved its Societal Strategy during the year.

Innovation Projects

The Board received updates on the evolution of the Group's innovation framework and discussed the potential funding streams available to further advance delivery of customer commitments through use of data and technology solutions whilst also identifying resource and energy recovery to support carbon offsetting.

River Quality

The Board participated in a number of river quality deep dive sessions, which provided an update on the Group's extensive environmental investment programme to date, a full picture of the Company's storm overflow assets and the related performance, and an overview of the data, processes and controls in place to ensure compliance with legal obligations. The Board also agreed a set of River Pledges, which were announced in March 2022, and the Board considers updates on progress at each meeting. Read more on pages 17 to 19.

Net Zero Transition Plan Update

The Board considered regular updates on progress made in delivering the Group's Net Zero Transition Plan commitments.

Workforce and Culture

Our Culture

The Board reviewed the results of the annual QUEST survey and identified areas for improvement and appropriate courses of action. The Board also discussed the gender pay gap, the development of women into senior roles and driving greater diversity and inclusion in terms of gender, ethnicity and social background.

Employee Voice and Engagement

The Board discussed the Company's approach to engaging our workforce and received an update on progress made on embedding our Purpose and Values.

Diversity and Inclusion

The Board discussed progress against the Group's Diversity and Inclusion ambition to have a workforce that reflects the communities we serve, and to maintain a fair working environment where everyone can succeed. The Board also reviewed the priorities for the year ahead.

Review of Workforce Policies and Practices

The Remuneration Committee and Board reviewed the assessment of the Group's workforce policies and practices, ensuring these are consistent with the Company's Values and are supportive of its long-term sustainable success.

Governance, Legal and Regulatory

Strategic Resource Options ('SROs')

The Board considered and approved four SROs and the assurance processes ahead of submission to Ofwat.

Governance Strategy

Alongside the regular sustainability updates discussed at Board meetings, including progress made in delivering the Group's sustainability agenda, the Board also discussed the development of its Governance Strategy during the year.

Board Succession Planning and Diversity

On the recommendation of the Nominations Committee, the Board oversaw the arrangements for Board succession planning and, in consideration of the Group's Diversity Policy, approved the appointments of Gillian Sheldon and Tom Delay as Independent Non-Executive Directors.

Board Effectiveness Evaluation

Reviewed progress against the action plan for 2021/22 and set the action plan for 2022/23. Read more on pages 106 to 107.

DIVISION OF RESPONSIBILITIES

As at the date of this report, our Board comprised the Chair, six Independent Non-Executive Directors and two Executive Directors. There is clear division between Executive and Non-Executive responsibilities which ensures accountability and oversight. The roles of Chair and Chief Executive are separately held and their responsibilities are well-defined, set out in writing and regularly reviewed by the Board. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet often outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce. The Executive Directors meet weekly 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 Company Secretary, to whom all Directors have access for advice and corporate governance services.

NON-EXECUTIVE DIRECTORS

Chair
Christine Hodgson

- Leads our unified Board and is responsible for its effectiveness.
- Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'.
- Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Company Secretary.
- Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process.
- Facilitates contribution from all Directors and ensures that effective relationships exist between them
- Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making.
- Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.

Senior Independent Non-Executive Director ('SID')
Kevin Beeston

In addition to his responsibilities as a Non-Executive Director, the SID also 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
John Coghlan, Tom Delay, Sharmila Nebhrajani, Philip Remnant, Gillian Sheldon

- Promote high standards of integrity and corporate governance, and uphold the cultural tone of the Company.
- Constructively challenge and assist in the development of strategy.
- Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board.
- Satisfy themselves that internal controls are robust and that the external audit is undertaken properly.
- Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company
- Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID.
- Serve on various Committees of the Board.

EXECUTIVE DIRECTORS

Chief Executive ('CEO')
Liv Garfield

- Represents Severn Trent externally to all stakeholders, including the Government, regulators, customers, suppliers and the communities we serve.
- Develops and implements the Group's strategy, as approved by the Board.
- Sets the cultural tone of the organisation
- Facilitates a strong link between the business and the Board to support effective communication.
- Responsible for overall delivery of commercial objectives of the Group.
- Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our Strategic Framework and Values. The CEO's Review can be found on pages 14 to 16.

Chief Financial Officer ('CFO')
James Bowling

- Manages the Group's financial affairs. The CFO's Review can be found on pages 52 to 58.
- 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.

COMPANY SECRETARY

Bronagh Kennedy

- Ensures sound information flows to the Board in order for the Board to function effectively and efficiently.
- Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments
- Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements.
- Ensures compliance with Board procedures and provides support to the Chair.
- Co-ordinates the effectiveness evaluation of the Board in conjunction with the Chair.
- Provides advice and services to the Board.

Board independence

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee, and as part of the Board Effectiveness evaluation. Particular focus is applied to the Directors who have served over six years on the Board. The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence. In accordance with the 2018 Code, all Directors will retire at this year's AGM and 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 the shareholder advisory groups' individual guidance on 'overboarding'. These requirements impose a limit on the number of directorships both Executive and Independent Non-Executive Directors are permitted to hold. Our Independent Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent in line with the requirements set out in our Charter of Expectations. Details of the Directors' external directorships can be found in their biographies on pages 96 to 97.

Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts; that the role will not breach their overboarding limit; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a Director. Directors are required to obtain formal approval from the Board ahead of undertaking any new external appointments.

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.

Executives serving for part of the year

Andy Smith
BTech (Hons)
Director of Customer Retail and Technology

(E)

Andy retired in December 2021.

Executive Committee

Liv Garfield, CBE
BA (Hons)
Chief Executive

(D)(E)

Please see full biography on page 96.

James Bowling
BA (Hons) Econ, ACA
Chief Financial Officer

(D)(E)

Please see full biography on page 96.

Shane Anderson
BA (Hons) Econ
Director of Strategy and Regulation

(D)(E)

Appointed Director of Strategy and Regulation in 2020.

James Jesic
BEng (Hons), PhD, MIChemE, CEng
Managing Director of Customer Operations

(E)

Appointed Managing Director of Customer Operations in 2020 after having held the position of Director of Production since 2017.

Bronagh Kennedy
BA (Hons)
Group General Counsel and Company Secretary

(D)(E)

Joined Severn Trent in 2011 as Group General Counsel and Company Secretary.

Helen Miles
CIMA
Capital and Commercial Services Director

(E)

Joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director.

Neil Morrison
BSc (Hons), FCIPD
Director of Human Resources

(E)

Joined Severn Trent in 2017 as Director of Human Resources

Jude Burditt
BA (Hons)
Director of Customer Retail and Technology

(E)

Joined Severn Trent in November 2021 as Director, Customer Retail and Technology. Jude brings a wealth of experience in operations, IT leadership and service optimisation from 25 years working in utilities sectors.

Bob Stear
MEng (Hons), PhD, MCIWEM, CWEM, FIWater
Chief Engineer

(E)

Appointed Chief Engineer in 2018.

COMPOSITION, SUCCESSION AND EVALUATION

Board composition

As at the date of this report, our Board comprised the Chair (who was independent on appointment), six Independent Non-Executive Directors and two Executive Directors. The details of their career backgrounds, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies on pages 96 to 97. Further detail on the role of the Chair and members of the Board can be found on page 102.

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term, subject to annual re-election by shareholders following consideration of the annual Board Effectiveness evaluation outputs. This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. Directors serving over six years on the Board are subject to a particularly rigorous review. The current Letters of Appointment are available on the Severn Trent Plc website. The composition and effectiveness of the Board is subject to regular review by the Nominations Committee which, in particular, considers the balance of skills, tenure, experience and independence of the Board, in accordance with the Board Diversity Policy, which is available on the Severn Trent Plc website. Any new appointments to the Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Nominations Committee (although decisions on appointments are a matter reserved for the Board).

The Board and the Nominations Committee have spent a significant amount of time considering Board succession during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity.

Further information on the work of the Nominations Committee can be found on pages 110 to 114.

Our internal processes

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date. Our Board Effectiveness process includes training discussions with the Company Secretary

CODE COMPLIANCE

OVERVIEW

During the year ended 31 March 2022, we have fully applied the principles of good governance and have been compliant with the *provisions contained in 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.

This table shows where shareholders can evaluate how the Company has applied the principles of the 2018 Code and where key content can be found in this report.

The full wording of the 2018 Code is available on the Financial Conduct Authority's website.

BOARD LEADERSHIP AND COMPANY PURPOSE

The role of the Board is set out on page 99.

The Chair's Introduction to Governance is on pages 90 to 91.

How the Board engages with stakeholders is on page 72 to 84.

The Board's Section 172 Statement is on pages 82 to 84.

An overview of our Purpose and Values, including how these were established, is set out on page 90.

How the Board oversees the Company's strategy is set out on page 99.

A list *of our Group policies and practices is on* page 89.

How we assess risk and our Viability Statement is set out on pages 61 to 71.

Our strategy, including performance against our ODIs and KPIs, is on pages 20 to 27.

DIVISION OF RESPONSIBILITIES

The Board Committees in place at Severn Trent, along with their members' attendance, are provided in each Committee Report.

The division of responsibilities between the Chair and CEO are clearly defined (page 102) and we fully support the separation of the two roles.

COMPOSITION, SUCCESSION AND EVALUATION

The composition of the Board, along with their biographies and tenure, is on page 96 to 97.

The outputs of the internal Board evaluation is on pages 106 to 107.

The Nominations Committee Report is on pages 110 to 114 and provides information on its work this year, including Board succession planning.

AUDIT, RISK AND INTERNAL CONTROLS

Our approach to risk and our assessment *of our Principal Risks are outlined on* pages 61 to 66.

The Audit and Risk Committee reviews our risk and control environment and its Report is on pages 115 to 121.

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 128 to 148.

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

During the year, the Board took part in a number of CPD and deep dive sessions, details of which can be found on pages 94 to 95.

Directors' resources

Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, tailored training and CPD content, a Results Centre and Investor Relations section, and briefings on Board training session topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Directors' skills and experiences

An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Group.

The Board skills matrix below details some of the key skills and experience that our Board has identified as particularly valuable to the effective oversight of the Company and execution of our strategy. The Board skills matrix is reviewed at least annually.

Board skills matrix

Strategic outcomes

A company **you can trust**

A positive **difference**

Lowest possible bills

A service **for everyone**

An outstanding **experience**

Good to **drink**

Water **always there**

Waste water **safely taken away**

A thriving **environment**

Skills – mapped to strategic outcomes

	Strategy	M&A	Corporate finance/ Treasury	Accounting	Regulation	Technology/ Innovation/Cyber	Customer	Brands	Engineering	Utility sector	Science	Sustainability, including climate change	People management	Commercial procurement	Construction/ Infrastructure delivery	Large capital programmes	Political affairs
Kevin Beeston	✓	✓	✓	✓	✓		✓	✓		✓							
James Bowling	✓	✓	✓	✓	✓					✓							
John Coghlan	✓	✓	✓	✓	✓	✓				✓							
Tom Delay	✓				✓		✓	✓	✓								
Liv Garfield	✓	✓			✓	✓	✓			✓							
Christine Hodgson	✓	✓	✓	✓	✓	✓	✓	✓		✓							
Sharmila Nebhrajani	✓		✓	✓	✓	✓				✓							
Philip Remnant	✓	✓	✓	✓	✓												
Gillian Sheldon	✓	✓	✓	✓	✓	✓	✓	✓									

Board evaluation

Our annual Board evaluation provides the Board, and its Committees, with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance.

This year, the review was facilitated internally by the Company Secretary, who is well placed as an independent sounding board to the process. Meetings took place during January, February and March 2022, and key themes were shared with the Board and Nominations Committee along with a 2022 action plan.

An externally facilitated evaluation was conducted by Independent Board Evaluation ('IBE') in 2020/21 and the next externally facilitated evaluation will be scheduled in accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years.

2020/21 EXTERNAL EVALUATION
The evaluation concluded that excellent progress had been made in respect of areas for further focus identified in the 2020/21 externally facilitated review, as detailed below.

RECOMMENDATION	**PROGRESS**
Board composition and succession planning	
Focus should be applied to future changes to Board membership, including the loss of experience and knowledge of the business, in the context of Non-Executive Director tenure.	One of the key activities for the Board and Nominations Committee during the year was the Committee's plans for the evolution of the Board. An independent search firm was appointed to help with this over the next two to three years and two candidates were identified as preferred candidates for new Non-Executive Director appointments. It was recommended that Gillian Sheldon and Tom Delay were invited to join the Board, with effect from 1 November 2021 and 1 January 2022 respectively, and become members of the Group's Board Committees with effect from 1 January 2022 as follows: **Gillian Sheldon** - Audit and Risk Committee; - Nominations Committee; and - Treasury Committee. **Tom Delay** - Corporate Sustainability Committee; and - Nominations Committee. Following the Ofwat interview process, both appointments were announced on 1 November 2021. To bolster succession planning for the Remuneration Committee, Sharmila Nebhrajani was appointed to serve on the Remuneration Committee with effect from 16 September 2021.
Induction programmes were considered to be excellent and should continue to be tailored to individual Board members, with consideration given to establishing a Board 'buddy' scheme.	A Board 'buddy' scheme has been introduced for new Board appointments to complement the Group's extensive induction approach. The Board buddy arrangements for the most recent appointments were as follows: - Gillian Sheldon – Kevin Beeston - Tom Delay – John Coghlan Both Gillian and Tom have reported that the scheme has formed a valuable part of their inductions.
Board agenda and focus	
Consideration should be given to agreeing a set of Board objectives and actions for prioritisation each year to inform the Board agenda.	A set of Board objectives and actions were developed by the Board and agreed in April 2021, and the Board has received progress updates on a six monthly basis. At its meetings in March and April 2022, the Board reviewed and agreed its Board objectives for 2022/23.
Alongside the excellent written reports provided to the Board by each of its Committees, consideration should be given to tabling a report from the Company Forum, the Company's selected workforce engagement mechanism.	Written reports from Company Forum meetings are now tabled at all subsequent Board meetings and the Board members who attended provide oral feedback to add further context and colour to the discussions that took place at the meetings.
Governance enhancements	
Align membership of the Treasury Committee and Corporate Sustainability Committee to that of other Board Committees, comprising Non-Executive Directors only.	In line with the recommendations of the Board Effectiveness evaluation, the Board refreshed the membership of the Treasury and Corporate Sustainability Committees in 2020/21, so that the membership of both Committees comprises Non-Executive Directors only.
Notwithstanding the excellent informal interaction between the Board and its Committees throughout the COVID-19 pandemic, consider holding additional private sessions (without management present) for the Board and its Committees during the year.	Private sessions are now held at all Board and Committee meetings at the discretion of the relevant Chair.

2021/22 INTERNAL EVALUATION

An outline of the process followed for this year's review and the minor areas for further development of the Board's effectiveness are detailed below.

Step One
2021/22 Process Planning

The Company Secretary undertook a detailed review of the Board Effectiveness evaluation process in 2020/21 and used this to develop the approach for 2021/22, incorporating recommendations from the 2018 Code, Parker Review and FRC Guidance on Board Effectiveness.

Step Two
One-to-One Meetings

Board members participated in comprehensive one-to-one meetings with the Company Secretary, with additional input from the Chair and Senior Independent Director. Separate discussions were held to consider the effectiveness of the CEO, led by the Chair. The Chair's performance evaluation was led by the Senior Independent Director. Discussions to consider the effectiveness of Board Committees were led by the respective Committee Chairs.

Step Three
Evaluation and Reporting

The Company Secretary compiled the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation, was provided to the Chair for consideration. The Company Secretary and Chair met to discuss the findings, with the resulting report being tabled to the Nominations Committee and Board in April 2022.

Step Four
Agree Actions and Monitor Progress

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.

RECOMMENDATION	PROGRESS
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 are 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	A standing item has been added to the Board agenda to allow 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 have been scheduled for the upcoming year, covering the full range of the Group's operations.
'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 optional 'teach in' sessions has been 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 will be considered during its next review of its Terms of Reference, which will be undertaken no later than March 2023.
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 will continue to consider the composition of all Committees, including that of the Remuneration Committee.

Evaluation findings

The key theme highlighted in the 2021/22 evaluation was positive Board discussion dynamics. It was noted that all Directors fostered a culture of open, constructive debate, undertaken by a respectful and cohesive, and appropriately challenging Board.

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

Effectiveness of Board Committees

The Board places significant reliance on its Committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective linkages are in place between the Committees and the Board as a whole, not least as it is impracticable for all Independent Non-Executive Directors to be members of all of the Committees. Mechanisms are in place to facilitate these linkages, including ensuring that there are no gaps or unnecessary duplications between the remit of each Committee and overlapping membership between Board Committees where necessary. The Board also receives a written summary of each of the Committee's meetings and oral updates at the Board, where appropriate. Overall, Board members are fully satisfied that the governance and controls in place are working well and give the Board the visibility it needs to carry out its oversight duties. Further details on each Committee, including its oversight and focus during the year, can be found in the Committee reports starting on page 110.

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 Christine Hodgson.

External appointments

As part of the evaluation, full consideration was given to the number of external positions held by the Non-Executive Directors. Directors' other appointments were reviewed, including the time commitment required for each. The Nominations Committee did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as a Director of Severn Trent Plc. Approvals were sought during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Plc before consent was granted. The full list of external appointments held by our Directors can be found in their biographies on pages 96 to 97. All of our Non-Executive Directors are considered to be independent.

Induction

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. One-to-one meetings are also arranged with the CEO, CFO and the Company Secretary, along with other members of the Executive Committee. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses and have a chance to experience our unique culture in person. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat as part of the appointment process. We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation, for example, the recent introduction of the Board buddy scheme.

Gillian Sheldon and Tom Delay's inductions

The Board welcomed both Gillian Sheldon and Tom Delay during the year, and their extensive induction programmes covered a range of areas across the business, including governance, stakeholder engagement and the environment. The sessions were a mix of virtual and physical meetings, and both Gillian and Tom visited a number of our operational sites.

The main focus for both Gillian and Tom's inductions was on matters pertinent to their roles on the Board Committees. For Gillian, this included receiving an overview of the current risks faced by the Group, the regulatory finance model, and our risk management framework and internal control processes in relation to her role on the Audit and Risk Committee, and an overview of the Group's AMP7 funding strategy in relation to her role on the Treasury Committee. For Tom, firstly as a member and then as Chair of the Corporate Sustainability Committee, this included a series of deep dives of the Group's Sustainability Strategy and net-zero commitments. A summary of both Gillian and Tom's key induction visits and events is set out on page 109.

My induction into Severn Trent was professionally organised and incredibly insightful. It was great to hear first-hand from a wide range of colleagues about the Group's operations and how many areas are interlinked. This is particularly important from a risk management perspective and understanding how this informs the Board's decisions around risk appetite.

Gillian Sheldon
Member of:
Audit and Risk Committee
Nominations Committee
Treasury Committee

I have been very impressed with my induction – it was really slick and comprehensive, and everyone I have met has made me feel so welcome. I already knew that Severn Trent was a truly sustainable company, but to see a range of the projects in action has been invaluable.

Tom Delay
Chair of:
Corporate Sustainability Committee
Member of:
Nominations Committee

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 Purpose, the environment we operate in and our core business activities.

Individual one-to-ones

Individual meetings with Non-Executive Directors and Executive Committee members.

Overview

- Water company background
- Political landscape
- Economic regulation
- Regulation by Ofwat and the setting of revenue allowance and price controls
- Governance Framework
- Compliance and assurance processes
- Risk management
- Network control
- Water and waste water treatment
- River quality
- Bioresources

Committee specific sessions

Gillian and Tom took part in dedicated sessions that covered topics which directly relate to their Committee memberships.

Gillian

Audit and Risk Committee
- ERM process and outputs
- Regulatory finance model
- Internal control processes

Treasury Committee
- AMP7 funding strategy

Tom

Corporate Sustainability Committee
- Sustainability framework
- Net-zero commitment

Complemented by

SPECIFIC DEEP DIVE SESSIONS

Deep dive sessions enable Directors to explore in detail the areas of focus for the Group over the short to medium term.

Sustainability

Overview of our sustainability framework and how each sustainability pillar is embedded into the Group's culture.

Business Services

Outline of the non-regulated businesses in the Group and the different stakeholder groups that are linked to this activity.

Customer Retail and Technology

Summary of our wide-ranging customer base and how we can best deliver for them, including our Affordability Strategy and using technology to make it easier for customers to get in touch with us.

HR

Overview of our People Strategy, diversity and inclusion ambitions and support of employability schemes such as the Kickstart and #10000BlackInterns programmes.

Chief Engineer

Reinforcement of our robust health, safety, security and wellbeing agenda, alongside asset strategy planning and innovation projects

Dams and Reservoirs

Outline of the management approach taken to ensure that the Group complies with all statutory requirements in relation to our asset base.

A site visit to a reservoir has been arranged so that the Directors can see first-hand the processes and procedures in place.

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.

Spernal Sewage Works

Demonstration of the sewerage network and the stages of the waste water treatment process, alongside a presentation at our Resource Recovery and Innovation Centre, where we seek to address future challenges and achieve our ambitions, particularly in relation to carbon reduction initiatives and proactive pollution avoidance.

Finham Treatment Works

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.

NOMINATIONS COMMITTEE REPORT

Christine Hodgson
Chair

Committee members	Membership dates	Meetings attended
Christine Hodgson (Chair from April 2020)	January 2020	**5/5**
Kevin Beeston	June 2016	**5/5**
John Coghlan	May 2014	**5/5**
Tom Delay	January 2022	**1/1**
Sharmila Nebhrajani	May 2020	**5/5**
Dominique Reiniche[1]	*June 2016 to* July 2021	**2/3**
Philip Remnant	March 2014	**5/5**
Gillian Sheldon	January 2022	**1/1**
Angela Strank	January 2014 to March 2022	**5/5**

1 Dominique Reiniche was unable to attend a Nominations Committee meeting due to a long-standing personal commitment. Dominique was provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

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 Chief Financial Officer, 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

Group Board Diversity Policy

Committee Terms of Reference

Charter of Expectations

Dear Shareholder

This report details the role of the Nominations Committee and the important work it has undertaken during the year, including the matters considered and steps taken by the Committee in the year ended 31 March 2022. The role of the Nominations Committee remains vitally important in ensuring that the Group has a strong, value-adding and effective Board in place, with a broad range of professional backgrounds and with a diverse range of skills and perspectives. The Committee also ensures there is a high-quality, stable Executive Team in place, focused on the long term and on adapting to the new world around us in order to make a positive difference for all of our stakeholders. We have made excellent progress in this regard, including work on our Board evolution to ensure our preparedness for the future.

During 2021/22, the Nominations Committee considered plans for succession to Board roles and an independent search firm, which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, was appointed to help with the evolution of the Independent Non-Executive membership of the Board over the next two to three years. The Nominations Committee also considered succession planning for the Executive Committee and other key roles within the senior leadership team, as well as initiatives underway to develop talent below that level throughout the organisation. As a result, the Group's succession readiness has improved during the year and the Committee considers that all key roles have credible succession plans in place.

We welcomed to the Board two new Independent Non-Executive Directors during the year: Gillian Sheldon on 1 November 2021; and Tom Delay on 1 January 2022. Their extensive induction programmes are underway and are being overseen by the Committee. Further detail can be found on page 109.

Further to the announcement in November 2021, Angela Strank retired from the Board with effect from 31 March 2022, having served on the Board for over eight years. On behalf of the Committee, I would like to thank Angela for her service to Severn Trent and her valuable contribution, commitment and leadership, particularly in her capacity as Chair of the Corporate Sustainability Committee. The Company's sustainability agenda has advanced significantly under her leadership and we are proud of what the Company has achieved during her tenure.

During the year the Committee also considered the Group Board Diversity Policy (the 'Policy') and reviewed progress made against the agreed objectives set out in the Policy. We discussed the importance of the Policy aligning with the diversity of our region, specifically in respect of gender, social and ethnic backgrounds, skills and experience. You can read more on pages 113 to 114.

The Committee assists the Board in its consideration of conflicts of interest and independence issues. No conflicts of interest or independence issues were identified as a result of this activity. The Board is mindful that the 2018 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.

Given their length of service, this has been undertaken in relation to the independence and commitment of John Coghlan and Philip Remnant in line with the requirements of the 2018 Code. The Board is satisfied that both Directors continue to act with utmost independence and considers that their continued appointments are in the long-term best interest of shareholders. This was also considered as part of our internally facilitated Board Effectiveness evaluation conducted this year and you can read more on pages 106 to 107.

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
24 May 2022

Key areas of focus in 2021/22

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.

Composition, Succession and Evaluation

- Considered the composition of the Board and Committees and the succession of Non-Executive Directors and the skills, knowledge, experience, diversity and attributes required of future Non-Executive Directors. In considering Board succession, the Committee takes into account the length of tenure of the Non-Executive Directors and the importance of the progressive refreshing of Board membership.
- Conducted a review of the search firm providers for the next stage of the Board's succession planning and engaged the executive search firm Hedley May[1] to review the market.
- Oversaw the conduct of the Board Effectiveness evaluation and discussed the feedback, observations and recommendations from the review of the Board and Committees, including the 2022 action plan for approval by the Board.

Diversity

- Ensured continued application of the Group Board Diversity Policy and initiatives, and reviewed progress made against the agreed objectives set out in the Group Board Diversity Policy.
- Discussed the role of the Group Board Diversity Policy in advancing the composition and effectiveness of the Board and Executive Committee.
- Provided oversight of the detailed Executive Committee and senior leadership team succession plans, including diversity.

This year we published our Diversity and Inclusion Strategy, 'Wonderfully You'.

→ **Read more online at severntrent.com**

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.

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.

Director conflicts and independence

In April 2022, the Committee conducted its annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. Additionally, the Board and its Committees consider conflicts of interest at the beginning of every meeting, and the Board reviews the authorisation of any potential conflicts of interest every six months.

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

The Nominations Committee and Board consider that there are no business or other circumstances that are likely to affect the independence of any Non-Executive Director and that all Non-Executive Directors continue to demonstrate independence.

In accordance with the 2018 Code, all the Directors will retire at this year's AGM and submit themselves for appointment, in the case of Gillian Sheldon and Tom Delay, or reappointment by shareholders. Each of the Non-Executive Directors seeking appointment or reappointment are considered to be independent in judgment and character.

The independence of our Non-Executive Directors is formally reviewed annually by the Nominations Committee and as part of the Board Effectiveness evaluation exercise. Our process for assessing independence is set out below.

BOARD INDEPENDENCE ASSESSMENT IN ACTION

One of the key activities during the year was the Committee's role in reviewing the composition of the Board and its Committees and assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable them to operate effectively. This process included a robust assessment of the independence of the individual Directors, with a particular focus on those Directors serving on the Board for more than six years. A summary of our assessment process is set out below.

1

Review of the composition and diversity of the Board and how effectively members work together to achieve objectives in consideration of the outputs of the Board Effectiveness evaluation.

2

Review of the knowledge, skills, diversity and experience of individual Directors, Board Committees and the Board as a whole. The Committee assessed and updated the Board skills matrix as part of this activity.

3

Review of individual Director independence every six months through the established Conflicts of Interest and Persons Closely Associated declaration process, developed in line with the independence criteria outlined in the 2018 Code and Charter of Expectations.

4

At its meeting in April 2022, the Committee considered the outputs of the review and concluded that there were no concerns as regards the composition of the Board, the contribution or commitment of any Directors, and it was considered that all Directors were considered to be independent in judgment and character.

Talent development

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

As outlined in last year's Annual Report, we opened the Severn Trent Academy in February 2021, which is an exciting part of our long-term succession planning and skills development capability. It will enable employees to develop with us, fulfil their potential and perform at their best. You can read more on page 88.

Our senior leadership population is a source of future Executive Committee talent, with some of our most recent Executive Committee appointments, James Jesic, Bob Stear and Shane Anderson, progressing through this route. We have strong internal succession plans and balance these with bringing in new talent through our graduate, apprenticeship and intern programmes. We currently have a total of 181 graduates or apprentices in training, with 77 of these places offered in 2021/22. Our graduate and apprentice opportunities span a whole range of careers including within the Engineering, Leakage Technician, Technology, Legal, Finance and Visitor Experience teams.

The Committee was delighted with the way in which the Company embraced the Government Kickstart Scheme with ambitious plans to support 500 unemployed 16 to 24 year-olds with paid work experience and skills development placements for six months. 'Kickstarters' will also receive a comprehensive employability skills programme via the Severn Trent Academy to support their future career aspirations. The Committee was fortunate to meet some of our 'Kickstarters' in April 2021, during a visit to the Severn Trent Academy.

I am delighted that, in total, we have had 340 'Kickstarters' join us, with 40% of those having secured jobs or gone back into education.

Diversity

As highlighted earlier in the report, the Board and Committee continue to drive the agenda of diversity across the Group and are proud of the progress made. The February 2022 report from the FTSE Women Leaders Review, which builds on the excellent work of both the Hampton-Alexander and Davies reviews over the last ten years, named Severn Trent as one of the country's top performers in this area, driven by our range of programmes in place to increase diversity in our talent pipelines. This year we also launched a new inclusion programme to better enable careers and career progression for colleagues from minority ethnic, LGBTQ+ and disabled groups, and women in STEM and Operational roles.

A breakdown by gender of the number of persons who were Directors of the Company, senior managers, as defined in the 2018 Code and Companies Act 2006, and other employees as at 31 March 2022 is set out below, alongside details of the minority ethnic population of these same groups.

EMPLOYEE DIVERSITY AS AT 31 MARCH 2022

BOARD DIVERSITY AS AT 31 MARCH 2022

Parker Review – ethnic diversity

The Board remains focused on promoting broader diversity and creating an inclusive culture in line with the recommendations of the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Committee is focused on ensuring that the diversity of our employee base reflects the diversity of our region – including the gender, social and ethnic background, skills and experience amongst our customers and the communities that we serve.

The Board Diversity Policy was reviewed by the Committee in May 2022, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background, and cognitive and personal strengths throughout the organisation, including on the Board itself. The objectives and targets of the Policy, and an update against each of them, are set out overleaf. A copy of the Policy is available on the Severn Trent Plc website.

BOARD DIVERSITY POLICY – OBJECTIVES

When recruiting for new Board members, the Committee ensures that the recruitment processes are in line with our Policy to include diverse candidates from a wide variety of backgrounds and those with non-listed company experience for the Committee to consider.

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition by the Nominations Committee with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considered the composition of the Board and the contribution, commitment and independence of individual Directors.	At its April 2022 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 and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith reviews.
Ensure consideration is given to diverse candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience. Ensure Board appointment 'longlists' include candidates with a diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board and Nominations Committee recognise the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself. On instruction of an executive search firm, the specification will ensure that candidates with no listed company Board experience are fully considered.	Board appointments were made during the year as follows: – 1 November 2021: Independent Non-Executive Director – Gillian Sheldon; and – 1 January 2022: Independent Non-Executive Director – Tom Delay. 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, the executive search firm engaged for these appointments, presented a diverse potential candidate list, including candidates with no listed company Board 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 2022 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.

BOARD DIVERSITY POLICY – TARGETS

In May 2022, the Nominations Committee conducted its annual review of the Policy and associated targets. The review recommended changes to the Group's Policy and proposed new diversity targets, which the Board approved at its meeting on 20 May 2022.

Policy targets for 2021/22	Progress against targets	Policy targets for 2022/23
Maintain at least 40% female Directors on the Board over the short to medium term.	50% female representation on our Board as at 31 March 2022.	Maintain at least 40% female Directors on the Board over the short to medium term. Maintain at least one female in the Chair and Senior Independent Director roles on the Board and/or maintain at least one female in the Chief Executive and Chief Financial Officer roles in the Company.
Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.	10% minority ethnic representation on our Board as at 31 March 2022.	Maintain at least 10% Directors from a minority ethnic background on the Board over the short to medium term.

AUDIT AND RISK COMMITTEE REPORT

John Coghlan
Chair

Committee members	Membership dates	Meetings attended
John Coghlan (Chair)	May 2014	**7/7**
Kevin Beeston	September 2016	**7/7**
Sharmila Nebhrajani[1]	May 2020	**5/7**
Philip Remnant	March 2014	**7/7**
Gillian Sheldon	January 2022	**1/1**

1 Sharmila Nebhrajani was unable to attend the November and December 2021 Committee meetings due to illness and extended hospitalisation.

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 General Counsel and Company Secretary, the Head of Internal Audit, the Group Financial Controller, other members of senior management, representatives from the External Auditor, Deloitte, and non-financial regulatory performance and data assurers, Jacobs. None of these attendees are members of the Committee.

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

Documents available at severntrent.com

Non-Audit Services Policy	Anti-Bribery and Anti-Fraud Policy
Charter of Expectations	Committee Terms of Reference

Dear Shareholder

This report aims to provide shareholders with a clear understanding of the work we have done as a Committee to provide challenge and assurance on the integrity of the 2021/22 Annual Report and Accounts and the Group's regulatory reporting requirements. The Committee assists the Board by establishing, reviewing and monitoring the formal and transparent policies and procedures to ensure the independence and effectiveness of the Internal and External Audit functions, the integrity of financial and narrative reporting, the Company's internal control framework and the adequacy of the process that enables the Board to assess the extent of Principal Risks the Company is willing to take to achieve its long-term strategic objectives. The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, including shareholders, as set out in S172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision-making processes. Additional information on how the Board, and Audit and Risk Committee, have considered stakeholders in their decision making can be found on pages 72 to 81.

Much of the Committee's work relates to the regulated activities of Severn Trent Water, which represent over 90% of Group turnover. A dedicated Audit and Risk Committee for Hafren Dyfrdwy was constituted during the year and you can read more about the activity of this Committee in the Hafren Dyfrdwy Annual Report and Accounts. 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 of course 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 External Auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. Deloitte's audit report can be found on pages 154 to 161. We were pleased to advise the Board that the 2021/22 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 117.

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 68 to 71). It was agreed that this was appropriate, given the nature of the regulatory regime in the water sector and Ofwat's statutory duty to ensure that companies can finance the proper carrying out of their functions.

The Committee has spent a considerable amount of time reviewing the Group's ERM processes and procedures, with good progress made in enhancing their effectiveness during the year. The Committee also reviewed the Group's Risk Appetite Statement and recommended this for consideration and approval by the Board. You can read more about this important work on pages 61 to 66.

You will see that this report contains an overview of the Company's whistleblowing arrangements. The Board carefully considered the 2018 Code and in 2018/19 implemented many of the new principles earlier than required, as disclosed in our 2018/19 Annual Report. As part of this process, the Board agreed that the responsibility for oversight of whistleblowing arrangements should continue to be delegated to the Audit 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 internally facilitated Board Effectiveness evaluation this year included an assessment of our performance as a Committee. I am pleased that this concluded that we operate effectively and that the Board takes assurance from the quality of our work. The Board is satisfied that the Committee members bring a wide range and depth of recent and relevant financial and commercial experience across various industries and all members have competence relevant to our sector. You can read more in their biographies on pages 96 to 97.

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
24 May 2022

Key areas of focus in 2021/22

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

- 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 2022/23.
- Reviewed the quality and effectiveness of Internal Audit and the effectiveness of the current co-source arrangements.

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. The Committee also reviewed the Group's Risk Appetite Statement prior to making a recommendation to the Board.
- Monitored fraud reporting and incidents of whistleblowing, including a review of the adequacy of the Group's whistleblowing processes and procedures, prior to reporting to the Board on this activity.
- Oversight and monitoring of the Group's compliance with the Bribery Act 2010, including a review of the adequacy of the anti-bribery, corruption and fraud processes and procedures (and associated policies).

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 2021/22 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'.

External Audit

- Oversaw the 2021/22 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 2021/22 audit.
- Assessed the effectiveness of the External Auditor and made a recommendation to the Board on the reappointment of Deloitte as the External Auditor.
- Agreed the statutory audit fee for the year ended 31 March 2022.
- Reviewed and approved the non-audit services, and related fees, provided by the External Auditor for 2021/22.

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.

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 Committee reviewed the Annual Report and Accounts throughout the process and undertook a detailed FBU assessment ahead of tabling a detailed report to the Audit and Risk Committee. This process was conducted in a timely manner to enable sufficient time for the Audit and Risk Committee to comment and review on the report and ensure overall balance and consistency.

2

Regular Audit and Risk Committee Review

The Committee reviewed the Annual Report and Accounts at an early stage, and throughout the process, to enable sufficient time for comment and review and ensure overall balance and consistency.

3

Internal Audit Verification and Oversight

Internal Audit reviewed the Annual Report and Accounts and oversaw a verification process for all factual content and reported back to the Committee on its assessment and findings.

4

FBU Assessment

The Committee reviewed and approved the process in place to support the FBU assessment and reviewed the findings of this process. The 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 presented the results of its audit work. The significant issues we considered as a Committee were consistent with those identified by the External Auditor in its report (see pages 154 to 161 for more detail).

6

Recommendation to Board

The Board approved the Committee's recommendation that the FBU statement could be made, which can be found in the Directors' Responsibility Statement on page 153 of this Annual Report.

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 three main co-sourcing partners: PwC, EY and KPMG. 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

To ensure continued efficiency, 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. As planned, we commissioned an external review of the effectiveness of the Internal Audit function 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.

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

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.

The Audit and Risk Committee keenly awaits the outcome of the Department of Business, Energy and Industrial Strategy ('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. In preparation for 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 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.

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. Throughout the year, improvement activities were identified to complement the Audit and Risk Committee with an updated Strategic Risk Forum as a value-adding function, assisting 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 61 to 66.

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 61 to 66.

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.

External Auditor

The Committee has primary responsibility for overseeing the vital 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 2025, 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 and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Appropriateness of the scope of the audit and the planning process for the delivery of an effective and efficient audit.
- Quality of the delivery of the audit, the service provided by the External Auditor and its knowledge and understanding of the Group's business.
- Expertise of the audit team conducting the audit.
- Degree of independence applied by the External Auditor and that policies and procedures were consistently applied.
- Views on the quality of the interaction between the audit partner and senior members of the audit team and the Company.
- Whether the statutory audit contributed to the integrity of the Group's financial reporting.

Feedback was collated and presented to the Committee in March 2022, 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. No significant issues were reported as part of this process, 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 2021/22 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 overleaf.

Audit and non-audit fees (£m)

Total fees
£0.9m
2019/20

Total fees
£1.1m
2020/21

Total fees
£1.2m
2021/22

- Statutory audit – the Company
- Statutory audit – subsidiaries
- Regulatory non-audit services provided by the statutory auditor
- Other non-audit services

Significant non-audit work 2021/22

NATURE OF SERVICE	REASON FOR DELOITTE'S APPOINTMENT	FEES (£'000)
Interim review	This work is akin to an audit and is expected to be performed by the External Auditor.	83
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.	82
Subtotal		**165**
Reporting under Group financing documents	These documents require reports and it is normal practice for the External Auditor to provide these.	97
Other assurance		4
Subtotal		**101**
Total 2021/22 non-audit fees		**266**

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 £900,000 in fees for work relating to the audit services it provides to the Group. Non-audit-related work undertaken by Deloitte amounted to fees of £266,000 this year, which is 23% of the total audit fees paid to it (as shown in the chart on the previous page). 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 181. 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 on the previous page.

Statutory auditor reappointment for the year ending 31 March 2023

The Committee has recommended to the Board that Deloitte be proposed for reappointment for the year ending 31 March 2023 at the forthcoming AGM on 7 July 2022. 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.

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.	The Committee reviewed and challenged the evidence and assumptions underpinning the use of the going concern assumption in preparing the accounts and in making the statements in the Strategic Report on going concern and long-term viability. In particular, the Committee considered 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. Our Business Model can be found on pages 6 to 7. Principal Risks and uncertainties can be found on pages 61 to 66. The Viability Statement can be found on pages 68 to 71 and the Going Concern Statement on page 71.
Determination of the provision for impairment of trade receivables in Severn Trent Water Limited. At 31 March 2022, the provision in the Group's financial statements was £135.0 million and the charge for the year was £24.6 million. Severn Trent Water Limited has a statutory obligation to continue to supply water and waste water services to customers even when their bills are unpaid. This increases the risk of bad debts. In addition, it has a large and diverse customer base which requires impairments against trade receivables to be assessed on a systematic basis	The Committee challenged management's assumptions regarding the impact of the cost of living pressures on Severn Trent Water's customers on the expected credit losses for trade receivables existing at 31 March 2022, noting the independent forecasts of the likely economic impacts and the historical evidence of a link between macroeconomic conditions and the Group's bad debt experience. The Committee considered the work performed by the External Auditor and the conclusions they reached regarding the adequacy of the provision. The Committee determined that no adjustment to the amounts recorded was required.

SIGNIFICANT ISSUE	HOW THE ISSUE WAS ADDRESSED BY THE COMMITTEE
The proposed classification of costs between operating expenditure and capital expenditure in Severn Trent Water Limited. Severn Trent Water Limited has a significant capital programme that includes projects made up of combinations of expenditure and activities, some of which are recognised as property, plant and equipment and some of which are recognised as operating costs. For most of the expenditure this distinction is clear but there is an element where subjective judgments are required to determine the appropriate accounting treatment.	The Committee considered the application of the Group's accounting policies in relation to capital expenditure during the year. The Committee enquired of management whether the policies had been applied consistently from year to year while noting the expected lower amounts capitalised in the first year of a new AMP in the prior year. The Committee considered the results of the External Auditor's work and discussed the conclusions with the External Auditor. The Committee determined that no adjustment to the amounts recorded was required.
Determination of the amount of the Group's retirement benefit obligations. At 31 March 2022, net retirement benefit obligations amounting to £128.0 million were recognised. The net obligation recognised on the balance sheet is the difference between the fair value of the schemes' assets at the balance sheet date and the present value of the benefits expected to be paid to members of the schemes. This requires assumptions to be made for the expected age of retirement and longevity of members, future inflation rates and increases to benefits. It is also necessary to determine an appropriate discount rate to calculate the present value of the estimated gross obligations. Management takes advice from external qualified actuaries who perform the calculation of the present value of the benefits based on the assumptions set by management.	The Committee scrutinised the assumptions underlying the valuation of the obligations and obtained explanations for the significant 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. The Committee considered that the assumptions and methodologies were reasonable, and that no adjustment was required to the draft Group financial statements. The Committee further considered the accounting treatment for the bulk annuity buy-in for the Severn Trent Mirror Image 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. The Committee determined that no adjustment to the amounts recorded was required.
FRC review of the Company's Annual Report and Accounts for the year ended 31 March 2021. The FRC carried out a review of the Company's Annual Report and Accounts for the year ended 31 March 2021 in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures. The review was based solely on the Annual Report and Accounts and did not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who had an understanding of the relevant legal and accounting framework. The review and the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC accepts no liability for any reliance on their review by the Company or any third party including, but not limited to, investors and shareholders.	The Committee noted that the FRC did not raise any questions or queries as a result of its review. The Committee further noted that the FRC made a number of suggestions for changes to disclosures. The Committee considered the changes to disclosures made by management in the 2021/22 Annual Report and Accounts and concluded that the suggestions raised by the FRC had been addressed.

TREASURY COMMITTEE REPORT

John Coghlan
Chair

Committee members	Membership dates	Meetings attended
John Coghlan (Chair)	May 2015	**5/5**
Kevin Beeston	March 2021	**5/5**
Philip Remnant	May 2015	**5/5**
Gillian Sheldon	January 2022	**2/2**

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 Treasury advisers, Rothschild & Co. None of these attendees are members of the Committee.

Documents available at severntrent.com

Sustainable Finance Framework	Sustainable Finance Report
Charter of Expectations	Committee Terms of Reference

Dear Shareholder

I am pleased to introduce this report which details the role of the Treasury Committee and the key activities it has undertaken during the year.

The Committee continues to play a key role in supporting the Board in monitoring performance against the Group's approved Treasury Policy and Annual Treasury Plan, reviewing in detail the Group's funding requirements and providing oversight of the Group's key financing risks and opportunities.

The Committee, and its individual members, act in a way that we consider is most likely to promote the success of the Company for the benefit of its members as a whole, as set out in S172 of the Companies Act 2006. This ensures that the interests of our shareholders, and broader stakeholders, are properly considered and reflected in our decision-making processes. The Committee's Terms of Reference, available on our website, reflect our continued commitment to this and you can read more about our approach to S172 on pages 82 to 84.

The focus the Committee gives to the Group's financing strategy is instrumental in ensuring that the Group remains in a strong financing position throughout the AMP7 regulatory period and beyond. The ongoing impacts of COVID-19 and geopolitical events in Ukraine are closely monitored and the Committee carefully considers the potential effect on the Group's financing and ability to maintain liquidity in line with the Group's Policy. During 2021/22, the Group refinanced £1.1 billion of bank facilities and issued £500 million of new debt, ensuring it remained in a strong liquidity position and in compliance with its Liquidity Policy. At the balance sheet date, the Group had sufficient liquidity to meet its forecast cash flow requirements to early 2024.

Future funding is an important part of our normal business planning process and the Committee provides regular updates to the Board in respect of funding, solvency and liquidity matters so that the Group can respond quickly to any changes in our ability to secure financing.

During the year, one such instance which required the Committee's timely consideration was the funding strategy and financing structures to deliver the Group's Green Recovery schemes. The Board and Treasury Committee were delighted that Ofwat awarded the Company £566 million (2017/18 prices) across six Green Recovery projects, which together will strengthen the Group's capabilities and network and will lead to RCV growth, on which the Company will earn future economic returns. You can read more about progress against our Green Recovery projects on pages 29 to 31.

Following deliberation by the Committee, the Board accepted the Committee's recommendation to proceed with an Equity Placing, Retail Offer and Subscription to assist with financing the Green Recovery projects, as this was deemed to be in the best interests of shareholders and the Company's wider stakeholders. On 19 May 2021, the successful pricing on the non-pre-emptive Placing of new ordinary shares in the capital of the Company was announced, with the Equity Placing, Retail Offer and Subscription raising gross proceeds of approximately £250 million.

The Group is focused on ensuring that it develops and maintains a diverse range of funding sources and access to a range of global debt markets. We have a flexible strategy that blends large benchmark issues with small opportunistic trades to make use of relative pricing in these markets. Sustainable finance is a core element of the Group's funding strategy. During the year the Group agreed £1.1 billion of new sustainable bank facilities, where the margin payable is linked to the performance against sustainable KPIs. In February 2022, Severn Trent Water issued a £400 million sustainable bond, the second bond issued

under the Sustainable Finance Framework. Despite challenging market conditions, the bond achieved a strong order book, allowing efficient pricing inside the iBoxx-linked regulatory allowance. The proceeds from the bond issue are used to finance green and social projects undertaken by Severn Trent Water and, in June 2021, we published our first Sustainable Bond Allocation Report, which outlined how the proceeds from our first sustainable bond were allocated. 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.

Severn Trent Water issued a further £100 million under the European Medium Term Note Programme, providing cost-effective liquidity, whilst diversifying the Company's sources of funding. This comprised a £50 million CPIH debt issue, which provides a hedge against the Company's index-linked revenues and RCV, and a £50 million fixed-rate debt issue. Both debt issues achieved pricing inside the iBoxx.

The Committee completed a full review of the Group's Liquidity Policy during the year, comparing policies across our sector, considering evidence of historical market disruptions and the Company's going concern requirements. It was recommended that the Group moved to a 15-month policy, to provide flexibility to manage peaks and the opportunity to reduce the cost of liquidity whilst continuing to meet the Company's going concern requirements. Following this detailed review, the Committee approved the amendment of our Liquidity Policy to move from an 18-month policy to a 15-month policy and made an associated recommendation to the Board in this regard.

The Treasury Committee also oversaw the Group's plans for LIBOR transition during the year in order to ensure that all affected instruments had been transitioned to alternative benchmark rates ahead of the cessation of LIBOR at the end of 2021. I am delighted to report that all of the Group's debt instruments and swaps were successfully transitioned from LIBOR to SONIA.

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.

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.

John Coghlan
Chair of the Treasury Committee
24 May 2022

Key areas of focus in 2021/22

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 ongoing impacts of COVID-19 and geopolitical events in Ukraine, including financing structures for the Group's Green Recovery submission.
- Consideration of the Group's Liquidity Risk Management Policy and recommendation to the Board to move to a 15-month policy.
- Review of the Group's treasury policies in relation to: financing; liquidity; hedging of market risks (interest rates; inflation; currency and energy hedging); 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 February 2022.
- Monitoring of the Group's Sustainable Finance Framework and the governance in place around the Framework.
- Regular review of the Group's Funding Strategy, including interest rate strategy to support the Group in consistently outperforming the cost of debt allowance, with 27% index-linked debt.

This year we updated our Sustainable Finance Framework, which we will publish in summer 2022.

Read more online at severntrent.com

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.

CORPORATE SUSTAINABILITY COMMITTEE REPORT

Tom Delay
Chair

Committee members	Membership dates	Meetings attended
Tom Delay (Chair from 1 April 2022)	January 2022	**1/1**
Angela Strank (Chair from September 2016 to March 2022)	January 2014 to March 2022	**4/4**
Christine Hodgson	January 2020	**4/4**
Sharmila Nebhrajani[1]	May 2020	**3/4**
Dominique Reiniche	September 2016 to July 2021	**1/1**

1 Sharmila Nebhrajani was unable to attend the December 2021 Committee meeting due to illness and extended hospitalisation.

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	Sustainability Report
Charter of Expectations	Committee Terms of Reference

Dear Shareholder

I am delighted to introduce my first report as Chair of the Corporate Sustainability Committee and would like to convey my thanks to Angela Strank for her leadership of the Committee during her tenure and the time she has invested in ensuring an effective handover. The report details the work undertaken by the Committee during the year, as well as the role it plays in developing the Group's Purpose and Sustainability Framework (see page 34). The following pages describe the activities of the Committee and provide an overview of the topics discussed during the year.

The sustainability agenda has never felt more crucial, as the effects of the COVID-19 pandemic have led governments, institutions, corporations and individuals to reassess their priorities. The importance of protecting and enhancing our environment and contributing to the communities we serve has been reinforced, making the way in which we deliver our services more relevant than ever. I am thrilled to join Severn Trent at such an exciting time in its sustainability journey. Even from my relatively short time on the Board, it is clear that sustainability is truly embedded throughout the Company and I, along with my fellow Board members, wholly support Severn Trent's long-standing commitment to delivering for its customers, and broader stakeholders, in a sustainable way.

The Corporate Sustainability Committee has a key role in supporting the Board within the Governance Framework, by providing guidance and direction on the Company's sustainability ambitions. Sitting alongside myself on the Committee are Christine Hodgson and Sharmila Nebhrajani, 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 knowledgeable and passionate debate around a wide range of existing and emerging sustainability topics, and the Committee's discussion on such subjects is 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.

During the year, the UN climate conference, COP26, took place in Glasgow. In the months leading up to COP26, countries across the globe felt the impacts of a changing climate from floods, wildfires, storms and heatwaves. It is a distressing reminder of how climate-related events can have a catastrophic effect on people and the environment, and emphasised the importance of nations collaborating to deliver further cuts to keep temperature rise to within 1.5°C.

Mitigating and adapting to climate change is a core priority for Severn Trent. At our AGM on 8 July 2021, we asked our shareholders to vote on our Climate Change Action Plan, which sets out the Company's climate strategy to reduce emissions within its operations and through its value chain. Our long-term approach was approved, with over 99% of the votes cast in favour, indicating that the Company's commitments in this area are very much supported by our shareholders.

We have made a number of key commitments, which lie at the heart of our climate change plans, and the Committee has considered our approach to carbon emissions abatement across the following areas:

- **Climate targets** – We announced our Triple Carbon Pledge in line with the rest of the water industry, committing to net zero operational carbon emissions by 2030, achieving that in part through using 100% renewable energy and an all-electric vehicle fleet by 2030, where available. We have reduced greenhouse gas ('GHG') emissions from our operations, leading to a total reduction of 31% from the level in 2019/20. Since then, we have set accredited Science-Based Targets to reduce carbon emissions by 46% by 2031, consistent with a 1.5°C pathway.

- **Climate-related reporting** – This year we have again made disclosures in line with the requirements of the TCFD, which you can read more about on pages 35 to 45.

More broadly, the Committee has spent a significant proportion of its time focusing on Severn Trent's role as an environmental leader and this work continues in earnest, as can be seen through the projects and initiatives outlined within our dedicated Sustainability Report, which will be published in mid-June. For example, in March 2020 we announced £1.2 billion of investment in sustainability initiatives, including our Great Big Nature Boost to plant 1.3 million trees, revive 12,000 acres of land and restore over 2,000 km of rivers. More detail can be found on pages 29 to 31.

This year has also seen detailed planning for our partnership with the Birmingham 2022 Commonwealth Games, and we are delighted to be the games' Official Nature and Carbon Neutral Partner, helping to make the event the most sustainable Commonwealth Games in history by delivering a series of nature-enhancing initiatives that help offset carbon generated by the games. Like us, the Commonwealth Games has an ambition to leave a lasting legacy for future generations and shares our passion to make a positive impact on the communities and the environment where we live and operate. You can read more about this exciting partnership on page 22.

Following my appointment to the Committee, I can see that the Group's Sustainability Framework is well embedded as part of our culture in Severn Trent and it is evident that the entire workforce is passionate about delivering our ambitions. Colleagues immerse themselves in sustainability activity, from taking part in the personal salary sacrifice scheme to lease an electric car, to helping to plant the 74 Tiny Forests as part of the Commonwealth Games carbon offset initiatives. Engaging with the community does not stop there, with employees regularly taking time to volunteer individually or in their teams. During 2021/22, across the Group, the workforce spent 1,360 employer-donated volunteering days litter picking, community gardening and caring for nature reserves, amongst many other worthy causes.

We continue to hold our regular Supplier Summit, which provides a forum to engage with over 50 of our suppliers on how we can work collaboratively, learn from each other and influence our supply chain to achieve our shared sustainability ambitions. Key achievements this year include the roll out of Science-Based Target setting to our suppliers (70% of our suppliers to have set their own Science-Based Targets by 2025/26) and to deliver 15% net biodiversity gain on capital projects that require an ecological appraisal.

The Committee is delighted that our sustainability ambitions are deeply rooted and owned across the whole of the Company and placed right at the heart of our governance. In April 2022, we achieved first place in the Tortoise Responsibility100 Index and an 'A' rating from the Carbon Disclosure Project ('CDP'). The Committee has a clear view of the focus areas for continuing our sustainability journey, and both the Committee and the Board are confident that we have the right agenda in place.

Details on key matters that the Committee has considered during the year in relation to each of our sustainability ambitions are set out overleaf. More information on the Sustainability Framework can be found on page 34 and within our separate Sustainability Report, which will be available on our website in mid-June.

The Committee is extremely proud of the Company's many achievements over the last year, described within the Strategic Report, and the work we have undertaken to positively impact communities within our region.

I should like to thank the members of the Corporate Sustainability Committee for the open, constructive, ambitious and progressive discussions that take place at our meetings, and for their passion and personal commitment to our wide-ranging and purposeful agenda.

Tom Delay
Chair of the Corporate Sustainability Committee
24 May 2022

Key areas of focus in 2021/22

Key areas of discussion for the Committee during 2021/22 are set out overleaf, alongside our sustainability ambitions and some of our main sustainability achievements over the last year.

The Committee provides Board oversight for the promotion of our Values and standards that relate to the social and economic community in which the Company operates, in accordance with the Company's Sustainability Framework, ensuring the Company can demonstrate that it lives through these Values and acts responsibly in its engagement with all stakeholders. The Committee also oversees the approach of environmental standards, particularly those where Severn Trent has the most significant impacts, for example, energy management and climate change, water quality, resource productivity (including leakage and waste), and biodiversity and land use.

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.

This year we updated and published our third Climate Change Adaptation Report.

Read more online at severntrent.com

This year we published our Environment Strategy Report, 'Caring for our Environment'.

Read more online at severntrent.com

Focus areas in 2021/22

Being socially purposeful in taking care of one of life's essentials: Our Sustainability Framework

TAKING CARE OF THE **ENVIRONMENT**

Committee activities during 2021/22

Oversaw environmental initiatives including mitigating climate change through our Triple Carbon Pledge, Green Fleet and Science-Based Targets.

Agreed the approach to the Scope 3 Science-Based Target relating to supplier engagement and monitored its progress.

Reviewed the Climate Change Adaptation Report, demonstrating how our current and future investment plans deliver climate adaptation whilst continuing to deliver a great service to customers.

Considered the approach taken to embed circular economy principles across the Group through using less material, sourcing material responsibly, and recovering resources and energy from sewage.

Sustainability achievements during 2021/22

Published our 'Caring for the Environment' plan, which explains our approach to the environment, ambitions and commitments.

Launched 'Get River Positive' whereby we agreed our River Pledges – see pages 17 to 19 for more details.

Delivered over 4,600 hectares of biodiversity improvements.

Planted more than 151,000 trees.

Added more electric vehicles to our fleet, with 17% of company cars and 1% of company vans now electric.

Partnership with the Birmingham 2022 Commonwealth Games as official Nature and Carbon Neutral Partner.

Submitted our Scope 1, 2 and 3 Science-Based Targets to the Science-Based Targets initiative.

HELPING PEOPLE TO **THRIVE**

Committee activities during 2021/22

Engaged with Business in the Community, which provided external insight into emerging social inequality trends and challenges, including those observed following the COVID-19 pandemic.

Considered the Severn Trent Community Fund's progress since its launch in early 2020, including the charity initiatives put in place as a response to the COVID-19 pandemic.

Discussed our diversity and inclusion ambition and priorities for the next part of our journey.

Sustainability achievements during 2021/22

Published our 'Wonderfully You' plan, which explains our approach to diversity and inclusion.

Awarded c.£2 million to 73 projects through the Community Fund during the year.

48% of our customers in need of financial support are part of one of our affordability schemes.

17,000 learners and over 2,500 events hosted at our Academy since opening in February 2021.

BEING A COMPANY YOU CAN **TRUST**

Committee activities during 2021/22

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 61 to 66.

Approved the approach to sustainability reporting to ensure that the sustainability ambitions we have embedded in our wider organisation strategy are shared with stakeholders.

Reviewed the Anti-Slavery and Human Trafficking Statement.

Sustainability achievements during 2021/22

Launched our internal carbon tax with proceeds funding our Net Zero Transition Plan.

98% of supplier payments paid within 60 days, with an average time to pay of 28 days.

Over 1,100 of our current contracted suppliers have signed up to our Sustainable Supply Chain Charter since 2016.

35 suppliers signed up to EcoVadis, our online Sustainability Assessment Platform.

Raised £400 million through our Sustainable Finance Framework with a GBP bond issue completed in February 2022. The proceeds of the bond issue have been used to finance green and social projects completed by Severn Trent Water Limited.

Published our second standalone Sustainability Report.

Sustainability intrinsic to our culture

Sustainability is not a new or separate direction for us, but something that has always been at the heart of our business. Acting in a responsible manner is integral to our Purpose of 'taking care of one of life's essentials' and our socially purposeful culture is palpable at all levels throughout the Company. We developed our Sustainability Framework to draw together our environmental, social and governance ambitions, which form an integral part of our Business Plan that is deeply embedded within the organisation, with ODIs linked to the majority of our sustainability metrics, ensuring that the Company focuses on issues of importance to our customers.

Our people and their collective culture are key to our success, and it is reflected, from my short time on the Board, that our employees are incredibly connected to our Purpose and this is reflected in their commitment to initiatives such as the Government's Kickstart Programme, which has created opportunities for meaningful, skilled

work that is accessible for all. The way in which they are actively working across generations to build skills and employment across our communities over the long term is inspirational.

I was delighted to meet a number of our people at our Spernal Sewage Treatment Works and observe first-hand the passion of our people at our Innovation Centre. Achieving climate change goals will require new technologies and novel business models, and we are embracing this challenge, through the development and trialling of new technologies and opportunities to identify cost-effective ways of reducing energy use and carbon emissions in our operations. I was encouraged by the collaborative approach being taken with other companies, both within and outside our sector, to support our transition to net zero and embedding circular economy principles so we can maximise the value from the valuable material that is in our waste.

Our incentive schemes are designed to drive material service improvements for our customers, society and the environment to fully align with our Purpose and Values, and all of our targets are independently verified. Last year, we also introduced a second LTIP performance measure related to carbon reduction with a weighting of 20%. In recognition of our employees' commitment to sustainability, we have also aligned our Remuneration Framework more closely to our sustainability strategy, from our frontline operatives through to our Executive Team, by directly linking the River Pledges to our remuneration structures through introducing some of the measures that are most pertinent to our stakeholders into our Annual Bonus Plan, with 8% of every employee's bonus aligned to their achievement from 2022/23. You can read more about how our Sustainability Framework and employee rewards are linked on page 130 of the Directors' Remuneration Report.

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 mid-June.

Human rights and modern slavery

We are committed to protecting the human rights of our employees and contractors as we have clearly set out in our Code of Conduct, Doing the Right Thing. The Committee ensures that, in considering the matters before it, the Severn Trent Purpose and Values and alignment with Doing the Right Thing, are taken into account.

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 stakeholders share our concern, which is why we remain fully committed to protect against modern slavery in our business and supply chain. We acknowledge that 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 is built into our procurement tender process.

This year our processes and procedures were tested when we investigated a modern slavery concern raised by a colleague, who identified and reported a perceived risk at our Coventry office. The colleague had completed the modern slavery e-learning assessment and flagged a concern after several key indicators were observed in relation to a sub-contractor of a Severn Trent supplier. The Group's Escalation and Remediation Policy was invoked in response to the reported concern and Slave-Free Alliance was engaged to independently investigate the supplier. The investigation did not identify any evidence of modern slavery activities within the supplier's organisation, but it did highlight potential areas for improvement within the sub-contracting organisation. As a result of these findings, the Company provided additional support and guidance to the supplier, including the development of a detailed action plan to address recommended improvements, and implemented recommended activities with its sub-contractor directly, as a standalone activity external to the Severn Trent and supplier relationship. The matter was reported to the Committee, which felt that the event demonstrated that our processes and procedures operated effectively, with the investigation, and implementation of improvements, undertaken in a timely manner.

We continue to actively engage with our suppliers to help assess and mitigate their potential risks, using this event as a useful case study. Our commitment to training colleagues, senior managers and Board members remains as strong as ever, and during the year we partnered with the Supply Chain Sustainability School to provide access to a wide range of learning resources, including dedicated modern slavery awareness training for all organisations within the Group's supply chain. We have also provided several in-depth modern slavery awareness workshops, invites to which were extended to include contract managers, facilities managers, front of house teams, new procurement and category managers, and construction project site managers across the Group and our supply chain. To date, over 250 colleagues have completed this in-depth training.

Our full Anti-Slavery and Human Trafficking Statement can be found on the Severn Trent Plc website. We welcome the Government's proposal to introduce strengthened reporting requirements under section 54 of the Modern Slavery Act 2015, in response to the recent Transparency in Supply Chains consultation. We will continue to report in line with the requirements in our Anti-Slavery and Human Trafficking Statement.

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 Corporate Sustainability commitments is reported throughout our Annual Report and Accounts, reflecting their embedded nature in our Governance Framework. You can read more in our standalone Sustainability Report and on our dedicated Sustainability webpages, on the Severn Trent Plc website.

DIRECTORS' REMUNERATION REPORT

Philip Remnant
Chair

Committee members	Membership dates	Meetings attended
Philip Remnant (Chair from March 2015)	March 2014	**6/6**
Kevin Beeston	*November 2016*	**6/6**
Christine Hodgson	January 2020	**6/6**
Angela Strank[1]	January 2014 to March 2022	**5/6**
Sharmila Nebhrajani[2]	September 2021	**2/3**

1 Angela Strank was unable to attend a Remuneration Committee meeting due to a long-standing personal commitment. Angela was provided with all relevant papers and provided comments on the matters to be considered to the Committee Chair.

2 *Sharmila Nebhrajani was unable to attend the November 2021 Committee* meeting due to illness and extended hospitalisation.

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.

Dear Shareholder

On behalf of the Remuneration Committee (the 'Committee'), I am pleased to provide an overview of both Executive Director and wider workforce remuneration for the financial year ended 31 March 2022. *As a Committee, the last year has been focused on implementing the* Remuneration Policy (the 'Policy') that was very well received by shareholders at the 2021 AGM and further embedding our commitments and ambitions around sustainability within our reward frameworks.

Remuneration for the year in review

The second year of AMP7 has seen Severn Trent deliver very strong operational performance, and the Company continues to display excellent financial resilience. The Executive Team has also *continued to execute an ambitious long-term strategy which has* created significant value for our shareholders and wider stakeholders. Total Shareholder Return ('TSR') grew 39% in 2021/22, equivalent to £2.45 billion of incremental value for our shareholders.

The chart below shows the value at 31 March 2022 of £100 invested in Severn Trent Plc at the start of the 2018 Long-Term Incentive Plan ('LTIP') performance period compared with the value of £100 invested in the FTSE100.

Further detail on our overall performance during the 2021/22 financial year is set out in the CEO's Review on pages 14 to 16, the CFO's Review on pages 52 to 58, and highlighted in the At a Glance and Annual Report on Remuneration sections later in this Report.

The Company's very strong performance and creation of shareholder value provides the context for the single figure remuneration outcomes for our Executive Directors. The Committee believes that the outcomes of the annual bonus and LTIP are both appropriate and aligned with the performance of the Company over their respective performance *periods, and that the Policy has operated as intended.*

The overall levels of remuneration, which are illustrated on the next page in the single figure totals, reflect this exceptional performance in outcomes for the variable elements of pay. The figures for 2021/22 also reflect the decision, applied in 2018 following approval by shareholders, to provide an additional reward in the long-term incentive *for comparative out-performance (achievement of upper quartile* ('UQ') Return on Regulated Equity ('RoRE')), which is shown here for the first time.

As explained below, the UQ element of the 2018 LTIP award is reported in the 2021/22 single figure. The dotted line sections in the 2020/21 single figure lines above represent where the 2018 UQ element would have appeared if we had been able to report it last year, being the period to which it relates.

LTIP vesting

The LTIP award granted in 2018 was the first to include a stretch measure relative to the UQ performance of the other water and sewerage companies ('WaSCs'). This change in structure of the LTIP, which received strong support from shareholders as part of the 2018 Policy review, involved a recalibration of the previous stretch RoRE target as target (the 'standard element'), and the introduction of a new stretch target of UQ performance (the 'UQ element'). In so doing, the Committee wanted to ensure that any additional incentive opportunity could only be earned through outstanding performance and the overall approach aligned with the Company's aspirations to remain a UQ performer.

The Committee confirmed the vesting outturn of the standard element of the 2018 LTIP in the 2021 Directors' Remuneration Report. However, the vesting of the UQ element could not be measured until the end of July 2021 when comparable statistics for the other WaSCs were provided to and published by Ofwat. It was therefore not possible to include the 2018 LTIP UQ vesting outcome in last year's disclosure, which is why it appears as part of the 2021/22 total single figure amount.

The graph below sets out Severn Trent's RoRE performance relative to the other WaSCs across the performance period of the 2018 LTIP, as well as Severn Trent's 2021/22 performance.

As seen in the RoRE performance chart above, Severn Trent achieved UQ performance against WaSC peers and as a result there was full vesting of the 2018 LTIP.

As in previous years, the Committee has assessed the standard element of the total potential 2019 LTIP vesting, as this measures the Company's performance against RoRE set by Ofwat's Final Determination ('FD'). Over the three-year period of the 2019 LTIP, the Company achieved a RoRE of 1.50x against the target that we set of 1.39x the base RoRE return. This results in a vesting of the standard element of the 2019 LTIP equivalent to 150% of salary for the CEO and 100% of salary for the CFO. Any vesting of the UQ element of the 2019 LTIP will be disclosed in the 2022/23 Directors' Remuneration Report.

2021/22 bonus outcome

Performance elements and weighting in the annual bonus arrangements at Severn Trent are consistent throughout the organisation. When implementing the 2021/22 scheme, the Committee determined that it would continue to use the elements and weightings agreed with shareholders. Page 132 sets out details of the 2021/22 annual bonus outturn, which will pay out at 81% of maximum opportunity, equivalent to 97.2% of salary for both 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, 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:

- Shareholder experience – the Company's share price has performed exceptionally well, with TSR increasing by 39% over the financial year;
- Societal impact – in 2021/22 the Severn Trent Community Fund donated c.£2m to 73 projects, and the Company delivered c.30,000 hours of free employability training within the community;
- *Environmental performance – for the past two years, the Company* has received the EPA 4* rating and we are confident that Severn Trent will receive it again to make it three years in a row. The Company has also made excellent progress in the first year of its Green Recovery programme; and
- Wider workforce experience – eligible employees will receive a bonus for 2021/22, and the Company has continued to develop a number of initiatives to enhance the employee experience at Severn Trent.

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 2019 LTIP or the 2021/22 annual bonus.

Executive Director shareholding

The Policy includes mandatory shareholding requirements as a percentage of salary for the Executive Directors, which are 300% for the CEO and 200% for the CFO. Since meeting these shareholding levels in 2019, the Executive Directors have continued to build significant shareholdings (1,229% for the CEO and 745% for the CFO) 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. Further detail is set out in the Remuneration at a Glance section on page 134.

Base salaries and fees

The Chair's fee and Executive Director base salaries increased by 2.3% in 2021/22, in line with the average salary increases made to all employees. Non-Executive Director base fees also increased by 2.3% in August 2021, at the same time as a review of Committee fees. The Board decided that increases to Committee Chair fees should be made to reflect the time commitments involved, given the increasingly complex nature of the regulatory environment. Details of fees can be found on page 137.

Embedding sustainability within reward

Supporting our long-term journey to net zero

As part of the 2021 Policy, last year we introduced a new sustainability-based performance measure within the LTIP, with a weighting of 20%. By incorporating a specific sustainability section into the LTIP, we *demonstrate our public commitment to net zero carbon emissions* by 2030 as part of our Triple Carbon Pledge and align the LTIP with the Company's long-term strategy. The first LTIP awards with this new measure included were granted in June 2021.

Our LTIP sustainability framework focuses on two equally weighted areas, 'Direct Contributors to Carbon Reduction' and 'Innovation for Carbon Reduction', and each of these measures has two components. The performance targets/milestones for the 2022 award will be as follows:

Direct contributors to Carbon Reduction (10%)	
Fleet	Delivering 66% of the total car fleet and 18% of the total light commercial fleet as electric vehicles by 31 March 2025.
Self-generation	Achieving an outturn of 75 GWh additional generation from the 2019/20 baseline of 486 GWh, enabling a minimum total renewable generation of 561 GWh by 31 March 2025.
Innovation for Carbon Reduction (10%)	
Innovation trials	The delivery of innovation trials where the combined, verified, scaled opportunity is greater than 12.5 ktCO_2e *carbon, with a signed-off plan for delivery.*
Process emissions	To have established effective monitoring on operational *waste treatment sites responsible for 40% of our total* N_2O and CH_4 gas emissions.

It is the Committee's intention to set out an annual carbon reduction target for use as a single LTIP sustainability measure from next year onwards. In the meantime, the Committee is confident that the targets above are stretching and set at a level that is aligned to meeting the 2030 commitment as part of our Triple Carbon Pledge.

RoRE, which captures a range of long-term measures such as Totex, financing and Customer Operational Delivery Incentives ('ODIs'), continues to be our major LTIP measure, with a weighting of 80%.

It is the Committee's view that the specific targets/milestones which have *been set are suitably challenging and aligned with the Business Plan. The* Committee will assess the value of the 2022 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying business performance and progress towards achievement of our Triple Carbon Pledge. Full details of the Company's approach to sustainability can be found in the Sustainability Report, which will be published in June.

River health and remuneration

As a continuation of our focus on sustainability, the Committee has spent a lot of time this year on the subject of pollution and our stewardship of the environment. The health of our rivers has been a particular focus and at Severn Trent we recognise that water companies need to take a leading role in improving river health. Our River Pledges, announced in March, set out our strong commitment to progress in this area.

Whilst the Committee is confident that we already have strong links between environmental performance and pay, with 12% of the existing annual bonus linked to environmental measures, we believe it is appropriate to go further and make the link between river health performance and remuneration even stronger and more direct. In March 2022, the Committee approved the creation of a specific section of the annual bonus for measures and targets linked to river health equating to 8% of the total. This means that, from 2022/23, 20% of the annual bonus will be linked to measures relating specifically to environmental measures *and river health. The Committee informed major shareholders of these* changes in advance. The changes are aligned with the Policy and will apply to our bonus structure from the 2022/23 financial year onwards.

There are no changes to the maximum bonus opportunity or the payment mechanism. We are introducing specific measures linked to our River Pledges by consolidating the existing Customer Service measure of experience into the Customer ODIs and creating a new set of measures linked to quantifiable targets aligned to our River Pledges. Further detail on how we link river health and remuneration can be found in the case study on page 141.

Aspects of our Sustainability Framework		Link to ESG	Link to reward	
Taking care of the **environment**	**Ensuring a sustainable water cycle**	E	*Annual bonus includes river health* measure and environmental ODIs	Electric vehicle salary sacrifice scheme
	Enhancing our natural environment	E	Financing/Totex/ODI within RoRE in the LTIP	Volunteering (Community Champion events)
	Making the most of our resources	E		
	Mitigating climate change	E	*Sustainability measure within the LTIP*	
Helping people to **thrive**	**Delivering an affordable service for everyone**	S	*Alignment of Executive pension contributions*	Accredited real Living Wage employer
	Providing a fair, inclusive and safe place to work	S	All-employee bonus scheme	Focus on creating a safe environment for all employees
	Investing in skills and knowledge	S	Flexible benefits programme	Learning and development opportunities
			Sharesave scheme	Employee recognition
	Making a positive difference in the community	S	Gender pay gap reporting	Volunteering (Community Champion events)
Being a company **you can trust**	**Living our Values**	G	Purpose and Values co-created with employees	Holding periods on LTIPs for Executive Directors
	Balancing the interests of all our stakeholders	G	*Rewarding for UQ RoRE performance* in the LTIP	Shareholding requirements for Executive Directors/Executive Committee
	Running our Company *for the long term*	G	Linking bonus and LTIP (RoRE) measures directly to Ofwat definitions	Visible and transparent pay bands
			Deferral of annual bonus into shares	Market leading remuneration reporting
	Being open about what we do and sharing what we know	G	*Malus/clawback provisions within* variable pay	

Focus on the wider workforce

Throughout the year the Committee regularly monitors pay and employment conditions across the Company. The health, safety and wellbeing of our colleagues, customers and communities continues to be a significant area of focus for management and the Board. Whilst the last 12 months have remained a period of uncertainty as a result of the pandemic, I am pleased to confirm that we continued to provide all of our services without the need for Government support or regulatory interventions.

The Company has focused considerable effort on updating our policies, benefits, wellbeing guides and training, with an emphasis on maintaining our stance as a family-friendly organisation. We were delighted to see our employee engagement outcome placing us in the top 10% of energy and utilities companies globally and are confident that these initiatives have been a contributory factor.

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.

2021 AGM shareholder voting outturn

At the 2021 AGM held on 8 July 2021 we received overwhelming shareholder support for the new Policy, with 99.66% approval. The full 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 Report	187,673,058	4,638,676	617,851
	(97.59%)	(2.41%)	
Approve Directors' Remuneration Policy	191,642,002	662,228	625,355
	(99.66%)	(0.34%)	

Committee advisers

To ensure that the Company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). This appointment in 2017 followed a 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 £75,250 excluding VAT (2020/21: £131,000). Separate teams within PwC also provided unrelated tax consulting, pensions, and other assurance and advisory services during the year. There are no connections between PwC and individual Directors to be disclosed.

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 General Counsel and Company Secretary acts as secretary to the Committee.

Further detail on implementation of remuneration for 2022/23 can be found on pages 135 – 137.

We remain committed to maintaining an ongoing and transparent dialogue with our major shareholders. I trust 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 Bronagh Kennedy, Group General Counsel and Company Secretary.

Philip Remnant
Chair of the Remuneration Committee

Key areas of focus in 2021/22

Our workforce

- Considered Severn Trent Plc's 2021 gender pay gap statistics.
- Approved the outturn of the 2020/21 all-employee annual bonus scheme.
- Reviewed and approved the 2021/22 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 2022/23 all-employee annual bonus structure, including the appropriateness of the existing colleague safety measure.
- Approved the inclusion of river quality measures to the annual bonus structure from 2022/23 onwards.

Executive and senior management

- Approved the outturn of the LTIP awards granted in July 2018.
- Reviewed and approved the LTIP awards granted in July 2021.
- Considered the structure of the LTIP award to be granted in 2022, including the ongoing suitability of the sustainability measures.

Committee governance

- Reviewed and approved the 2020/21 Directors' Remuneration Report and agreed the framework for the 2021/22 Report.
- Considered Severn Trent's 2020/21 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

The following section sets out our remuneration framework, a summary of how the Policy was applied in 2021/22 in the context of our business performance and, from page 135, details of how the Committee intends to implement the Policy in 2022/23.

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy. The 2021 Policy review strengthened the alignment of Severn Trent's strategy to focus management on superior financial performance together with long-term sustainability and operating the business in an environmentally and socially conscious way.

2021/22 single figure outcomes £'000

The graphs show how the successful delivery of our strategy has flowed through to the rewards provided to our Executive Directors. *The full explanatory notes for each element of remuneration are detailed on page 146 in the Annual Report on Remuneration.*

Liv Garfield – CEO

James Bowling – CFO

Fixed

Salary | Benefits and pension | Other

Variable

Annual bonus | LTIP standard element | LTIP UQ element

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 go from 150% to 200% of salary for the CEO and 100% to 150% of salary for the CFO.

At the same time, LTIP targets were recalibrated so that what had previously constituted stretch performance became target, and a new stretch target was introduced that required the Company to achieve UQ status relative to WaSC peers. 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 LTIP UQ element will therefore always be published one year in arrears.

The 2018 LTIP awards were the first ones granted with the UQ stretch target. Comparative data published by Ofwat in July 2021 confirmed that the Company achieved UQ status and therefore the UQ element of the 2018 LTIP award is reported in the 2021/22 single figure as shown above. The dotted line section in the 2020/21 single figure represents where the 2018 UQ element would have appeared if we had been able to report it last year.

For more detail on the single figure value see page 146.

Annual bonus 2021/22 outturn

A summary of business performance is set out from pages 20 – 33 within the Strategic Report.

Bonus element	Threshold (0% payable)	Target (50% payable)	Maximum (100% payable)	Weighting	Outcome achieved
Group Adjusted PBIT	£478.1m	£493.1m	£508.1m (Actual £508.3m)	49%	49.0%
Customer and Environment ODIs[i]	£39.3m	£50.0m	£60.9m (Actual £78.3m)	35%	23.0%
Health and Safety[ii]	0.19	0.15	0.11 (Actual 0.14)	8%	5.0%
***Customer Experience*[iii]**	10	8	6 (Actual 8)	8%	4.0%
Total				**100%**	**81.0%**

(i) Our ODIs are grouped into categories as detailed on page 141. The outcome achieved reflects performance across all three ODI categories, and the outturn represents *significant outperformance in two of the three categories.*

(ii) Measured as number of Lost Time Incidents divided by number of hours worked multiplied by 100,000.

(iii) Measured as ranking in C-MeX, the industry-wide performance measure.

Bonus opportunity and outcome

As set out in the Chair's letter, no discretion has been exercised by the Committee to override the formulaic outcomes of the 2021/22 annual bonus.

	2021/22 salary (£'000)[i]	Bonus opportunity (% salary)	Bonus outcome (% max)	Annual bonus (£'000)	Value of cash bonus (£'000)	Value of deferred shares (£'000)
CEO	758.8	120%	81%	737.6	368.8	368.8
CFO	457.3	120%	81%	444.5	222.2	222.3[ii]

(i) Bonus calculated using salary as at 31 March 2022. *(ii) Value of CFO deferral shares is 50% of the total bonus value.*

2018 and 2019 LTIP award vesting for performance levels (as a % of salary)

	Threshold FD	1.39x FD	UQ RoRE performance relative to WaSCs
CEO	37.5%	150.0%	200.0%
CFO	25.0%	100.0%	150.0%

Vesting under the UQ element of the 2018 LTIP award was only known at the end of July 2021 when comparable statistics for the other WaSCs were published and provided to Ofwat. This meant that the LTIP single figure value reported for 2020/21 only included the achievement against the targets for the standard element of the 2018 LTIP award. We now know the vesting under the 2018 LTIP UQ element, and therefore this is included in the 2021/22 single figure. The UQ element reported includes the additional value of the standard element of the award that has been earned following achievement of UQ performance. Now that the 2018 LTIP UQ element is known and Severn Trent delivered UQ performance, this resulted in the 2018 LTIP vesting at 100% of maximum for the CEO and CFO.

The standard element of the 2019 LTIP award measures the Company's performance against RoRE set by Ofwat's FD. Over the three-year period of the 2019 LTIP, the Company achieved a RoRE of 1.50x 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 2019 LTIP award, which is equivalent to 75% of maximum for the total 2019 LTIP award. Note that the UQ element of the 2019 LTIP award cannot be measured until the end of July 2022 when comparable statistics for the other WaSCs are published and provided to Ofwat. To the extent that there is any vesting under the UQ element, details will be included in the 2022/23 total single figure of remuneration, alongside any potential vesting of the 2020 LTIP standard element.

No discretion has been exercised by the Committee to override the formulaic outturns of either the 2018 or 2019 LTIP awards.

Breakdown of the LTIP single figure value

The LTIP single figure amounts include share price appreciation between grant and vest, as well as any dividend equivalents.

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. For 2020/21, we could only report the standard element of the 2018 LTIP award due to comparative performance data not being available until the end of July 2021.

The table below shows the comparative value of the standard elements of the 2018 and 2019 LTIP awards, plus the value of the UQ element of the 2018 LTIP, which is included in the 2021/22 single figure:

	LTIP – standard element (£'000)				LTIP – UQ element (£'000)				
	LTIP standard element face value[i]	Share price appreciation[ii]	Dividend equivalents[iii]	Sub-total	LTIP UQ element face value[iv]	Share price appreciation[v]	Dividend equivalents[vi]	Sub-total	**LTIP total (£'000)**
Liv Garfield 2021/22	1,062	438	145	1,645	385	166	71	622	**2,267**
Liv Garfield 2020/21	996	429	183	1,608					**1,608**
James Bowling 2021/22	427	176	58	661	224	96	41	361	**1,023**
James Bowling 2020/21	400	172	74	646					**646**

(i) 2019 LTIP standard element face value based on three day average share price as at 23 July 2019 of £20.40. 2018 LTIP standard element face value based on three day average share price as at 24 July 2018 of £18.95.

(ii) 2019 LTIP standard element based on three month average share price as at 31 March 2022 of £28.82. 2018 LTIP standard element based on three day average share price as at 23 July 2021 of £27.11.

(iii) 2019 LTIP standard element based on dividends paid in the period since date of grant to 31 March 2022. 2018 LTIP standard element based on dividends paid in the period since date of grant to 23 July 2021.

(iv) 2018 LTIP UQ element face value based on three day average share price as at 24 July 2018 of £18.95.

(v) 2018 LTIP UQ element based on three day average share price as at 23 July 2021 of £27.11.

(vi) 2018 LTIP UQ element based on dividends paid in the period since date of grant to 23 July 2021.

REMUNERATION AT A GLANCE CONTINUED

Executive Director shareholdings

The CEO and CFO have exceeded the shareholding requirements applicable in 2021/22 of 300% and 200% of salary, respectively.

Shareholding requirement

The Executive Directors have built significant shareholdings during their employment with the Company and have retained (except in the case of statutory tax and National Insurance deductions) all Company shares acquired as a result of discretionary awards vesting or options being exercised under the Company's share plans.

The minimum shareholding requirement for Executive Directors, and the current share interests of the Executive Directors, take into account shares which are owned outright or vested, shares which are unvested and shares which are subject to performance. The chart 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 2022 of £30.78.

Further detail regarding the Executive Directors' outstanding share awards can be found on page 148.

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 2019 LTIP shares (where 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 2020 and 2021 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.

	2021/22 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)[i]	Value of shares at end of the year (£'000)[ii]	Difference (£'000)
CEO	3,913.4	226,316	283,423	5,218.8	8,723.8	3,505.0
CFO	2,025.9	72,176	98,901	1,664.4	3,044.2	1,379.8

(i) Based on a closing share price on 31 March 2021 of £23.06.

(ii) Based on a closing share price on 31 March 2022 of £30.78.

SUMMARY OF REMUNERATION POLICY AND IMPLEMENTATION

The Company's Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote the long-term success of Severn Trent and aligned with shareholder interests.

The tables below illustrate the balance of pay and time period of each element of the Policy for Executive Directors. In addition, the table below sets out how the Policy elements are aligned with the factors set out in Provision 40. Full details of the 2021 Policy can be found on the Severn Trent Plc website or on pages 145 – 153 of the 2021 Directors' Remuneration Report.

Total pay over five years	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary, benefits and pension				
Annual bonus (Malus and clawback provisions apply)	*50% in cash*	50% in shares *Three-year deferral period* No further performance conditions			
LTIP (Malus and clawback provisions apply)	Up to 200% of salary Three-year performance period			Two-year holding period No further performance conditions	
Shareholding requirement (Not a monetary value)	Executive Directors' minimum shareholding requirement				

Policy element	Purpose, operation and *opportunity levels*	How we plan to implement *the policy in 2022/23*	Alignment with Provision 40 *of the Code*
Fixed pay elements			
Base salary Y1 Y2 Y3 Y4 Y5	**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: – individual performance; – experience and contribution; – developments in the relevant employment market; – Company performance and affordability; – wider economic environment; and – internal relativities. 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.	A salary increase of 2.3% will be applied at the salary review date. From 1 July 2022, Executive Director salaries will be: – CEO – £776,300 – CFO – £467,800 These rises are in line with the general employee salary increase.	**Proportionality** There is a reasonable balance between fixed pay and variable pay, and variable pay is weighted to long-term performance. **Clarity** Base salaries are competitive against companies of a similar size and complexity. **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.
Benefits Y1 Y2 Y3 Y4 Y5	**To provide competitive benefits in the market to enable the recruitment and retention of Executive Directors.** 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. The value of benefits is based on the cost to the Company and there is no pre-determined maximum limit. The range and value of the benefits offered are reviewed periodically.	Normal company benefit provision.	
Pension Y1 Y2 Y3 Y4 Y5	**To provide pension arrangements comparable with similar companies in the market to enable the recruitment and retention of Executive Directors.** A defined contribution scheme and/or cash supplement in lieu of pension. 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 Pension Plan (the majority of the wider workforce). For any new recruit, the contribution will be up to a maximum of 15% of salary.	From 1 April 2022, Executive Director pension arrangements are as follows: – CEO – 15% of salary – CFO – 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 2022/23	Alignment with Provision 40 of the Code
Variable pay elements			
Annual bonus **Up to 120% of salary** Y1 Y2 Y3 Y4 Y5 **50% paid in cash** Y1 Y2 Y3 Y4 Y5 **50% deferred** Y1 Y2 Y3 Y4 Y5	**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.** 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 and CFO. For threshold performance, 0% of maximum opportunity will be paid. For target performance 50% of maximum opportunity will be paid.	Performance measures (as a % of maximum): Group PBIT – 49% Customer and Environment ODIs – 35% Health and Safety – 8% River Health – 8% The Committee considers the forward-looking targets to be commercially sensitive but full disclosure of the targets and performance outcome will be set out in next year's Directors' Remuneration Report.	**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. **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. **Predictability** Shareholders are given full information on the potential values which can be earned under the annual bonus and LTIP. **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. **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.
LTIP **Up to 200% of salary** Y1 Y2 Y3 Y4 Y5 **5-year period** Y1 Y2 Y3 Y4 Y5	**To encourage strong and sustained improvements in financial performance, in line with the Company's strategy and long-term shareholder returns.** Awards 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 for 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 – 150% of salary The 2022 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 137 for detail on LTIP awards to be granted.	
Other policy elements			
All-employee share plans **Up to £500 per month for 3 or 5 years** Y1 Y2 Y3 Y4 Y5	**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.
Shareholding requirement Y1 Y2 Y3 Y4 Y5	**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 Post-employment shareholding requirement applies. See pages 134 and 148 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 2022

The table below describes how the LTIP will be implemented in 2022. As per the 2021 award, 80% of the maximum LTIP opportunity will be based on RoRE and 20% will be based on sustainability measures. The CEO's and CFO's awards will remain unchanged at 200% and 150% of salary respectively. Both the RoRE and sustainability performance conditions will be measured over three years, to 31 March 2025, and corresponding vesting (as a % of salary) will be:

		RoRE measure				
Operation	Award recipient	Threshold FD (% salary)	1.39x FD (% salary)	UQ RoRE performance relative to WaSCs (% salary)	Sustainability performance measure (% salary)	Max outturn (% salary)
Vesting for performance	CEO	30%	120%	160%	40%	200%
	CFO	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 for Carbon Reduction', setting out the four components and corresponding vesting (as a % of salary). See page 130 for details of performance targets/milestones.

	Direct Contributors to Carbon Reduction		Innovation for Carbon Reduction	
	Fleet (% salary)	Self-generation (% salary)	Innovation trials (% salary)	Process emissions (% salary)
CEO	10%	10%	10%	10%
CFO	7.5%	7.5%	7.5%	7.5%

The Committee will assess the value of the 2022 LTIP awards at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of underlying performance and progress towards the achievement of our Triple Carbon Pledge.

Chair and Non-Executive Directors' fees (audited)

From 1 July 2022, Non-Executive Director fees will be increased by 2.3% from £59,100 to £60,460, and the Chair's fee will be increased by 2.3% from £306,900 to £314,000. These increases are in line with the general employee salary increase.

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

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.

This term can be renewed by mutual agreement, up to a maximum total tenure of nine years. The current Letters of Appointment are available on the Severn Trent Plc website.

Operation	Fees 2021/22	Fees 2022/23	Increase %
Chair's fee	£306,900	£314,000	2.3%
Fee paid to all Non-Executive Directors	£59,100	£60,460	2.3%
Supplementary fees:			
– Senior Independent Director	£15,000	£15,350	2.3%
– Audit and Risk Committee Chair	£17,000	£17,390	2.3%
– Remuneration Committee Chair	£17,000	£17,390	2.3%
– Corporate Sustainability Committee Chair	£15,000	£15,350	2.3%
– Treasury Committee Chair	£16,000	£16,370	2.3%

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.

Eligibility	Number of employees covered	Remuneration element	
All employees			£
		Salary	
			+
		Benefits	
			+
		Pension	
	7,369 (as at 31 March 2022)		~
		Annual bonus	
		Sharesave	
Management and senior management			%
	371	**LTIP** A proportion of this population participate in the LTIP by annual invitation	
Executive Committee and Executive *Directors*	**9**	Shareholding requirement as a % of salary CEO – 300% CFO – 200% Exec Co – 100%	
Our supply chain			

This section of the report covers

Pay and alignment across the business

Strategic alignment of remuneration

What the Committee has looked at in the last 12 months

Pay comparisons:

- Alignment with Group performance;
- CEO pay ratios; and
- Gender pay gap reporting

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 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.	– *Date of annual increase* across all employee groups; – Wider workforce increases versus the senior Executive population; and – Differences across employee groups.	– *Salary increases were on average 2.3% across* the workforce in 2021/22. – 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. 48% of our employees choose to tailor *their benefits via our flexible benefits scheme.*	– Types of benefits; and – Eligibility across levels.	– A consistent approach is applied across the business for benefits.
We offer a market leading defined contribution pension scheme and double any contributions that employees make (up to a maximum of 15% of salary). When colleagues get closer to retirement, we provide education and support to help plan for the next stage of their lives. We are proud that 99% of our employees are members of the pension scheme and 60% pay contributions above the minimum of 3%.	– Employer pension contributions across the workforce; and – Comparisons of wider workforce pension to Executive pensions.	– The majority of employees are eligible to participate in the Severn Trent Group Pension Plan. – The process of aligning employer pension contributions for incumbent Executive Directors with the maximum 15% contribution available to members of the Severn Trent Group Pension Plan (the majority of the workforce) was achieved in April 2022.
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.	– Bonus design across different populations; – Details of performance measures and targets; and – Outturn during the year.	– A consistent design is operated throughout the business. – At all levels performance outcomes are measured against the same metrics (see page 140). – An individual performance multiplier is in place across management grades informed by our Inspiring Great Performance ('IGP') outcomes. – Our front-line colleagues and team managers benefit from an all-company fixed bonus payment. – Bonus opportunities vary by grade. – We also operate some sub-schemes in Business Services, to reflect specific business needs. – Malus and clawback provisions are in place.
Offering the opportunity to participate in our Sharesave scheme encourages employee engagement and reinforces our strong performance culture, enabling all colleagues to share in the long-term success of the Company whilst also aligning participants with shareholder interests. Our Sharesave scheme gives employees an opportunity to save 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.	– Take-up rates.	– All Severn Trent Plc employees can participate in the Save As You Earn scheme – Sharesave. – There is a significant take-up of this benefit with 73% 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.	– Eligibility; – Cost; – Dilution; and – Details of performance measures and targets.	– Eligibility is reviewed annually. – The LTIP is available to Executive Directors, the Executive Committee and some members of senior management. – The performance period is three years, 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.	– Eligibility; and – Requirements versus actual shareholdings.	– 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.
All colleagues across Severn Trent are paid in line with the real Living Wage, for which we hold accreditation. We expect this of all new contracts within our supply chain and detail this within our Sustainable Supply Chain Charter.		

COMPANY REMUNERATION AT SEVERN TRENT CONTINUED

Strategic alignment of remuneration

The Committee believes it is important that, for Executive Directors and senior management, a significant proportion of the remuneration package should be performance-related, and that performance conditions applying to incentive arrangements support the delivery of the Company's strategy through our nine strategic outcomes.

Strategic outcomes

A company you can trust	A service for everyone	Water always there
A positive difference	An outstanding experience	Waste water safely taken away
Lowest possible bills	Good to drink	A thriving environment

The approach to remuneration across the Group is to ensure all our employees are rewarded and incentivised to deliver Severn Trent's strategic outcomes. Delivering against these objectives is critical to the creation of long-term value for all our stakeholders: customers, communities, employees, shareholders, suppliers and contractors, and the 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 strategic 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 explains how the measures together with the overall structure of incentives help deliver the Group's financial, operational and strategic goals. We have also explained the key steps involved in the target setting process.

2022/23 Annual bonus plan

Group PBIT 49%

Customer and Environment ODIs 35%

River Health 8%

Health and Safety 8%

The annual bonus focuses on performance conditions which have a direct financial impact on the Company through PBIT and ODIs, whose satisfaction result in additional income for the Company and which are agreed with Ofwat. A significant proportion of ODIs relates to the service we provide to our customers and support alignment with customer focus, which is at the heart of our AMP7 Business Plan.

The balance of the bonus is subject to Health and Safety targets measured via lost time incidents (8%) and, from 2022/23 onwards, River Health (8%). We discuss the inclusion of the River Health measure in more detail on page 141.

We operate a consistent core bonus design across the organisation. For Executive Directors, 50% of the bonus is deferred into shares for three years to support long-term shareholder alignment.

LTIP

RoRE 80% (standard & UQ *element*)

Sustainability 20%

RoRE is a financial KPI and is the core driver of overall Company performance, supporting the long-term sustainability of the Company.

Components of RoRE are:

- Wholesale totex
- Customer ODIs
- Retail operating costs
- Financing

As explained on page 129, the RoRE performance measure of the LTIP award comprises a standard element and a UQ element. The UQ element ensures that exceptional relative performance must be achieved to justify full vesting of the RoRE element.

Our sustainability measures are aligned with our environmental commitments to reach net zero carbon emissions by 2030.

For Executive Directors, the LTIP is fully delivered in company shares subject to a two-year holding period, ensuring long-term alignment with shareholder interests.

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 all 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 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 133, 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 the wider stakeholder experience. 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.

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. A summary of the information reported to the Committee as part of its annual review process is shown in the table on pages 138 and 139.

What the Committee has looked at in the past 12 months

Activity	Focus areas	Implementation at Severn Trent
Purpose and Values	**Reflection on wider workforce policies and practices**	- A refreshed suite of Occupational Health and wellbeing guides were launched for all health and wellbeing-related advice, guidance and benefits. - A number of our policies were updated to ensure that we are maintaining our stance as a family-friendly organisation, e.g. neonatal and fertility treatment leave, as well as extending emergency dependent leave to grandparents. - We have introduced new supportive guides and training aiming to help employees and managers to talk about previously unspoken topics, such as domestic abuse and endometriosis. - We have supported our supply chain to move to the real Living Wage as part of our commitment to have all colleagues, both direct and indirect, receive the real Living Wage rate of pay by April 2023.
Engagement	**Sharing our guiding remuneration principles with the Company Forum**	- In September 2021, Christine Hodgson and Kevin Beeston attended the Company Forum. - Topics discussed included how the Committee focuses on linking ESG activities to reward, and the importance of inclusivity, diversity, and safety from a Board perspective. - This is an annual standing item on the Company Forum's September agenda, and a Board member attends each meeting throughout the year.
Focus on ESG measures	**Bringing to life how sustainability is embedded in our remuneration framework**	- Review of carbon reduction measures in LTIP. - Introduction of river health measures into the bonus (see case study below).

River Pledges

In March 2022, the Committee approved a change to the bonus design for 2022/23, to include an element linked to our newly launched River Pledges.

This element will carry a weighting of 8% of the total bonus and is created by incorporating the Customer Experience measure (C-MeX) into the 'minimise disruption to customers' ODI category. By adding in this river health element, a fifth of the bonus overall will be linked to measures relating to the environment.

There are five distinct River Pledges, each with a series of sub-measures beneath them. In selecting which of the measures to build into the bonus scheme, we have focused on those that are most pertinent to stakeholders, namely reducing the harmful impact we have on river health and increasing opportunities for people in our region to enjoy our waterways.

→ **See pages 17 to 19 for more detail on our River Pledges.**

COMPANY REMUNERATION AT SEVERN TRENT CONTINUED

What the Committee will look at in 2022/23

EMBEDDING SUSTAINABILITY WITH REWARD

We are committed to ensuring all aspects of remuneration are reviewed through a sustainability lens, not only for Executive Directors, but across the entire workforce. In 2022/23 we aim to move current LTIP sustainability measures to a simpler carbon reduction glidepath, and strengthen the environmental link to remuneration through our River Pledges.

FAIR AND TRANSPARENT PAY

Continued commitment to monitor and evaluate developments in our pay framework and the review of Executive pay in line with 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.

SOCIETAL STRATEGY

Ongoing focus on workforce policies and practices, and how they link to the Company's broader societal strategy. We will continue to ensure that remuneration structures and outcomes are aligned to the interests of all our stakeholders: customers, communities, employees, shareholders, suppliers and contractors, and the regulators.

Our policy quantum compared with peers

When we set the remuneration for the Executive Directors, one of the factors the Committee considers is the relevant markets for the Executive Directors, which we believe is the FTSE51-150 excluding financial services, and the size of the Company compared with these peers. The chart below shows the relative position of target total compensation under the Policy in comparison with the FTSE51-150.

Relative position of target total compensation

CEO remuneration vs returns to shareholders

The graph below shows the value at 31 March 2022 of £100 invested in Severn Trent Plc on 1 April 2012 compared with the value of £100 invested in the FTSE100. The FTSE100 was chosen as the comparator index because the Company is a constituent of that index. The intermediate points show the value of the intervening financial year ends.

Total shareholder return and total remuneration

Remuneration of the CEO

The total remuneration for the CEO over the last 10 financial years is shown in the table below. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

Year ended 31 March	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022[iv]
CEO	Tony Wray	Tony Wray	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield	Liv Garfield
Total remuneration (£'000)[i]	1,635.3	1,818.4	2,197.6	2,493.6	2,424.0	2,193.5	2,478.8	2,765.1	3,084.0	3,913.4
Annual bonus (% of maximum)	82.4%	78.7%	52.0%	88.2%	75.8%	60.4%	58.5%	74.0%	63.8%	81.0%
LTIP vesting (% of maximum)	57.5%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%[ii]	75.0%[iii]
SMP vesting (% of maximum)	78.0%	64.3%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(i) 2018 onwards includes any SAYE grants made during the year as well as dividend equivalents in respect of vested LTIP shares.

(ii) The vesting of the 2018 LTIP award was reported in the 2020/21 Directors' Remuneration Report as 72.1% of maximum. In light of UQ performance being achieved, the standard and UQ elements of the 2018 LTIP award have since vested in full. To reflect this, the LTIP vesting percentage for 2021 has been restated. The additional LTIP value arising from the full vesting of the standard and UQ elements is included in the total remuneration value for 2021/22.

(iii) The value of the 2019 LTIP award for 2021/22 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 2022, such vesting, if any, will form part of the total remuneration value for 2022/23.

(iv) The 2022 total remuneration figure includes £621.7k in respect of UQ performance for the 2018 LTIP, which is published one year in arrears as explained on page 132 and relates therefore to the 2021 remuneration figure.

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 138 and 139 and in our Policy which can be found on the Severn Trent Plc website.

The table below shows how the CEO's single total figure of remuneration compares with the equivalent figures for employees occupying the 25th percentile, median and 75th percentile quartiles.

We have chosen Option A under the Regulations for the calculation, which takes into consideration the full-time equivalent basis of all 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 2022, 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[iii]
Total single figure (£'000)[i]	2,765.1	3,084.0	**3,913.4**
Annual bonus payment level achieved (% of maximum opportunity)	74.0%	63.8%	**81.0%**
LTIP vesting level achieved (% of maximum opportunity)[ii]	100%	100%	**75%**
Ratio of CEO's single total remuneration figure shown:			
– To employee at the 25th percentile	84.5	92.8	**115.0**
– To employee at the 50th percentile	65.7	72.3	**90.0**
– To employee at the 75th percentile	53.9	59.8	**74.6**
Ratio of CEO's single total remuneration figure shown to the median Executive Committee member:			**4.3**

(i) Figures for 2020 and 2021 have been restated to reflect the updated 2017 and 2018 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 2018 LTIP award for 2020/21 could not be measured until July 2021, and is therefore included in the total remuneration value for 2022. The value of the 2019 LTIP award for 2021/22 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. The UQ element cannot be measured until the end of July 2022; such vesting, if any, will therefore be disclosed in the 2022/23 Directors' Remuneration Report.

(iii) The 2022 total remuneration figure includes £621.7k in respect of UQ performance for the 2018 LTIP, which is published one year in arrears as explained on page 132 and relates therefore to the 2021 remuneration figure.

The table sets out the base salary and total pay and benefits details for the CEO and the employees at the 25th, 50th and 75th percentiles.

CEO	2022
Base salary (£'000)	**754.5**
Total pay and benefits (£'000)	**3,913.4**
Employees	
Base salary (£'000)	
– Employee at the 25th percentile	**25.8**
– Employee at the 50th percentile	**31.3**
– Employee at the 75th percentile	**39.2**
Total pay and benefits (£'000)	
– Employee at the 25th percentile	**34.0**
– Employee at the 50th percentile	**43.5**
– Employee at the 75th percentile	**52.4**

The median CEO pay ratio has increased from 72.3 to 90.0 year-on-year, mainly due to the inclusion of the UQ element of the 2018 LTIP award in this year's single figure. As highlighted on page 133, vesting under the UQ element of the 2018 LTIP award was only known at the end of July 2021 when comparable statistics for the other WaSCs were published and provided to Ofwat. More detail on the single figure amount is included on page 146.

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:

- As described above, for 2021/22 the single figure includes the standard element of the 2019 LTIP award plus the UQ element of the 2018 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: 48.4
  - To employee at the 50th percentile: 37.9
  - To employee at the 75th percentile: 31.4

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.

COMPANY REMUNERATION AT SEVERN TRENT CONTINUED

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		
	Salary/ Fees[i]	Benefits[ii]	Bonus[iii]	Salary/ Fees[i]	Benefits[ii]	Bonus[iii]	Salary/ Fees[i]	Benefits[ii]	Bonus[iii]
Executive Directors									
Liv Garfield	2.4%	0.6%	29.5%	2.3%	(1.2)%	(11.8)%	2.3%	(3.1)%	30.0%
James Bowling	2.4%	0.0%	29.5%	2.3%	0.0%	(11.8)%	2.3%	0.0%	30.0%
Non-Executive Directors[iv]									
Christine Hodgson[v]	N/A	N/A	N/A	431.4%	N/A	N/A	1.7%	N/A	N/A
Kevin Beeston	2.2%	N/A	N/A	1.5%	N/A	N/A	6.8%	N/A	N/A
John Coghlan[vi]	13.3%	N/A	N/A	1.0%	N/A	N/A	3.5%	N/A	N/A
Tom Delay[vii]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sharmila Nebhrajani[viii]	N/A	N/A	N/A	N/A	N/A	N/A	8.7%	N/A	N/A
Dominique Reiniche[ix]	2.4%	N/A	N/A	1.7%	N/A	N/A	1.5%	N/A	N/A
Philip Remnant	1.9%	N/A	N/A	1.4%	N/A	N/A	3.6%	N/A	N/A
Gillian Sheldon[x]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Angela Strank	2.0%	N/A	N/A	1.4%	N/A	N/A	3.7%	N/A	N/A
Average per employee[xi]	3.7%	(5.5%)	21.8%	2.2%	(7.1)%	(13.7)%	2.1%	0.3%	9.9%

(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 role from Non-Executive Director to Chair of the Board on 1 April 2020.

(vi) Inclusive of a fee of £10,230 in relation to his Hafren Dyfrdwy Cyfyngedig Chair responsibilities in 2021/22 and £10,000 in 2020/21.

(vii) Appointed to the Board on 1 January 2022.

(viii) Appointed to the Board on 1 May 2020

(ix) Resigned from the Board effective 8 July 2021.

(x) Appointed to the Board on 1 November 2021.

(xi) The average pay increase for the wider workforce during the year was 2.3%.

Gender pay gap reporting

Gender pay gap reporting legislation came into force in April 2017 and requires all UK employers with 250 or more employees to publish annual information illustrating pay differences between male and female employees. As Severn Trent continuously evolves, so does our approach to celebrating and embracing diversity in all its forms, of which gender is one. Our goal is to recruit and employ the best people possible, regardless of their backgrounds.

We reported our gender pay gap in November 2021 in line with statutory requirements. The data was based on figures from 5 April 2021 and showed a median gap of 9.1% (last year: 9.3%) and a mean gap of 3.8% (last year: 2.3%). The decrease in our median continues to be positively impacted by a high proportion of women within our management and senior management roles, and 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. Over the same period we have seen a slight increase in our mean gender pay gap, partly due to small changes within our executive population.

Our mean gender bonus gap of -24.4% is as a result of the high percentage of women in our Executive and senior management population.

→ **Read more on Severn Trent's diversity in the Our People section p86**

The full gender pay gap report can be found on the Severn Trent Plc website, detailing the methodology and definitions, including case studies showcasing how we are making operational roles more accessible and inclusive. We are encouraging more women into Science, Technology, Engineering, Maths ('STEM') and Operational roles through the launch of the Women in STEM and Ops advisory group, ensuring we are creating a great working environment for the women that work at Severn Trent.

We recognise that diversity of talent brings different ideas and perspectives which improve how we work together collaboratively as a company and want our colleagues to feel they can be themselves, safe in the knowledge that their workplace is fair and inclusive.

This year we published our fifth gender pay gap report

→ **Read more online at severntrent.com**

Male and female pay quartile distribution

	PAY QUARTILES	
72.1%	Top quartile	27.9%
80.2%	Upper middle quartile	19.8%
78.3%	Lower middle quartile	21.7%
55.3%	Lower quartile	44.7%

Difference in hourly pay between men and women

9.1%	3.8%
MEDIAN	MEAN

Difference in annual bonus pay between men and women

-0.8%	-24.4%
MEDIAN	MEAN

ANNUAL REPORT ON REMUNERATION

The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the AGM on 7 July 2022. The information on pages 146 to 148 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 2021/22 (or for performance periods ending in 2021/22 in respect of long-term incentives) and 2020/21 for comparison, and total fees received by Non-Executive Directors for 2021/22 and 2020/21, 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	**2021/22**	754.5	16.5	138.1	0.0	909.1	737.6	1,645.0	621.7	2,266.7	3,004.3	3,913.4
	2020/21	737.5	17.0	149.5	4.5	908.5	567.4	1,608.1	N/A	1,608.1	2,175.5	3,084.0
James Bowling	**2021/22**	454.7	16.5	83.2	4.5	558.9	444.5	661.1	361.4	1,022.5	1,467.0	2,025.9
	2020/21	444.5	16.5	90.1	0.0	551.1	342.0	646.4	N/A	646.4	988.4	1,539.5

(i) Both Executive Directors asked the Company to reduce their salaries by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The salaries for 2020/21 shown are based on salary earned during the financial year before the 25% reduction. Salaries are shown before the deductions of benefits purchased through the Company's salary sacrifice scheme, such as pension contributions.

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

(iii) The Executive Directors' pension provision was equal to 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 132 for further details of the annual bonus outturn for 2021/22.

(vi) The value of the 2019 LTIP award for 2021/22 is based on the Committee's assessment of the standard element of the total potential 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 2021/22 total remuneration figures include £621.7k for the CEO and £361.4k for the CFO in respect of UQ performance for the 2018 LTIP, which is published one year in arrears as explained on page 132 and relates therefore to the 2020/21 remuneration figure.

Total Non-Executive Directors' fees (audited)

	2020/21 (£'000) Fees	2021/22 (£'000) Fees
Christine Hodgson[i]	300.0	305.2
Kevin Beeston	67.4	72.0
John Coghlan[ii]	97.4	100.8
Tom Delay[iii]	0.0	14.8
Sharmila Nebhrajani[iv]	52.7	62.4
Dominique Reiniche[v]	57.4	15.8
Philip Remnant	72.4	75.0
Gillian Sheldon[vi]	0.0	24.6
Angela Strank	70.4	73.0

(i) The Chair asked the Company to reduce her fees by 25% for the first quarter of 2020/21 and to donate the equivalent amount to charities in our region which helped the local response to COVID-19. The 2020/21 fees shown are based on fees earned during the financial year before the 25% reduction.

(ii) Inclusive of a fee of £10,230 in relation to his Hafren Dyfrdwy Cyfyngedig Chair responsibilities in 2021/22 and £10,000 in 2020/21.

(iii) Appointed to the Board on 1 January 2022.

(iv) Appointed to the Board on 1 May 2020.

(v) Resigned from the Board effective 8 July 2021.

(vi) Appointed to the Board on 1 November 2021.

Relative importance of spend on pay

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

Relative importance of the spend on pay	2020/21 £m	2021/22 £m	% change
Staff costs	350.7	366.5	4.5%
Dividends	240.2	254.5	6.0%

Annual bonus outturn for 2021/22 (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 At a Glance section on page 132.

Benefits for 2021/22 (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 pages 135 and 136, we show below the benefits received by the individual Executive Directors in the year, and their typical annual value where possible.

Benefits for 2021/22 (audited)	Typical annual value 2020/21	Typical annual value 2021/22	Percentage increase/ (decrease)
Green travel allowance	£15,000	£15,000	0%
Private medical insurance	£1,412	£1,493	5.7%
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	£610 per health screen	£671 per health screen	10.0%
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 2021/22 (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 2019 LTIP is based on performance over the three-year period from 1 April 2019 to 31 March 2022. This is the second 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 1.50x 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.

	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[i] (£'000)	Value of dividend equivalents due[ii] (£'000)	Value of standard element of LTIP (single figure) (£'000)
CEO	69,411	1,416.0	31/03/2022	75.0%	52,058	23/07/2022	438.3	1,500.3	144.7	1,645.0
CFO	31,367	639.9	31/03/2022	66.7%	20,921	23/07/2022	176.2	602.9	58.1	661.1

(i) Based on the average share price over the final three months of the performance period of £28.82 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 2022.

The UQ element of the 2019 LTIP award cannot be measured, and so the associated vesting will not be known, until the end of July 2022 when comparable statistics for the other WaSCs are published and provided to Ofwat; such vesting, if any, will therefore be disclosed in the 2022/23 Directors' Remuneration Report. The LTIP value in the 2022/23 single figure table will comprise the UQ element of the 2019 LTIP award (if any) plus the standard element of the 2020 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.

	2019 LTIP – UQ element			
	Maximum number of shares that could vest	Value based on share price at grant of £20.40 (£'000)	Value attributable to share price movement (£'000)	Value based on average share price of £28.82 (£'000)
CEO	17,353	354.0	146.1	548.3
CFO	10,446	213.1	88.0	330.0

2021 LTIP award (awards granted during the year)

	Basis of award (% of base salary)	Number of shares granted[i]	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%	55,461	14/07/2021	£1,483.4	31/03/2024	24/07/2024	£26.75
CFO	150%	25,068		£670.5			

(i) LTIP awards are conditional share awards subject to performance conditions, as set out below.

2021 LTIP award		Threshold FD baseline 3.89% (% salary)	1.39x FD 5.41% (% salary)	UQ performance relative to WaSCs (% salary)	Sustainability performance measure[i] (% salary)	Max outturn (% salary)
Vesting for performance	**CEO**	30%[ii]	120%	160%	40%	200%
	CFO	20%[ii]	80%	120%	30%	150%

(i) The 2021 LTIP vesting level for threshold FD performance was incorrectly stated in the 2020/21 Directors' Remuneration Report as 37.5% and 25% for the CEO and CFO, respectively.

ANNUAL REPORT ON REMUNERATION CONTINUED

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

One half of the bonus earned in respect of performance during 2020/21 was deferred into shares, as detailed below:

	Award	Basis of award	Number of shares granted[i]	Grant date	Face value of award at grant (£'000)	Vesting date	3 day average share price used for grant calculations
Liv Garfield	2021 annual bonus scheme relating to 2020/21	Deferred bonus	11,467	08/06/2021	283.7	08/06/2024	£24.74
James Bowling			6,910		171.0		

(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 134 in the At a Glance section summarises the shareholding requirements under which Executive Directors are expected to build and maintain a shareholding in the Company, and whether Executive Directors have met the shareholding requirements. The shareholding requirements for the CEO and CFO remained unchanged in 2021/22.

The Committee believes that it is an essential part of the Policy that Executive Directors become material shareholders, and this is evidenced by the number of shares held by both Executive Directors. The retention and build-up of equity is important in a long-term business such as Severn Trent as it encourages decisions to be made on a long-term, sustainable basis for the benefit of customers and shareholders.

There has been no change in the Directors' interests in the ordinary share capital of the Company between those set out below and 24 May 2022.

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	283,423	185,355	37,044	967	300%	1,229%	410%
James Bowling	98,901	83,771	22,322	2,001	200%	745%	373%
Non-Executive Directors							
Christine Hodgson	3,061	–	–	–	–	–	–
Kevin Beeston	4,834	–	–	–	–	–	–
John Coghlan	2,670	–	–	–	–	–	–
Tom Delay[v]	0	–	–	–	–	–	–
Sharmila Nebhrajani	101	–	–	–	–	–	–
Dominique Reiniche[vi]	N/A	–	–	–	–	–	–
Philip Remnant	1,969	–	–	–	–	–	–
Gillian Sheldon[vii]	0	–	–	–	–	–	–
Angela Strank	459	–	–	–	–	–	–

(i) LTIP awards are conditional share awards subject to ongoing performance conditions.

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

(iii) Annual bonus shares are deferred shares which are not subject to further performance conditions.

(iv) The share price used to calculate the percentage of the shareholding guideline achieved was £30.78 (as at 31 March 2022). The guideline figures include unvested annual bonus shares (47% deducted to cover statutory deductions).

(v) Appointed to the Board on 1 January 2022.

(vi) Resigned from the Board effective 8 July 2021.

(vii) Appointed to the Board on 1 November 2021.

External directorships

Liv Garfield was appointed a member of the Takeover Panel in November 2017. In respect of her appointment for the year ended 31 March 2022, she was paid fees of £12,000 which she retained.

Full details of the Directors' external appointments can be found in the Board Directors' biographies on page 96 and 97.

Service contracts for Executive Directors

Copies of the service contracts of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours.

All Directors will retire at this year's AGM and submit themselves for appointment or reappointment by shareholders at the AGM on 7 July 2022. Liv Garfield and James Bowling have service contracts which provide for a notice period of one year. Non-Executive Directors do not have service contracts.

Name	Date of service contract	Nature of contract	Notice period	Termination payments
Liv Garfield	10/04/2014	Rolling	12 months	Payments for loss of office comprise a maximum of 12 months' salary and benefits only
James Bowling	01/04/2015			

Philip Remnant
Chair of the Remuneration Committee
24 May 2022

DIRECTORS' REPORT

The Directors' Report for the year ended 31 March 2022 comprises pages 149 to 152 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 90 to 152 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 89, as the Board considers them to be of strategic importance.

Specifically, these are:

- the Performance Review on pages 20 to 27, 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 2022;
- 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 61 to 66;
- information on the Group's GHG emissions for the year ended 31 March 2022, contained within our TCFD section on pages 35 to 45;
- how we have engaged with our people and stakeholders on pages 72 to 81;
- business relationships (throughout the Strategic Report); and
- the Section 172 Statement on pages 82 to 84.

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 *2022 are shown in notes 20 and 44 to the Group financial statements.*

Areas of operation

During the course of 2021/22, 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 96 to 97.

As set out in the Notice of Meeting, all the Directors will retire at this year's AGM and submit themselves for appointment or reappointment by shareholders. All Directors seeking reappointment were subject to a formal and rigorous performance evaluation, further details of which can be found on pages 106 to 107.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 148. The interests of the Directors in the shares of the Company are also shown on page 148 of that report. The Board has a documented process in place in respect of conflicts.

Insurance and indemnities

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

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

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed in accordance with Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules can be located in the following pages of this Annual Report and Accounts:

Section	Information to be included	Location
(1)	A statement of the amount of interest capitalised	Page 182
(4)	Details of long-term incentive schemes	Page 136
(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 208 to 214 and is incorporated by reference. For information on our approach to social, environmental and ethical matters, please refer to our TCFD Disclosures on pages 35 to 45 and our separately published Sustainability Report, which will be made available at severntrent.co.uk.

Employees

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

Severn Trent Plc believes a diverse and inclusive workforce is a key factor in being a successful business. Through our diversity and equal opportunities policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities. This means more than ensuring 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.

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 114.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included the section on Our People on page 85 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 72 to 84 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. We are delighted that 73% of our employees are also shareholders in the Company.

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

Business relationships

Pages 72 and 81 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 £2.5 million.

Internal controls

Further details of our internal control framework can be found in the Audit and Risk Committee Report on page 118.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's Review on pages 52 to 58.

Post balance sheet events

Details of post balance sheet events are set out in note 41 to the Group financial statements.

Dividends

An interim dividend of 40.86 pence per ordinary share was paid on 7 January 2022. The Directors recommend a final dividend of 61.28 pence per ordinary share to be paid on 13 July 2022 to shareholders on the register on 6 June 2022. This would bring the total dividend for 2021/22 to 102.14 pence per ordinary share (2020/21: 101.58 pence). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividend policy

Following publication of the Final Determination by Ofwat, in 2019/20 the Board approved its Dividend Policy for the period 2020-25. Dividends during the AMP7 period will increase by at least CPIH. This replaced the previous Dividend Policy of growth of at least RPI +4% each year.

The Dividend Policy reflects our strong operational delivery and financial performance, the Final Determination and our robust balance sheet and financial resilience. When determining the 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 30 to the Company financial statements. The Company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. The issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

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

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the 2018 Code, the Companies Act 2006 and related legislation. The Articles may be amended by Special Resolution of the shareholders. The powers of Directors are described in the Severn Trent Plc Matters Reserved to the Board document 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 2021 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 2021 to make market purchases of ordinary shares up to a maximum number of 23,937,475 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 25,112,416 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 £5,594,954 (2021: £6,916,014). 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.

Substantial shareholdings

As at 31 March 2022, 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	26,746,209	9.69
Lazard Asset Management	14,757,964	5.52
Qatar Investment Authority	11,599,565	4.63
Vanguard Group	10,815,212	4.20
Legal & General Investment Management	10,232,550	4.09
SSGA	9,096,112	3.63
Pictet Asset Management	8,515,628	3.32

As at 24 May 2022, the Company had been notified of the following holdings of voting rights in the ordinary share capital of the Company: BlackRock 25,711,555 shares (10.27%)[1], Lazard Asset Management 16,080,729 shares (6.43%), Qatar Investment Authority 11,599,565 shares (4.63%), Vanguard Group 10,985,985 shares (4.39%), Legal & General Investment Management 10,245,055 shares (4.09%)[1], SSGA 8,758,009 shares (3.50%), Pictet Asset Management 8,977,682 shares (3.59%).

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.

1 As at 27 April 2022.

Supplier payment policy

Individual operating companies within the Group are responsible for establishing appropriate policies with regard to the payment of their suppliers, in accordance with the Prompt Payment Code ('PPC') and, as such, prompt payment policies are reviewed on a regular basis.

The companies agree terms and conditions under which business transactions with suppliers are conducted. It is Group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also Group policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

Throughout the year, as part of our response to the COVID-19 pandemic, we have continued to support small and medium enterprises in our region by accelerating payments to our supply chain. You can read more about how we have worked with our suppliers and contractors on page 79.

For the payment practices reporting period ended 31 March 2022, the average time to pay for Severn Trent Water Limited was 28 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 118 and 119, 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 2022 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 TCFD Disclosure on pages 35 to 45 of the Strategic Report is incorporated into the Directors' Report by cross reference. The 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

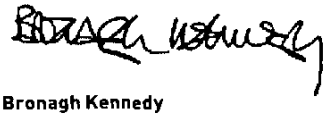
Separate Annual Reports for each of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig will be made available on their respective websites in due course.

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 2022 AGM can be found on the Severn Trent Plc website.

By order of the Board



Bronagh Kennedy

Group General Counsel and Company Secretary
24 May 2022

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with 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 24 May 2022 and is signed on its behalf by order of the Board:

Liv Garfield
Chief Executive
24 May 2022

James Bowling
Chief Financial Officer
24 May 2022

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 2022 and of the group's loss 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 balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 44 to the consolidated financial statements and the related notes 1 to 15 to 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	The key audit matters that we identified in the current year were: - Valuation of the provision for household trade receivables in Severn Trent Water Limited; and - classification of capital programme expenditure in Severn Trent Water Limited. Within this report, key audit matters are identified as follows: ⊕ Similar level of risk
Materiality	The materiality that we used for the group financial statements was £13.9 million which was determined on the basis of profit before tax adjusted for gains/(losses) on financial instruments and exceptional items.
Scoping	Our scoping has resulted in over 95% of the group's net operating assets and 91% of profit before tax adjusted for gains/(losses) on financial instruments and exceptional items being subject to audit testing.
Significant changes in our approach	As at 31 March 2021 we identified the valuation of accrued income for measured customers in Severn Trent Water Limited as a key audit matter as COVID-19 significantly impacted the water consumption by customers. *The increased consumption by households and lower consumption by non-household customers increased the* level of unpredictability of water consumption, and therefore the potential level of volatility for accrued income. Consumption patterns have stabilised since the second half of the previous financial year which has reduced the level of estimation uncertainty for accrued income in the current financial year. As a result, the valuation of accrued income for measured customers in Severn Trent Water Limited has been removed as a key audit matter as at 31 March 2022.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- *reviewing the group's borrowing arrangements, in particular the £1.0 billion revolving credit facility, including the sufficiency of headroom* available in the forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for AMP7 and performing a sensitivity analysis relating to these assumptions;
- assessing the impact of risks and uncertainties on the business model and medium-term risks; and
- reviewing the appropriateness of the disclosures provided in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the provision of household trade receivables in Severn Trent Water Limited

Key audit matter description	A portion of household customers do not, or cannot, pay their bills which results in the need for provisions to be made for non-payment of the related receivables. Management make estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. The bad debt provision recorded as at 31 March 2022 was £128.2 million (31 March 2021: £130.8 million), 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 historical cash collection rates of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on the whole population of household debtors. A further amount has been recorded to reflect anticipated changes to cash collection as a result of forecast reductions in real disposable household income. The adjustment is based on the historical correlation between real disposable household income and the bad debt charge and is impacted by the level of decline and length of the impact on the UK economy. The key audit matter has been focused on the valuation of the household bad debt provision, and specifically whether the experience of debt invoiced seven to nine years ago provides an appropriate expectation of lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the impact of forecast decreases in real disposable household income 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 Committee also considered this as a significant issue as discussed in the Audit Committee Report on page 120. The bad debt provision is discussed in note 2p and note 22 to the financial statements. Management have included this as a key source of estimation uncertainty in note 4b to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: - obtaining an understanding of relevant controls over the calculation 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 to source data from the billing system; - evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing a sensitivity analysis; and - evaluating management's assumptions used in the calculation of the bad debt provision and challenging whether this represents lifetime expected credit loss, including review of cash collection data and historical trends.
Key observations	We are satisfied that the assumptions applied in assessing the valuation of trade receivables, including the impact of external economic factors, 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	Severn Trent Water Limited has a substantial capital programme which has been agreed with the regulator ("Ofwat") and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. 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. During the year, Severn Trent Water Limited has invested £565.0 million (2021: £540.7 million) in capital expenditure projects out of the total group additions of £714.3 million (2021: £659.4 million) disclosed in note 18. Severn Trent Water Limited spent a further £194.1 million (2021: £147.3 million) on infrastructure maintenance expenditure out of the total group expenditure of £198.2 million (2021: £151.0 million) disclosed in note 7. *The Audit Committee also considered this a significant issue as discussed in the Audit Committee Report on page 121.* Management has included this as a critical accounting judgement in note 4a) to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: - assessing management's capitalisation and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; - obtaining an understanding of, and testing, relevant controls over the application of the policy 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 appropriately applied their capitalisation policy and implementation guidance 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 materiality for the financial statements as a whole as follows:

	GROUP FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
Materiality	*£13.9 million (2021: £13.5 million)*	*£13.2 million (2021: £12.8 million)*
Basis for determining materiality	We determined materiality on the basis of profit before tax adjusted for gains/(losses) on financial instruments and exceptional items. We have also considered a range of additional metrics including cash generated from operations, revenue and shareholders' equity. Materiality of £13.9m represents 6% of profit before tax, gains/(losses) on financial instruments and exceptional items, 1.6% of cash generated from operations and 1.1% of shareholders' equity.	3.0% of net assets (2021: 3.0% of net assets) capped at 95% (2021: 95%) of group materiality.
Rationale for the benchmark applied	*Profit before tax adjusted for gains/(losses) on* financial instruments and exceptional items has been used in order to focus on the group's underlying trading performance consistent with the group's internal and external reporting.	*The parent company does not trade or exist* for profit generating purposes so materiality has been determined using net assets.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	GROUP FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – our assessment of the control environment, including continuity of the business year on year; and – low value of uncorrected misstatements identified in previous financial years.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £696,000 (2021: £675,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level.

The Regulated Water and Waste Water segment is primarily comprised of Severn Trent Water Limited which was subject to a full scope audit using materiality of £12.9 million (2021: £12.5 million). We have audited a further nine components using statutory materiality which range from £0.1 million to £13.2 million (2021: seven components using statutory materiality which range from £0.1 million to £12.8 million). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

This represents over 95% of the group's net operating assets (2021: over 95%) and over 91% of profit before tax adjusted for gains/(losses) on financial instruments and exceptional items (2021: over 97%).

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit procedures.

7.2. Our consideration of the control environment

The group uses SAP, a financial accounting software platform, in all of the ten components where we have performed a full scope audit.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the group's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We also relied on the relevant controls in respect of household and non-household revenue 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 this risk as a principal risk as set out on page 65, consistent with previous years. This risk has also been considered and embedded into the businesses as explained in the Strategic Report.

As a part of our audit procedures, we have obtained management's climate-related risk assessment and held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. While management has acknowledged that the transition and physical risks posed by climate change have the potential to impact the medium to long term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022 as explained in note 4a iv).

We reviewed management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement.

Our audit procedures also included:

- with involvement of our Environmental, Social and Governance specialists, reading disclosures included in the Strategic Report and considered whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and
- evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions 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 legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

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 Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, the Audit Committee, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 71;
- 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 68;
- the directors' statement on fair, balanced and understandable set out on page 153;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 61 to 66;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 118; and
- the section describing the work of the Audit Committee set out on pages 115 to 121.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Company's members at its Annual General Meeting on 26 July 2005 to audit the financial statements for the year ending 31 March 2006 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 March 2006 to 31 March 2022.

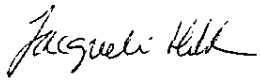
15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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
24 May 2022

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

		2022			2021		
	Note	Adjusted £m	Adjusting items £m	Total £m	Adjusted £m	Adjusting items £m	Total £m
Turnover	5,6	**1,943.3**	**–**	**1,943.3**	1,827.2	–	1,827.2
Other income		**5.3**	**–**	**5.3**	–	–	–
Operating costs before charge for bad and doubtful debts	7	**(1,415.7)**	**(2.1)**	**(1,417.8)**	(1,314.4)	(2.1)	(1,316.5)
Charge for bad and doubtful debts	7	**(24.6)**	**–**	**(24.6)**	(40.0)	–	(40.0)
Total operating costs		**(1,440.3)**	**(2.1)**	**(1,442.4)**	(1,354.4)	(2.1)	(1,356.5)
Profit before interest and tax		**508.3**	**(2.1)**	**506.2**	472.8	(2.1)	470.7
Finance income	10	**54.7**	**–**	**54.7**	59.8	–	59.8
Finance costs	11	**(324.1)**	**–**	**(324.1)**	(246.9)	–	(246.9)
Net finance costs		**(269.4)**		**(269.4)**	(187.1)	–	(187.1)
Reduction in expected credit loss on loan receivable		**0.2**	**–**	**0.2**	3.6	–	3.6
Net gains/(losses) on financial instruments	12	**39.3**	**–**	**39.3**	(6.2)	–	(6.2)
Share of net loss of joint venture accounted for using the equity method	20	**(2.2)**	**–**	**(2.2)**	(8.9)	(4.9)	(13.8)
Profit on ordinary activities before taxation		**276.2**	**(2.1)**	**274.1**	274.2	(7.0)	267.2
Current tax	13	**4.8**	**–**	**4.8**	(26.8)	–	(26.8)
Deferred tax	13	**(71.7)**	**(294.4)**	**(366.1)**	(28.2)	–	(28.2)
Taxation on profit on ordinary activities	13	**(66.9)**	**(294.4)**	**(361.3)**	(55.0)	–	(55.0)
(Loss)/profit for the year		**209.3**	**(296.5)**	**(87.2)**	219.2	(7.0)	212.2

Earnings per share (pence)

	Note	2022	2021
Basic	15	**(35.2)**	89.1
Diluted	15	**(35.2)**	88.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
(Loss)/profit for the year		**(87.2)**	212.2
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	28	**188.5**	(162.0)
Deferred tax on net actuarial gains/losses	13	**(47.1)**	30.8
Deferred tax arising on rate change	13	**8.4**	–
		149.8	(131.2)
Items that may be reclassified to the income statement:			
Gains on cash flow hedges		**54.6**	33.5
Deferred tax on gains on cash flow hedges	13	**(13.0)**	(6.3)
Amounts on cash flow hedges transferred to the income statement	12	**6.8**	8.2
Deferred tax on transfer to the income statement	13	**(1.7)**	(1.6)
		46.7	33.8
Other comprehensive income/(loss) for the year		**196.5**	(97.4)
Total comprehensive income for the year		**109.3**	114.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2022

		Equity attributable to owners of the company				
	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020		236.5	137.0	67.9	802.3	1,243.7
Profit for the year		–	–	–	212.2	212.2
Gains on cash flow hedges		–	–	33.5	–	33.5
Deferred tax on gains on cash flow hedges	13	–	–	(6.3)	–	(6.3)
Amounts on cash flow hedges transferred to the income statement	12	–	–	8.2	–	8.2
Deferred tax on transfer to the income statement	13	–	–	(1.6)	–	(1.6)
Net actuarial losses	28	–	–	–	(162.0)	(162.0)
Deferred tax on net actuarial losses	13	–	–	–	30.8	30.8
Total comprehensive income for the year		–	–	33.8	81.0	114.8
Share options and LTIPs						
– proceeds from shares issued	30,31	0.7	11.1	–	–	11.8
– value of employees' services	37	–	–	–	7.8	7.8
Current tax on share based payments	13	–	–	–	0.4	0.4
Deferred tax on share based payments	13	–	–	–	0.4	0.4
Dividends paid	14	–	–	–	(240.2)	(240.2)
At 31 March 2021		237.2	148.1	101.7	651.7	1,138.7
Loss for the year		–	–	–	(87.2)	(87.2)
Gains on cash flow hedges		–	–	54.6	–	54.6
Deferred tax on gains on cash flow hedges	13	–	–	(13.0)	–	(13.0)
Amounts on cash flow hedges transferred to the income statement	12	–	–	6.8	–	6.8
Deferred tax on transfer to the income statement	13	–	–	(1.7)	–	(1.7)
Net actuarial gains	28	–	–	–	188.5	188.5
Deferred tax on net actuarial gains	13	–	–	–	(47.1)	(47.1)
Deferred tax arising from rate change	13	–	–	–	8.4	8.4
Total comprehensive income for the year		–	–	46.7	62.6	109.3
Proceeds from equity placing	30,31	10.2	235.1	–	–	245.3
Share options and LTIPs						
– proceeds from shares issued	30,31	0.7	11.2	–	–	11.9
– value of employees' services	37	–	–	–	8.3	8.3
Deferred tax on share based payments	13	–	–	–	4.9	4.9
Dividends paid	14	–	–	–	(254.5)	(254.5)
At 31 March 2022		**248.1**	**394.4**	**148.4**	**473.0**	**1,263.9**

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	16	**91.4**	91.4
Other intangible assets	17	**179.6**	164.0
Property, plant and equipment	18	**10,208.4**	9,875.2
Right-of-use assets	19	**129.9**	130.8
Investment in joint venture	20	**16.5**	–
Derivative financial instruments	21	**31.2**	37.1
Trade and other receivables	22	**92.1**	101.5
Retirement benefit surplus	28	**17.5**	17.1
		10,766.6	10,417.1
Current assets			
Inventory		**32.0**	30.8
Trade and other receivables	22	**606.4**	515.2
Current tax receivable		**6.2**	–
Derivative financial instruments	21	**27.6**	3.8
Cash and cash equivalents	23	**115.4**	56.2
		787.6	606.0
Current liabilities			
Borrowings	24	**(365.2)**	(503.1)
Trade and other payables	26	**(655.5)**	(557.1)
Current tax payable		**–**	(0.2)
Provisions for liabilities	29	**(38.4)**	(18.0)
		(1,059.1)	(1,078.4)
Net current liabilities		**(271.5)**	(472.4)
Total assets less current liabilities		**10,495.1**	9,944.7
Non-current liabilities			
Borrowings	24	**(6,365.9)**	(6,112.8)
Derivative financial instruments	25	**(43.3)**	(126.9)
Trade and other payables	26	**(1,334.0)**	(1,250.3)
Deferred tax	27	**(1,320.6)**	(906.0)
Retirement benefit obligations	28	**(145.5)**	(384.8)
Provisions for liabilities	29	**(21.9)**	(25.2)
		(9,231.2)	(8,806.0)
Net assets		**1,263.9**	1,138.7
Equity			
Called up share capital	30	**248.1**	237.2
Share premium account	31	**394.4**	148.1
Other reserves	32	**148.4**	101.7
Retained earnings		**473.0**	651.7
Total equity		**1,263.9**	1,138.7

Signed on behalf of the Board who approved the accounts on 24 May 2022.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Cash generated from operations	38	**891.7**	901.7
Tax paid	38	**(1.2)**	(23.2)
Net cash generated from operating activities		**890.5**	878.5
Cash flows from investing activities			
Purchases of property, plant and equipment		**(610.3)**	(613.7)
Purchases of intangible assets		**(36.3)**	(22.2)
Payments to acquire right-of-use assets		**–**	(0.7)
Proceeds on disposal of property, plant and equipment		**9.5**	2.0
Proceeds on disposal of subsidiary net of cash disposed		**–**	0.7
Net loans advanced to joint venture		**(13.0)**	(1.0)
Interest received		**1.9**	3.7
Net cash outflow from investing activities		**(648.2)**	(631.2)
Cash flow from financing activities			
Interest paid		**(182.9)**	(185.6)
Interest element of lease payments		**(4.0)**	(4.3)
Dividends paid to shareholders of the parent		**(254.5)**	(240.2)
Repayments of borrowings		**(488.9)**	(242.9)
Principal elements of lease payments		**(12.1)**	(5.6)
New loans raised		**501.0**	415.1
Issues of shares		**257.2**	11.8
Payments for swap terminations		**–**	(1.1)
Proceeds from swap terminations		**5.6**	0.9
Net cash outflow from financing activities		**(178.6)**	(251.9)
Net movement in cash and cash equivalents		**63.7**	(4.6)
Net cash and cash equivalents at the beginning of the year		**44.0**	48.6
Net cash and cash equivalents at the end of the year		**107.7**	44.0
Cash at bank and in hand		**40.4**	56.2
Bank overdrafts		**(7.7)**	(12.2)
Short term deposits		**75.0**	–
		107.7	44.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

1 General information

The Severn Trent Group has a number of operations. These are described in the segmental analysis in note 5.

Severn Trent Plc is a company incorporated and domiciled in the United Kingdom. The address of its registered office is shown on the back of the cover of the Annual Report and Accounts.

Severn Trent Plc is listed on the London Stock Exchange.

2 Accounting policies

a) Basis of preparation

The financial statements for the Group and the parent company have been prepared on the going concern basis (see strategic report on page 68 which sets out the Group's considerations relating to viability and going concern) under the historical cost convention, 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 statement of comprehensive income, the statement of changes in equity and the balance sheet.

Severn Trent Plc is a partner in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership ('the partnerships'), which are registered in Scotland. As the partnerships are included in the consolidated accounts, the parent company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The key accounting policies for the Group and the parent company are set out below and have been applied consistently except where indicated. Where policies are specific to the Group or to the Company this is set out in the relevant policy.

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 inter-company sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of mains water and waste water charges unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

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.

2 Accounting policies (continued)

c) Revenue recognition (continued)

Renewable energy revenue includes sales of electricity and gas and the related green energy incentives. Revenue from energy sales is recognised when the electricity or gas is delivered to the national grid. Green energy incentives are recognised when the Group becomes entitled to them.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Exceptional items

Exceptional items are income or expenditure, which individually or in aggregate, if of a similar type, should, in the opinion of the directors, be disclosed by virtue of their size or nature if the financial statements are to give a true and fair view. In this context, materiality is assessed at the segment level.

e) Taxation

Current tax payable is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxation is measured on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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) below).

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Such assets are reviewed for impairment at least annually and where indications of impairment exist.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met:

- it is technically feasible to create and make the asset available for use or sale;
- there are adequate resources available to complete the development and to use or sell the asset;
- there is the intention and ability to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Research expenditure is expensed when it is incurred.

2 Accounting policies (continued)

h) Pre-contract costs

Incremental costs incurred in obtaining contracts with customers are recognised as a prepayment and written off to the income statement over the life of the contract where it is expected that the costs will be recovered.

All other costs of obtaining contracts are written off to the income statement as incurred.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS) less accumulated depreciation and impairment. Expenditure on property, plant and equipment relating to research and development projects is capitalised and depreciated over the expected useful life of those assets.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Where items of property, plant and equipment are transferred to the Group from customers or developers, the fair value of the asset transferred is recognised in the balance sheet. Fair value is determined based on estimated depreciated replacement cost. 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 of time to get ready for their intended use, the borrowing costs directly attributable to the acquisition, construction or production of these assets are added to their cost.

Property, plant and equipment is depreciated, using the straight-line method, to its estimated residual value over its estimated useful life, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives are:

	Years
Infrastructure assets	
Impounding reservoirs	250
Raw water aqueducts	250
Mains	80-150
Sewers	150-200
Other assets	
Buildings	30-80
Fixed plant and equipment	20-40
Vehicles and mobile plant	2-15

j) Leased assets

Where the Group enters into a contract that contains a lease, it recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at cost, which includes: the amount of the initial measurement of the lease liability (see below); any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs incurred by the Group; and an estimate of any remediation or similar costs required by the lease contract.

At the commencement date, the lease liability is measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Lease liabilities are included in borrowings.

Lease payments are treated as consisting of a capital element and a finance charge; the capital element reduces the lease liability and the finance charge is written off to the income statement at a constant rate over the period of the lease in proportion to the capital amount outstanding. Depreciation of the right-of-use asset is charged over the shorter of the estimated useful life and the lease period unless ownership is expected to transfer to the Group at the end of the lease, in which case the right-of-use asset is depreciated to the end of the useful life of the underlying asset.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in managing contracts.

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 as a result of new connections to the water and sewerage networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in turnover in the period that they become receivable.

2 Accounting policies (continued)

l) Impairment of non-current assets

If the recoverable amount of goodwill, an item of property, plant and equipment, or any other non-current asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell or estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing third parties, less costs of disposal. Value in use represents the present value of future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate that reflects current market assessments of the cost of capital of the cash-generating unit or asset.

The discount rate used is based on the Group's cost of capital adjusted for the risk profiles of individual businesses. For regulated businesses we use the WACC from Ofwat's latest price review adjusted for market changes since this date where appropriate.

Goodwill is tested for impairment annually. Impairment reviews are also carried out if there is an indication that an impairment may have occurred, or, where otherwise required, to ensure that non-current assets are not carried above their estimated recoverable amounts.

Impairment losses are recognised in the income statement.

m) Parent company investments

The parent company recognises investments in subsidiary undertakings at historical cost. Impairment losses are recognised in line with policy set out in l) above.

n) 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.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of the loans. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default over the remaining life of the asset at the reporting date with the risk of default for the same period at initial recognition. In making this assessment, the Group considers both quantitative and qualitative information about the risk of default that is reasonable and supportable, including forward-looking information that is available. This includes assessment of a deterioration in: actual or expected business; financial or economic conditions of the borrower; actual or expected operating results, cash flows and financial position of the borrower; and the regulatory, economic, or technological environment faced by the borrower.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Definition of default

The Group considers that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

p) Trade receivables and accrued income

Trade receivables and accrued income are measured at fair value on initial recognition. If there is objective evidence that the asset is impaired, it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense in operating costs.

The Group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the Group's historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

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.

2 Accounting policies (continued)

q) Retirement benefits (continued)

(i) Defined benefit schemes (continued)

Service cost, representing the cost of employee service in the year, is included in operating costs. Net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net obligation.

Changes in the retirement benefit obligation that arise from:

- differences between the return on scheme assets and interest income included in the income statement;
- actuarial gains and losses from experience adjustments; and
- changes in demographic or financial assumptions,

are classified as remeasurements, charged or credited to other comprehensive income and recorded in the statement of comprehensive income in the period in which they arise.

There is no contractual agreement, or stated policy, for charging the net defined benefit cost to participating Group companies. Therefore, the parent recognises a charge in the income statement which is equal to the contributions payable in the year. The net defined benefit cost for these schemes is recognised by the sponsoring employers, Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

(ii) Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

r) Provisions

Provisions are recognised where:

- there is a present obligation as a result of a past event;
- it is probable that there will be an outflow of economic benefits to settle this obligation; and
- a reliable estimate of this amount can be made.

Insurance provisions are recognised for claims notified and for claims incurred but which have not yet been notified, based on advice from the Group's independent insurance advisers.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability where the effect is material.

s) Purchase of own shares

Where market purchases of Severn Trent ordinary shares are made through an obligating contract, a liability for the present value of the redemption amount is recognised and charged to retained earnings. Payments for the purchase of shares are charged to the liability when made.

Shares held by the Severn Trent Employee Share Ownership Trust that have not vested unconditionally by the balance sheet date are deducted from shareholders' funds until such time as they vest.

t) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 u) and the accounting policy for lease liabilities is set out in note 2 j).

All other borrowings are initially recognised at fair value less issue costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method whereby interest and issue costs are charged to the income statement and added to the carrying value of borrowings at a constant rate in proportion to the capital amount outstanding.

Index-linked debt is adjusted for changes in the relevant inflation index and changes in value are charged to finance costs.

Borrowings denominated in foreign currency are translated to sterling at the spot rate on the balance sheet date. Exchange gains or losses resulting from this are credited or charged to gains/losses on financial instruments.

u) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 34 a). The accounting policy for changes in fair value depends on whether the derivative is designated as a hedging instrument. The various accounting policies are described below.

Interest receivable or payable in respect of derivative financial instruments is included in finance income or costs.

Derivatives not designated as hedging instruments

Gains or losses arising on remeasurement of derivative financial instruments that are not designated as hedging instruments are recognised in gains/losses on financial instruments in the income statement.

Derivatives designated as hedging instruments

The Group uses derivative financial instruments such as cross currency swaps, forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations.

At the inception of each hedge relationship, the Group documents:

- the economic relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- whether changes in fair value or the cash flows of the hedging instrument are expected to offset changes in fair values or cash flows (as appropriate) of the hedged item.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

Where a loan or borrowing is in a fair value hedging relationship it is remeasured for changes in fair value of the hedged risk at the balance sheet date, with gains or losses being recognised in gains/losses on financial instruments in the income statement. The gain or loss on the corresponding hedging instrument is also taken to gains/losses on financial instruments in the income statement so that the effective portion of the hedge will offset the gain or loss on the hedged item.

If hedge accounting is discontinued, the fair value adjustment arising from the hedged risk on the hedged item is amortised to the income statement over the anticipated remaining life of the hedged item.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity and the ineffective portion is charged to gains/losses on financial instruments in the income statement. When the gain or loss from the hedged underlying transaction is recognised in the income statement, the gains or losses on the hedging instrument that have previously been recognised in equity are recycled through gains/losses on financial instruments in the income statement.

2 Accounting policies (continued)

u) Derivative financial instruments (continued)

If hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument previously recognised in equity is held in equity until the forecast transaction occurs, or transferred to gains/losses on financial instruments in the income statement if the forecast transaction is no longer expected to occur. From this point the derivative is accounted for in the same way as derivatives not designated as hedging instruments. If the hedging instrument is terminated, the gains and losses previously recognised in equity are held in equity until either the forecast transaction occurs or the forecast transaction is no longer expected to occur.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if the host contract is not an asset within the scope of IFRS 9 and:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

v) Share based payment

The Group operates a number of equity settled share based compensation plans for employees. The fair value of the employee services received in exchange for the grant is recognised as an expense over the vesting period of the grant.

The fair value of employee services is determined by reference to the fair value of the awards granted, calculated using an appropriate pricing model, excluding the impact of any non-market vesting conditions. The number of awards that are expected to vest takes into account non-market vesting conditions including, where appropriate, continuing employment by the Group. The charge is adjusted to reflect shares that do not vest as a result of failing to meet a non-market condition.

Share based compensation plans are satisfied in shares of the parent company. Where the fair value of the awards is not recharged to participating Group companies, the parent company records the fair value of the awards as an increase in its investment in the subsidiary. The investment is adjusted to reflect shares that do not vest as a result of failing to meet a non-market based condition.

w) Cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Net cash and cash equivalents include overdrafts repayable on demand and amounts drawn under the Group's revolving credit facility.

Interest paid in the cash flow statement includes amounts charged to the income statement and amounts included in the cost of property, plant and equipment.

x) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except that:

- deferred tax assets or liabilities and retirement benefit assets or obligations are recognised and measured in accordance with the policies set out under notes 2 e) and 2 q) above; and
- assets or disposal groups that are classified as held for sale are measured in accordance with the policy set out below.

Where an asset or group of assets (a disposal group) is available for immediate sale and the sale is highly probable and expected to occur within one year, then the disposal group is classified as held for sale. The disposal group is measured at the lower of the carrying amount and the fair value less costs to sell. Depreciation is not charged on such assets.

Where the initial accounting for a business combination is incomplete at the end of the reporting period, the Group reports provisional amounts and finalises these within one year of the acquisition date (the 'measurement period').

Contingent consideration is measured at fair value at the acquisition date.

During the measurement period, changes in provisional fair values of assets and liabilities acquired, or of contingent consideration, are recognised as adjustments to goodwill or bargain purchase gain. Outside the measurement period, changes in fair value of contingent consideration that is not classified as equity are recognised in profit or loss.

3 New accounting policies and future requirements

At the balance sheet date, no Standards or Interpretations were in issue but not yet effective that are expected to have a material impact on the Group's financial position.

4 Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain judgments, estimates and assumptions that it believes are reasonable based on the information available. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

a) Critical accounting judgments

i) Classification of costs between operating expenditure and capital expenditure

Severn Trent Water's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that that Group has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure renewal expenditure during the year was £198.2 million (2021: £151.0 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £714.3 million (2021: £659.4 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 £69.0 million (2021: £44.9 million), infrastructure charges amounting to £25.0 million (2021: £20.0 million) and other charges relating to the provision of infrastructure amounting to £17.0 million (2021: £22.0 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.

iii) Accounting for the bulk annuity buy-in of the Severn Trent Mirror Image Pension Scheme ('STMIPS')

On 29 June 2021, the Group completed the bulk annuity buy-in of the STMIPS. Severn Trent Water Limited is the only employer in this scheme. As a result of the buy-in, the Group has obtained the right to reimbursement under an insurance policy of the benefits payable to scheme members. Although substantially all of the risks relating to this obligation are mitigated by the insurance policy, the legal obligation to pay the member benefits as they fall due remains with the Group. Therefore the Group concluded that this transaction did not represent a settlement under IAS 19.

As such the £29.6 million difference between the premium paid to secure the insurance policy and the accounting value of the liabilities covered by the buy-in has been recognised within other comprehensive income as part of the return on plan assets which forms part of the overall actuarial gain.

iv) 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 pages 35 to 45.

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.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty

i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	41.6
Infrastructure assets	147.6
Fixed plant and equipment	24.6
Moveable plant	11.2

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% increase in UEL £m	10% decrease in UEL £m
Land and buildings	(9.2)	11.2
Infrastructure assets	(3.7)	4.5
Fixed plant and equipment	(19.3)	23.6
Moveable plant	(0.7)	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 emerging economic factors such as the reduction in Universal Credit, rising National Insurance contributions and higher energy bills are expected to impact household disposable income and therefore the expected credit losses on trade receivables.

We based our assessment of the future impact of these economic factors on the Office for Budget Responsibility's most recent forecast of real disposable household incomes ('RDHI'), released in March 2022, which forecasted a 2.2% reduction in RDHI in 2022/23, with a return to 2021/22 levels not expected until 2024/25.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

	2022 £m	2021 £m
Gross carrying amount	**630.9**	563.9
Provision for bad and doubtful debts	**(135.0)**	(137.1)
Net carrying amount	**495.9**	426.8

Movements in the expected credit loss allowance are as follows:

	2022 £m	2021 £m
At 1 April	**137.1**	141.7
Charge for bad and doubtful debts	**24.6**	40.0
Amounts written off during the period	**(26.7)**	(44.6)
At 31 March	**135.0**	137.1

Previous economic assessments of RDHI had forecasted a lower expected decrease for 2022/23 than the most recent forecast's output of 2.2%. If our assessment of the future reduction in RDHI had been lower at 1.5%, the expected credit loss in the year would have been £3.2 million lower. Similarly, if our assessment of the future change in RDHI had been higher at 2.9%, the expected credit loss in the year would have been £3.2 million higher.

5 Segmental analysis

a) Background

The Group is organised into two main business segments:

Regulated Water and Waste Water includes the wholesale water and waste water activities of Severn Trent Water Limited, except property sales, and Hafren Dyfrdwy Cyfyngedig.

Business Services includes the Group's Operating Services businesses, the Green Power business, the Property Development business and our other non-regulated businesses including affinity products and searches.

The Severn Trent Executive Committee ('STEC') is considered to be the Group's chief operating decision maker. The reports provided to STEC include segmental information prepared on the basis described above.

Results from interests in our joint venture are not included in the segmental reports reviewed by STEC.

Goodwill is allocated and monitored at the segment level.

Transactions between reportable segments are included within segmental results, assets and liabilities in accordance with Group accounting policies. These are eliminated on consolidation.

The measure of profit or loss that is reported to STEC for the segments is adjusted PBIT. A segmental analysis of turnover and adjusted PBIT is presented below.

b) Segmental results

The following table shows the segmental turnover and PBIT:

	2022		2021	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
External turnover	**1,804.4**	**139.4**	1,693.9	132.9
Inter-segment turnover	**–**	**4.2**	–	1.8
Total turnover	**1,804.4**	**143.6**	1,693.9	134.7
Adjusted PBIT	**476.3**	**38.5**	452.1	25.8
Amortisation of acquired intangible assets	**–**	**(2.1)**	–	(2.1)
Profit before interest and tax	**476.3**	**36.4**	452.1	23.7

Adjusted profit before interest, tax and exceptional items is stated after:

	2022		2021	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Depreciation of property, plant and equipment	**350.6**	**11.1**	331.3	10.7
Depreciation of right-of-use assets	**1.0**	**2.8**	1.4	2.0
Amortisation of intangible assets	**33.4**	**0.8**	31.3	0.8
Loss/(profit) on disposal of fixed assets	**2.5**	**(7.9)**	0.1	(2.3)

5 Segmental analysis (continued)

b) Segmental results (continued)

The reportable segments' turnover is reconciled to Group turnover as follows:

	2022 £m	2021 £m
Regulated Water and Waste Water	**1,804.4**	1,693.9
Business Services	**143.6**	134.7
Corporate and other	**1.1**	0.9
Consolidation adjustments	**(5.8)**	(2.3)
	1,943.3	1,827.2

Included in the revenues of Regulated Water and Waste Water of £1,804.4 million (2021: £1,693.9 million) is £259.8 million (2021: £216.1 million) which arose from sales to Water Plus Group. No other single customer contributed 10% or more to the Group's revenue for either 2022 or 2021.

Segmental adjusted PBIT is reconciled to the Group's profit before tax as follows:

	2022 £m	2021 £m
Regulated Water and Waste Water	**476.3**	452.1
Business Services	**38.5**	25.8
Corporate and other	**(6.9)**	(5.1)
Consolidation adjustments	**0.4**	–
Adjusted PBIT	**508.3**	472.8
Amortisation of acquired intangible assets (Business Services)	**(2.1)**	(2.1)
Net finance costs	**(269.4)**	(187.1)
Reduction in expected credit loss on loan receivable	**0.2**	3.6
Net gains/(losses) on financial instruments	**39.3**	(6.2)
Share of net loss of joint venture accounted for using the equity method	**(2.2)**	(13.8)
Profit on ordinary activities before taxation	**274.1**	267.2

The Group's treasury and tax affairs are managed centrally by the Group Treasury and Tax departments. Finance costs are managed on a Group basis and hence interest income and costs are not reported at the segmental level. Tax is not reported to STEC on a segmental basis.

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.

	2022		2021	
	Regulated Water and Waste Water £m	Business Services £m	Regulated Water and Waste Water £m	Business Services £m
Operating assets	**10,869.7**	**337.4**	10,433.4	331.0
Goodwill	**63.5**	**29.2**	63.5	29.2
Segment assets	**10,933.2**	**366.6**	10,496.9	360.2
Segment operating liabilities	**(2,158.8)**	**(29.6)**	(2,174.4)	(40.0)
Capital employed	**8,774.4**	**337.0**	8,322.5	320.2

Operating assets comprise other intangible assets, property, plant and equipment, right-of-use assets, retirement benefit surpluses, inventory and trade and other receivables.

Operating liabilities comprise trade and other payables, retirement benefit obligations and provisions.

5 Segmental analysis (continued)

c) Segmental capital employed (continued)

The reportable segments' assets are reconciled to the Group's total assets as follows:

	2022 £m	2021 £m
Segment assets		
Regulated Water and Waste Water	**10,933.2**	10,496.9
Business Services	**366.6**	360.2
Corporate and other	**4.5**	3.5
Other financial assets	**174.2**	97.1
Investment in joint venture	**16.5**	–
Loan receivable from joint venture	**79.6**	84.0
Current tax receivable	**6.2**	–
Consolidation adjustments	**(26.6)**	(18.6)
Total assets	**11,554.2**	11,023.1

The consolidation adjustments comprise elimination of intra-group debtors and unrealised profits on fixed assets.

The reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

	2022 £m	2021 £m
Segment liabilities		
Regulated Water and Waste Water	**(2,158.8)**	(2,174.4)
Business Services	**(29.6)**	(40.0)
Corporate and other	**(38.2)**	(46.0)
Other financial liabilities	**(6,774.2)**	(6,742.8)
Current tax	**–**	(0.2)
Deferred tax	**(1,320.6)**	(906.0)
Consolidation adjustments	**31.1**	25.0
Total liabilities	**(10,290.3)**	(9,884.4)

The consolidation adjustments comprise elimination of intra-group creditors.

The following table shows the additions to other intangible assets, property, plant and equipment and right-of-use assets:

	2022		2021	
	Regulated Water and Waste Water £m	**Business Services £m**	Regulated Water and Waste Water £m	Business Services £m
Other intangible assets	**35.9**	**0.4**	21.7	0.5
Property, plant and equipment	**694.3**	**20.0**	652.1	8.3
Right-of-use assets	**2.7**	**1.5**	0.5	5.1

5 Segmental analysis (continued)

d) Geographical areas

The Group's sales were derived from the following countries:

	2022 £m	2021 £m
UK	**1,943.3**	1,825.4
Other	**–**	0.3
	1,943.3	1,825.7

The Group's non-current assets (excluding financial instruments, deferred tax assets and post-employment benefit assets) were located in the UK in 2022 and 2021.

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 2022	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	**1,755.9**	**–**	**–**	**–**	**1,755.9**
Operating services	**–**	**74.4**	**–**	**–**	**74.4**
Renewable energy	**44.4**	**55.5**	**–**	**(4.2)**	**95.7**
Other sales	**4.1**	**13.7**	**1.1**	**(1.6)**	**17.3**
	1,804.4	**143.6**	**1.1**	**(5.8)**	**1,943.3**

Year ended 31 March 2021	Regulated Water and Waste Water £m	Business Services £m	Corporate and other £m	Consolidation adjustments £m	Group £m
Water and waste water services	1,664.8	–	–	–	1,664.8
Operating services	–	70.3	–	–	70.3
Renewable energy	27.4	51.9	–	(1.8)	77.5
Other sales	1.7	12.5	0.9	(0.5)	14.6
	1,693.9	134.7	0.9	(2.3)	1,827.2

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.

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.

6 Revenue from contracts with customers (continued)

Other than the provision of water and waste water services, there is no direct correlation between the satisfaction of the performance obligations and the timing of billing and customer payments. The estimated transaction price for the contract is derived from estimates of the customer's consumption at the contract tariff rate, adjusted for inflation. This estimate is updated on an annual basis. There was no significant change in the estimated transaction price in the year. At 31 March 2022 the aggregate amount of the estimated transaction price allocated to performance obligations that were not satisfied was £396.3 million (2021: £416.1 million). This amount is expected to be recognised as revenue as follows:

	2022 £m	2021 £m
In the next year	**49.0**	46.2
Between one and five years	**197.4**	184.4
After more than five years	**149.9**	185.5
	396.3	416.1

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:

	2022 £m	2021 £m
Contract asset at 1 April	**38.2**	36.6
Amounts billed	**(49.9)**	(49.0)
Revenue recognised	**51.6**	50.6
Contract asset at 31 March	**39.9**	38.2

No contract liabilities arose from the Group's Operating Services contract with the MOD.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income were as follows:

	2022 £m	2021 £m
At 1 April	**1,259.1**	1,188.3
Contributions and grants received	**42.8**	41.4
Assets transferred at no cost	**69.0**	44.9
Amounts released to income statement	**(17.5)**	(15.5)
At 31 March	**1,353.4**	1,259.1

Revenue amounting to £17.5 million (2021: £15.5 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 (2021: 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.

Revenue from the remaining performance obligations is expected to be recognised as follows:

	2022 £m	2021 £m
In the next year	**29.5**	15.1
Between one and five years	**118.0**	60.4
After more than five years	**1,205.9**	1,183.6
	1,353.4	1,259.1

7 Net operating costs

	2022			2021		
	Adjusted £m	Adjusting items £m	Total £m	Adjusted £m	Adjusting items £m	Total £m
Wages and salaries	**299.1**	**–**	**299.1**	287.8	–	287.8
Social security costs	**30.9**	**–**	**30.9**	28.0	–	28.0
Pension costs	**28.2**	**–**	**28.2**	27.1	–	27.1
Share based payments	**8.3**	**–**	**8.3**	7.8	–	7.8
Total employee costs	**366.5**	**–**	**366.5**	350.7	–	350.7
Power	**110.9**	**–**	**110.9**	99.3	–	99.3
Raw materials and consumables	**81.3**	**–**	**81.3**	75.6	–	75.6
Rates	**84.3**	**–**	**84.3**	83.6	–	83.6
Charge for bad and doubtful debts	**24.6**	**–**	**24.6**	40.0	–	40.0
Services charges	**36.5**	**–**	**36.5**	38.6	–	38.6
Depreciation of tangible fixed assets	**361.5**	**–**	**361.5**	342.0	–	342.0
Depreciation of right-of-use assets	**3.8**	**–**	**3.8**	3.6	–	3.6
Amortisation of intangible fixed assets	**34.2**	**2.1**	**36.3**	32.1	2.1	34.2
Hired and contracted services	**256.9**	**–**	**256.9**	246.7	–	246.7
Rental charges						
– land and buildings	**0.1**	**–**	**0.1**	0.4	–	0.4
– other	**0.5**	**–**	**0.5**	1.0	–	1.0
Hire of plant and machinery	**9.3**	**–**	**9.3**	7.7	–	7.7
Profit on disposal of property, plant and equipment	**(5.4)**	**–**	**(5.4)**	(2.2)	–	(2.2)
Exchange losses	**0.5**	**–**	**0.5**	0.2	–	0.2
Infrastructure maintenance expenditure	**198.2**	**–**	**198.2**	151.0	–	151.0
Ofwat licence fees	**4.9**	**–**	**4.9**	4.5	–	4.5
Other operating costs	**63.3**	**–**	**63.3**	60.9	–	60.9
Other operating income	**(3.3)**	**–**	**(3.3)**	(2.3)	–	(2.3)
	1,628.6	**2.1**	**1,630.7**	1,533.4	2.1	1,535.5
Own work capitalised	**(188.3)**	**–**	**(188.3)**	(179.0)	–	(179.0)
	1,440.3	**2.1**	**1,442.4**	1,354.4	2.1	1,356.5

Other adjusting costs are amortisation of acquired intangible assets.

7 Net operating costs (continued)

During the year the following fees were charged by the auditor:

	2022 £m	2021 £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	**0.6**	0.6
Total audit fees	**0.9**	0.9
Fees payable to the Company's auditor and its associates for other services to the Group:		
– audit related assurance services	**0.2**	0.1
– other assurance services	**0.1**	0.1
Total non-audit fees	**0.3**	0.2

Other assurance services also include certain agreed upon procedures performed by Deloitte in connection with Severn Trent Water's regulatory reporting requirements to Ofwat.

Details of the Group policy on the use of the auditor for non-audit services and how auditor independence and objectivity are safeguarded are set out in the Audit and Risk Committee Report on pages 119 and 120. No services were provided pursuant to contingent fee arrangements.

Details of directors' remuneration are set out in the Directors' remuneration report on pages 128 to 148.

8 Exceptional items before tax

	2022 £m	2021 £m
Share of net losses of joint venture	**–**	(4.9)

In the previous year the Group recognised £4.9 million of previously unrecognised losses as an exceptional item.

9 Employee numbers

Average number of employees (including Executive Directors) during the year:

	2022	2021
By business segment		
Regulated Water and Waste Water	**6,612**	6,536
Business Services	**492**	486
Corporate and other	**14**	11
	7,118	7,033

10 Finance income

	2022 £m	2021 £m
Interest income earned on bank deposits	**0.1**	0.1
Other financial income	**1.8**	2.4
Total interest receivable	**1.9**	2.5
Interest income on defined benefit scheme assets	**52.8**	57.3
	54.7	59.8

11 Finance costs

	2022 £m	2021 £m
Interest expense charged on:		
Bank loans and overdrafts	**14.7**	11.4
Other loans	**243.5**	166.1
Lease liabilities	**4.0**	4.3
Total borrowing costs	**262.2**	181.8
Other financial expenses	**2.4**	2.4
Interest cost on defined benefit scheme liabilities	**59.5**	62.7
	324.1	246.9

Borrowing costs of £34.5 million (2021: £30.4 million) incurred funding eligible capital projects have been capitalised at an interest rate of 4.11% (2021: 2.44%). Tax relief of £6.5 million (2021: £5.8 million) was claimed on these costs which was credited to the income statement, offset by a related deferred tax charge of £8.6 million (2021: £5.8 million).

12 Net gains/(losses) on financial instruments

	2022 £m	2021 £m
Loss on swaps used as hedging instruments in fair value hedges	**(1.0)**	(8.1)
Gain arising on debt in fair value hedges	**1.6**	4.2
Exchange (loss)/gain on other loans	**(6.6)**	14.8
Net loss on cash flow hedges transferred from equity	**(6.8)**	(8.2)
Hedge ineffectiveness on cash flow hedges	**(0.6)**	(2.0)
Gain/(loss) arising on swaps where hedge accounting is not applied	**51.5**	(8.2)
Amortisation of fair value adjustment on debt	**1.2**	1.2
Gain on swap termination	**–**	0.1
	39.3	(6.2)

The gains from financial assets and liabilities mandatorily measured at fair value through profit or loss was £50.5 million (2021: loss of £16.3 million). There were no financial assets or liabilities designated at fair value through the profit or loss (2021: nil).

The Group's hedge accounting arrangements are described in note 36.

13 Taxation

a) Analysis of tax charge in the year

	2022 £m	2021 £m
Current tax		
Current year at 19% (2021: 19%)	**–**	30.4
Prior years	**(4.8)**	(3.6)
Total current tax (credit)/charge	**(4.8)**	26.8
Deferred tax		
Origination and reversal of temporary differences:		
Current year	**66.7**	23.7
Prior years	**5.0**	4.5
Exceptional charge on rate change	**294.4**	–
Total deferred tax charge	**366.1**	28.2
	361.3	55.0

An exceptional deferred tax charge of £294.4 million arose from recalculating opening deferred tax liabilities at 25% (see note 27).

b) Factors affecting the tax charge in the year

The tax expense for the year is higher (2021: higher) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Profit before taxation	**274.1**	267.2
Tax at standard rate of corporation tax in the UK 19% (2021: 19%)	**52.1**	50.8
Tax effect of depreciation on non-qualifying assets	**1.9**	4.0
Permanent difference from super deductions	**(5.3)**	–
Other permanent differences	**2.1**	(0.7)
Current year impact of rate change	**15.9**	–
Adjustments in respect of prior years	**0.2**	0.9
Exceptional deferred tax arising from rate change	**294.4**	–
Total tax charge	**361.3**	55.0

	2022 £m	2021 £m
Profit before taxation	**274.1**	267.2
Tax at standard rate of corporation tax in the UK 19% (2021: 19%)	**52.1**	50.8
Tax effect of depreciation on non-qualifying assets	**1.9**	4.0
Permanent difference from super deductions	**(5.3)**	–
Other permanent differences	**2.1**	(0.7)
Tax effect of accelerated capital allowances	**(40.8)**	(21.1)
Other temporary differences	**(10.0)**	(2.6)
Adjustments in respect of prior years	**(4.8)**	(3.6)
Total current tax (credit)/charge	**(4.8)**	26.8

13 Taxation (continued)

b) Factors affecting the tax charge in the year (continued)

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.

On 3 March 2021, the UK Government announced the introduction of a capital allowance 'super deduction' which gives an in-year capital allowance of 130% on the cost of plant and machinery qualifying for the relief and an acceleration of capital allowances on the cost of assets qualifying for special rate allowances. The introduction of these changes mean the Group is eligible to claim more capital allowances in the current year to the extent that the Group will not be liable to pay corporation tax for the year.

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.

Temporary differences are reflected at 19% in current tax and 25% in deferred tax. The deferred tax impact is £15.9 million higher than the current tax benefit and this results in a higher total tax charge.

The amounts included for tax liabilities in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

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 27.

c) Tax charged/(credited) directly to other comprehensive income or equity

In addition to the amount charged/(credited) to the income statement, the following amounts of tax have been charged/(credited) to other comprehensive income or equity:

	2022 £m	2021 £m
Current tax on:		
Share based payments	**–**	(0.4)
Total current tax credited to other comprehensive income or equity	**–**	(0.4)
Deferred tax on:		
Actuarial gains	**47.1**	(30.8)
Cash flow hedges	**13.0**	6.3
Share based payments	**(4.9)**	(0.4)
Transfers to the income statement	**1.7**	1.6
Effect of change in tax rate	**(8.4)**	–
Total deferred tax charged/(credited) to other comprehensive income or equity	**48.5**	(23.7)

14 Dividends

Amounts recognised as distributions to owners of the Company in the year:

	2022		2021	
	Pence per share	£m	Pence per share	£m
Final dividend for the year ended 31 March 2021 (2020)	**60.95**	**152.2**	60.05	143.1
Interim dividend for the year ended 31 March 2022 (2021)	**40.86**	**102.3**	40.63	97.1
Total dividends paid	**101.81**	**254.5**	100.68	240.2
Proposed final dividend for the year ended 31 March 2022	**61.28**	**155.3**		

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

15 Earnings per share

a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding treasury shares and those held in the Severn Trent Employee Share Ownership Trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the period. 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

	2022 £m	2021 £m
(Loss)/profit for the period	**(87.2)**	212.2

ii) Number of shares

	2022 £m	2021 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**247.9**	238.1
Effect of dilutive potential ordinary shares:		
– share options and LTIPs	**–**	1.3
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**247.9**	239.4

Unvested share options and LTIPs have not been treated as dilutive potential ordinary shares in 2022 because their conversion would decrease loss per share

15 Earnings per share (continued)

b) Adjusted earnings per share

	2022 pence	2021 pence
Adjusted basic earnings per share	**96.9**	105.4
Adjusted diluted earnings per share	**96.4**	104.8

Adjusted earnings per share figures exclude the effects of exceptional items, current tax related to exceptional items, amortisation of acquired intangible assets, gains/losses on financial instruments, current tax related to gains/losses on financial instruments and deferred tax. The directors consider that the adjusted figures provide a useful additional indicator of performance. The denominators used in the calculations of adjusted basic and diluted earnings per share are the same as those used in the unadjusted figures set out above, except that the share options and LTIPs are treated as dilutive potential ordinary shares because their conversion would decrease adjusted earnings per share. This increases the weighted average number of shares for the purpose of calculating adjusted diluted earnings per share by 1.4 million to 249.3 million shares.

The adjustments to earnings that are made in calculating adjusted earnings per share are as follows:

	2022 £m	2021 £m
Earnings for the purpose of basic and diluted earnings per share	**(87.2)**	212.2
Adjustments for:		
– exceptional items before tax	**–**	4.9
– amortisation of acquired intangible assets	**2.1**	2.1
– net (gains)/losses on financial instruments	**(39.3)**	6.2
– current tax on net gains/losses on financial instruments	**(1.4)**	(2.6)
– deferred tax	**366.1**	28.2
Earnings for the purpose of adjusted basic and diluted earnings per share	**240.3**	251.0

16 Goodwill

	2022 £m	2021 £m
Cost		
At 1 April and 31 March	**91.4**	91.4

Goodwill relates to specific cash-generating units (CGUs) hence no allocation of goodwill is required. A summary of the carrying amount of goodwill by CGU is presented below.

	2022 £m	2021 £m
Regulated Water and Waste Water	**62.2**	62.2
Green Power	**29.2**	29.2
	91.4	91.4

Regulated Water and Waste Water also has an intangible asset with indefinite useful life amounting to £4.3 million (2021: £4.3 million). This is reviewed for impairment as part of the Regulated Water and Waste Water impairment review, set out in note 16(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 and 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 2027.

16 Goodwill (continued)

a) Regulated Water and Waste Water (continued)

The key assumptions underlying these projections are the cash flows in the projections and the following:

Key assumption	%
Discount rate	5.4
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. 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.

The fair value less costs to sell for the CGU exceeded its carrying value by £5,106 million. An increase in the discount rate to 6.4% 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.

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 2027.

The key assumptions underlying these projections are the cash flows in the projections and:

Key assumption	%
Discount rate	7.1
Growth rate in the period beyond the detailed projections	2.0

The discount rate was based on a review of a range of external sources of information about the cost of capital for the Severn Trent energy business. This rate was then converted to the equivalent pre-tax discount rate disclosed above.

Cash flows beyond the end of the five-year period are extrapolated using an assumed growth of 2.0% in the Group's free cash flows, informed through external market trends.

The value in use for the CGU exceeded its carrying value by £35.7 million. An increase in the discount rate to 8.7% or reduction in the growth rate in the period beyond the detailed projections to 0.5% would reduce the recoverable amount to the carrying amount of the CGU.

17 Other intangible assets

	Computer software		Capitalised development costs, patents and other rights	Other intangible assets	Total
	Internally generated £m	Purchased £m	£m	£m	£m
Cost					
At 1 April 2020	279.8	152.9	12.8	35.8	481.3
Additions	10.8	11.4	–	–	22.2
Disposals	(8.9)	(1.8)	–	–	(10.7)
Transfers from property, plant and equipment	22.2	–	–	–	22.2
At 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)
Net transfers from property, plant and equipment	11.3	3.0	1.3	–	15.6
At 31 March 2022	**337.0**	**180.0**	**1.3**	**35.8**	**554.1**
Amortisation					
At 1 April 2020	(205.3)	(106.6)	(12.8)	(2.8)	(327.5)
Amortisation for the year	(20.0)	(12.1)	–	(2.1)	(34.2)
Disposals	8.9	1.8	–	–	10.7
At 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 31 March 2022	**(241.9)**	**(125.6)**	**–**	**(7.0)**	**(374.5)**
Net book value					
At 31 March 2022	**95.1**	**54.4**	**1.3**	**28.8**	**179.6**
At 31 March 2021	87.5	45.6	–	30.9	164.0

Other intangible assets include the instrument of appointment acquired with Dee Valley Water and customer contracts and energy subsidy contracts both acquired with Agrivert. The instrument of appointment has an indefinite useful life and as such the carrying value has been included in the impairment assessment performed for the Regulated Water and Waste Water CGU described in note 16. As at 31 March 2022 nil impairment was recorded (2021: nil).

18 Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Fixed plant and equipment £m	Moveable plant £m	Assets under construction £m	Total £m
Cost						
At 1 April 2020	3,754.1	5,497.7	4,340.7	67.2	1,492.8	15,152.5
Additions	121.6	108.9	226.0	6.4	196.5	659.4
Transfers on commissioning	144.4	166.6	258.1	2.5	(571.6)	–
Transfers to intangible assets	–	–	–	–	(22.2)	(22.2)
Disposals	(5.1)	–	(32.0)	(3.8)	(0.2)	(41.1)
At 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)	–
Net transfers to intangible assets	–	–	–	–	(15.6)	(15.6)
Disposals	(3.9)	–	(8.6)	(4.9)	(3.0)	(20.4)
At 31 March 2022	**4,201.7**	**6,006.6**	**5,230.4**	**80.4**	**907.8**	**16,426.9**
Depreciation						
At 1 April 2020	(1,451.5)	(1,393.6)	(2,690.6)	(36.0)	–	(5,571.7)
Charge for the year	(95.7)	(41.1)	(199.5)	(5.7)	–	(342.0)
Disposals	5.0	–	32.0	3.3	–	40.3
At 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 31 March 2022	**(1,639.6)**	**(1,475.4)**	**(3,062.5)**	**(41.0)**	**–**	**(6,218.5)**
Net book value						
At 31 March 2022	**2,562.1**	**4,531.2**	**2,167.9**	**39.4**	**907.8**	**10,208.4**
At 31 March 2021	2,472.8	4,338.5	1,934.7	33.9	1,095.3	9,875.2

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £69.0 million (2021: £44.9 million).

The net book value of land and buildings is analysed as follows:

	2022 £m	2021 £m
Freehold	**2,561.8**	2,472.5
Short leasehold	**0.3**	0.3
	2,562.1	2,472.8

19 Leases

a) The Group's leasing activities

The Group leases various properties, equipment and vehicles. Lease agreements are typically made for fixed periods of up to 999 years but may have extension options as described in note 2 j).

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:

	2022 £m	2021 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**1.4**	1.3
Infrastructure assets	**1.1**	1.2
Fixed plant and equipment	**0.2**	0.4
Moveable plant	**1.1**	0.7
Total depreciation of right-of-use assets	**3.8**	3.6
Interest expense included in finance cost	**4.0**	4.3
Expense relating to short-term leases included in operating costs	**0.5**	1.0
Expense relating to leases of low value assets included in operating costs	**0.1**	0.4

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	2022 £m	2021 £m
Right-of-use assets:		
Land and buildings	**12.3**	11.8
Infrastructure assets	**111.5**	112.6
Fixed plant and equipment	**4.1**	4.3
Moveable plant	**2.0**	2.1
	129.9	130.8

Additions to right-of-use assets were £4.2 million (2021: £5.6 million). Disposals were £0.2 million (2021: nil). Extension of lease terms during the year has resulted in a reduction in dilapidation provisions included in right-of-use assets of £1.1 million (2021: nil).

	2022 £m	2021 £m
Lease liabilities:		
Current	**7.1**	7.7
Non-current	**110.3**	113.6
	117.4	121.3

19 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities were as follows:

	2022 £m	2021 £m
Within 1 year	**11.0**	13.2
1 – 2 years	**11.2**	9.8
2 – 5 years	**35.5**	32.4
After more than 5 years	**95.0**	100.7
Gross obligations under leases	**152.7**	156.1
Less future finance charges	**(35.3)**	(34.8)
Present value of lease obligations	**117.4**	121.3

Net obligations under leases were as follows:

	2022 £m	2021 £m
Within 1 year	**7.1**	7.7
1 – 2 years	**7.4**	6.3
2 – 5 years	**25.9**	22.9
After more than 5 years	**77.0**	84.5
Included in non-current liabilities	**110.3**	113.7
	117.4	121.3

d) Cash flow

The total cash outflow for leases in the year was £16.1 million (2021: £9.9 million) which consists of £4.0 million (2021: £4.3 million) repayments of interest and £12.1 million (2021: £5.6 million) repayment of principal elements. This is included in financing cash flows.

20 Interests in joint venture

Particulars of the Group's principal joint venture undertaking at 31 March 2022 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:

	2022 £m	2021 £m
Carrying value of joint venture investment at 1 April	**–**	–
Reclassification on subscription for equity	**18.7**	–
RCF reclassified as additional long-term investment	**–**	32.5
Group's unrecognised losses after tax from prior year	**–**	(4.9)
Group's share of loss after tax and comprehensive loss	**(2.2)**	(8.9)
As at 31 March	**16.5**	18.7
Amount included in long-term loans and receivables	**–**	(18.7)
Carrying value of joint venture investment at 31 March	**16.5**	–

20 Interests in joint ventures (continued)

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. In the prior year, the classification of the loan to Water Plus as a non-current loan receivable which formed part of the Group's net investment in Water Plus was disclosed as a critical accounting judgment. Following the subscription for equity shares, this is no longer considered a key judgment for the Group.

During the current year, the Group has recognised its share of Water Plus's losses of £2.2 million against the value of the investment.

As at 31 March 2022 and 2021 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 2022 or 2021.

The Company has given guarantees in favour of Water Plus Limited in respect of the joint venture's liabilities to wholesalers in the Open Water market. The guarantee is capped at £54.1 million (2021: £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	2022 £m	2021 £m
Non-current assets	**41.6**	27.6
Current assets[1]	**367.3**	263.6
Current liabilities[2]	**(154.5)**	(55.2)
Non-current liabilities[3]	**(241.4)**	(284.4)
Net assets/liabilities	**13.0**	(48.4)

1 Includes cash of £24.4 million (2021: £20.3 million)

2 Includes current financial liabilities (excluding trade and other payables and provisions) of £0.1 million (2021: nil)

3 Includes non-current financial liabilities of £240.3 million (2021: £282.9 million)

For the year ended 31 March	2022 £m	2021 £m
Revenue	**750.9**	722.6
Depreciation and amortisation	**(6.6)**	(5.3)
Finance income	**4.0**	3.2
Finance costs	**(7.7)**	(8.5)
Tax credit	**4.2**	2.2
Loss for the year	**(3.5)**	(17.7)
Comprehensive loss for the year	**(3.5)**	(17.7)

The below shows a reconciliation from the net assets/liabilities of Water Plus to the carrying value as above:

	2022 £m	2021 £m
Net assets/(liabilities) of Water Plus at 31 March	**13.0**	(48.4)
Severn Trent's share of net assets/(liabilities)	**6.5**	(24.2)
Water Plus financial liabilities classified as part of net investment in joint venture	**9.8**	23.6
Other	**0.2**	0.6
Carrying value of joint venture investment at 31 March	**16.5**	-

The net assets/liabilities 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/liabilities of Water Plus will be reflected in the financial statements prepared to 31 March 2023.

21 Categories of financial assets

	Note	2022 £m	2021 £m
Fair value through profit and loss			
Cross currency swaps – not hedge accounted		**13.7**	16.0
Interest rate swaps – not hedge accounted		**2.9**	–
		16.6	16.0
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**14.6**	16.5
Energy hedges – cash flow hedges		**27.6**	8.4
		42.2	24.9
Total derivative financial assets		**58.8**	40.9
Financial assets at amortised cost			
Trade receivables	22	**217.7**	207.8
Accrued income	22	**278.2**	219.0
Other amounts receivable	22	**58.8**	45.9
Loan receivable from joint venture	22	**79.6**	84.0
Short term deposits	23	**75.0**	–
Cash at bank and in hand	23	**40.4**	56.2
Total financial assets at amortised cost		**749.7**	612.9
Total financial assets		**808.5**	653.8
Disclosed in the balance sheet as:			
Non-current assets			
Derivative financial assets		**31.2**	37.1
Trade and other receivables		**6.7**	10.6
Loan receivable from joint venture		**79.6**	84.0
		117.5	131.7
Current assets			
Derivative financial assets		**27.6**	3.8
Trade and other receivables		**548.0**	462.1
Cash and cash equivalents		**115.4**	56.2
		691.0	522.1
		808.5	653.8

22 Trade and other receivables

	2022 £m	2021 £m
Current assets		
Net trade receivables	**217.7**	207.8
Other amounts receivable	**52.1**	35.3
Contract assets	**39.9**	38.2
Prepayments	**18.5**	14.9
Net accrued income	**278.2**	219.0
	606.4	515.2
Non-current assets		
Other amounts receivable	**6.7**	10.6
Prepayments	**5.8**	6.9
Loan receivable from joint venture	**79.6**	84.0
	92.1	101.5
	698.5	616.7

Prepayments includes unamortised success fees paid as a result of winning the MOD contract (see note 6) amounting to £4.8 million (2021: £5.3 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 92% of net trade receivables. Severn Trent Water has a statutory obligation to provide water and waste water services to domestic customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within its region.

In the current and prior year, the Group's joint venture, Water Plus, was the largest retailer for non-domestic customers in the Severn Trent region. The trade receivables and amounts shown as loans receivable from joint ventures are disclosed within note 42, 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 (2021: 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 (2021: nil).

(iii) Loan receivable from joint venture

As well as trade receivables from Water Plus the Group has advanced loans to its joint venture. These loans are assessed for impairment under the two stage impairment model in IFRS 9.

22 Trade and other receivables (continued)

b) Expected credit loss allowance

(i) Trade receivables and accrued income

The expected credit loss at 31 March 2022 and 2021 was as set out below. The expected loss rate disclosed is calculated as the expected loss on the total amount originally billed for each age category.

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

2021	Expected loss rate %	Gross carrying amount £m	Loss allowance £m	Net carrying amount £m
Not past due	5	285.1	(14.4)	270.7
Up to 1 year past due	29	85.1	(24.6)	60.5
1 – 2 years past due	45	57.4	(25.7)	31.7
2 – 3 years past due	49	43.2	(21.2)	22.0
3 – 4 years past due	47	32.9	(15.4)	17.5
4 – 5 years past due	49	22.1	(10.8)	11.3
5 – 6 years past due	62	16.2	(10.0)	6.2
6 – 7 years past due	62	10.6	(6.6)	4.0
7 – 8 years past due	61	4.9	(3.0)	1.9
8 – 9 years past due	64	2.8	(1.8)	1.0
More than 9 years past due	100	3.6	(3.6)	–
		563.9	(137.1)	426.8

22 Trade and other receivables (continued)

b) Expected credit loss allowance (continued)

(i) Trade receivables and accrued income (continued)

Movements on the expected credit loss allowance were as follows:

	2022 £m	2021 £m
At 1 April	**137.1**	141.7
Charge for bad and doubtful debts	**24.6**	40.0
Amounts written off during the year	**(26.7)**	(44.6)
At 31 March	**135.0**	137.1

(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 £80.7 million (2021: £85.3 million) from Water Plus, in the light of significant losses incurred by Water Plus. Following continued losses from Water Plus in the current year, the Group determines that there continues to be an increase in credit risk since inception on the loan receivable balance from Water Plus, albeit at a reduced level to the prior year. The Group has therefore assessed the lifetime expected credit loss of its loans to Water Plus at 31 March 2022 (2021: lifetime expected credit loss) based on Water Plus's financial projections, taking into account the expected impact of COVID-19 in more than one scenario, as this is considered to be reasonable and supportable forward-looking information. The Group has reduced the expected credit loss provision to £1.1 million (2021: £1.3 million) resulting in a net loan receivable of £79.6 million (2021: £84.0 million).

23 Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank and in hand	**40.4**	56.2
Short term deposits	**75.0**	–
	115.4	56.2

£24.6 million (2021: £22.1 million) of cash at bank and in hand is restricted for use on the MOD contract and £0.5 million (2021: £0.3 million) is held as security for insurance obligations. Neither are available for use by the Group.

24 Borrowings

	2022 £m	2021 £m
Current liabilities		
Bank overdraft	**7.7**	12.2
Bank loans	**3.7**	232.0
Other loans	**346.7**	251.2
Lease liabilities	**7.1**	7.7
	365.2	503.1
Non-current liabilities		
Bank loans	**778.8**	779.1
Other loans	**5,476.8**	5,220.1
Lease liabilities	**110.3**	113.6
	6,365.9	6,112.8
	6,731.1	6,615.9

See note 35 for details of interest rates payable and maturity of borrowings.

25 Categories of financial liabilities

	Note	2022 £m	2021 £m
Fair value through profit and loss			
Interest rate swaps – not hedge accounted		**37.0**	64.0
Inflation swaps – not hedge accounted		**3.7**	32.1
		40.7	96.1
Derivatives designated as hedging instruments			
Cross currency swaps – fair value hedges		**–**	0.6
Interest rate swaps – cash flow hedges		**2.6**	30.2
		2.6	30.8
Total derivative financial liabilities		**43.3**	126.9
Other financial liabilities			
Borrowings	24	**6,731.1**	6,615.9
Trade payables	26	**89.1**	40.8
Other payables	26	**13.4**	8.7
Total other financial liabilities		**6,833.6**	6,665.4
Total financial liabilities		**6,876.9**	6,792.3
Disclosed in the balance sheet as:			
Non-current liabilities			
Derivative financial liabilities		**43.3**	126.9
Borrowings		**6,365.9**	6,112.8
		6,409.2	6,239.7
Current liabilities			
Borrowings		**365.2**	503.1
Trade payables		**89.1**	40.8
Other payables		**13.4**	8.7
		467.7	552.6
		6,876.9	6,792.3

26 Trade and other payables

	2022 £m	2021 £m
Current liabilities		
Trade payables	**89.1**	40.8
Social security and other taxes	**11.1**	7.6
Other payables	**13.4**	8.7
Accruals	**512.4**	484.9
Deferred income	**29.5**	15.1
	655.5	557.1
Non-current liabilities		
Accruals	**10.1**	6.3
Deferred income	**1,323.9**	1,244.0
	1,334.0	1,250.3
	1,989.5	1,807.4

Movements in the deferred income balance are set out in note 6 to the financial statements.

27 Deferred tax

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other £m	Total £m
At 1 April 2020	950.3	(2.9)	(48.3)	2.0	901.1
Charge/(credit) to income	21.8	5.9	1.4	(0.9)	28.2
Charge/(credit) to equity	–	(30.8)	7.9	(0.4)	(23.3)
At 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
Credit to equity arising from rate change	–	(6.2)	(1.8)	(0.4)	(8.4)
At 31 March 2022	**1,336.9**	**19.5**	**(25.1)**	**(10.7)**	**1,320.6**

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:

	2022 £m	2021 £m
Deferred tax asset	**(35.8)**	(66.8)
Deferred tax liability	**1,345.7**	972.8
	1,320.6	906.0

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 of £294.4 million and a credit to reserves amounting to £8.4 million.

28 Retirement benefit schemes

a) Defined benefit pension schemes

(i) Background

The Group operates a number of defined benefit pension schemes. The Severn Trent Pension Scheme and the Severn Trent Mirror Image Pension Scheme closed to future accrual on 31 March 2015, while the Dee Valley Water Limited Section of the Water Companies Pension Scheme, which is a sectionalised scheme, currently remains open to accrual. The defined benefit pension schemes cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applied in line with the scheme rules.

The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2019
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2019
Water Companies Pension Scheme – Dee Valley Water Limited Section (DVWS)	31 March 2020

* The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

The next scheduled formal actuarial valuation of the STPS and STMIPS defined benefit pension schemes are being carried out as at 31 March 2022. These will be completed during the financial year ending 31 March 2023.

On 29 June 2021, the Group completed the bulk annuity buy-in of the Severn Trent Mirror Image Pension Scheme ('STMIPS'). As a result of the buy-in, whilst the legal obligation to pay the employee benefits directly as they fall due remains with the Group, the right to reimbursement of such amounts to the Group has been obtained under the insurance policy.

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes

	2022 £m	2021 £m
Fair value of assets	**2,659.4**	2,600.4
Present value of the defined benefit obligations	**(2,787.4)**	(2,968.1)
	(128.0)	(367.7)
Presented on the balance sheet as:		
Retirement benefit obligation – funded schemes in surplus	**17.5**	17.1
Retirement benefit obligation – funded schemes in deficit	**(137.6)**	(376.5)
Retirement benefit obligation – unfunded schemes	**(7.9)**	(8.3)
Retirement benefit obligation – total	**(145.5)**	(384.8)
Net retirement benefit obligation	**(128.0)**	(367.7)

STPS, STMIPS, and DVWS	2022 £m	2021 £m
Fair value of scheme assets		
Equities	**478.1**	493.3
Annuity policies[1]	**104.6**	–
Corporate bonds	**953.0**	1,047.5
Liability-driven investment funds ('LDI's)	**642.4**	629.9
Property	**296.8**	255.1
Buy and maintain credit	**22.5**	–
High-yield bonds	**25.8**	28.4
Cash	**136.2**	146.2
	2,659.4	2,600.4

1 In July 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 MIPS. The Trustees continue to pay benefits to members as before the transaction, but these cash flows are now matched exactly by income from JUST.

28 Retirement benefit schemes (continued)

(ii) Amount included in the balance sheet arising from the Group's obligations under the defined benefit pension schemes (continued)

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 £496.0 million.

Movements in the fair value of the scheme assets were as follows:

	2022 £m	2021 £m
Fair value at 1 April	2,600.4	2,414.1
Interest income on scheme assets	52.8	57.3
Contributions from the sponsoring companies	61.9	38.1
Return on plan assets (excluding amounts included in finance income)	68.9	212.7
Scheme administration costs	(3.8)	(3.9)
Benefits paid	(120.8)	(117.9)
Fair value at 31 March	2,659.4	2,600.4

Movements in the present value of the defined benefit obligations were as follows:

	2022 £m	2021 £m
Present value at 1 April	**(2,968.1)**	(2,648.1)
Service cost	**(0.2)**	(0.2)
Past service cost	**–**	(0.3)
Interest cost	**(59.5)**	(62.7)
Actuarial gains arising from changes in demographic assumptions	**5.6**	33.9
Actuarial gains/(losses) arising from changes in financial assumptions	**192.9**	(439.7)
Actuarial (losses)/gains arising from experience adjustments	**(78.9)**	31.1
Benefits paid	**120.8**	117.9
Present value at 31 March	**(2,787.4)**	(2,968.1)

The Group has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. Provision for such benefits amounting to £7.9 million (2021: £8.3 million) is included as an unfunded scheme within the retirement benefit obligation.

The Group has assessed that it has an unconditional right to a refund of any surplus assets in each of the Schemes following settlement of all obligations to scheme members and therefore the surplus in DVWS has been recognised in full.

28 Retirement benefit schemes (continued)

(iii) Amounts recognised in the income statement in respect of these defined benefit pension schemes

	2022 £m	2021 £m
Amounts charged to operating costs:		
Current service cost	**(0.2)**	(0.2)
Past service cost	**–**	(0.3)
Scheme administration costs	**(3.8)**	(3.9)
	(4.0)	(4.4)
Amounts charged to finance costs:		
Interest cost	**(59.5)**	(62.7)
Amounts credited to finance income:		
Interest income on scheme assets	**52.8**	57.3
Total amount charged to the income statement	**(10.7)**	(9.8)

The actual return on scheme assets was a gain of £121.7 million (2021: gain of £270.0 million).

Actuarial gains and losses have been reported in the statement of comprehensive income.

(iv) Actuarial risk factors

The schemes typically expose the Group to actuarial risks such as investment risk, inflation risk and longevity risk.

Investment risk

The Group's contributions to the Schemes are based on actuarial calculations which make assumptions about the returns expected from the Schemes' investments. If the investments underperform these assumptions in the long term then the Group may need to make additional contributions to the Schemes in order to fund the payment of accrued benefits.

Each Scheme's investment strategy seeks to balance the level of investment return sought with the aim of reducing volatility and risk. In undertaking this approach, reference is made to both the maturity of liabilities and the funding level of that Scheme. A number of further strategies are employed to manage underlying risks, including liability-matching asset strategies, diversification of asset portfolios and interest rate hedging.

Currently the STPS and DVWS have 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 is now primarily invested in a bulk annuity insurance contract with JUST with a small residual amount remaining in cash.

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.

28 Retirement benefit schemes (continued)

(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:

	2022 % pa	2021 % pa
Price inflation – RPI	**3.6**	3.2
Price inflation – CPI	**Pre 2030: 2.6 Post 2030: 3.5**	2.4
Discount rate	**2.8**	2.0
Pension increases in payment	**3.6**	3.2
Pension increases in deferment	**3.6**	3.2

The assumption for RPI price inflation is derived from the difference between the yields on longer term fixed rate gilts and on index-linked gilts. 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 the constructed yield curve.

The mortality 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 65 implied by the assumptions are as follows:

	2022		2021	
	Men	**Women**	Men	Women
Mortality table used	**S3PMA_L**	**S3PFA_M**	S3PMA_L	S3PFA_M
Mortality table compared with standard table	**112%**	**95%**	112%	95%
Mortality projections	**CMI 2021**	**CMI 2021**	CMI 2020	CMI 2020
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Weighting factor given to data for 2021 (2020)	**20%**	**20%**	20%	20%
Remaining life expectancy for members currently aged 65 (years)	**21.8**	**23.7**	21.8	23.6
Remaining life expectancy at age 65 for members currently aged 45 (years)	**22.7**	**24.8**	22.7	24.8

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to the discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant.

Assumption	**Change in assumption**	**Impact on disclosed obligations**
Discount rate[1]	Increase/decrease by 0.1% pa	Decrease/increase by £42/£43 million
Price inflation[2]	*Increase/decrease by 0.1% pa*	*Increase/decrease by £36/£35 million*
Mortality[3]	Increase in life expectancy by 1 year	Increase/decrease by £112 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 28(iv).

3 The change in this assumption is based on triennial valuations and reflect the fact that life expectancy rates might increase.

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movements in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

28 Retirement benefit schemes (continued)

(vi) Effect on future cash flows

Contribution rates are set in consultation with the trustee for each scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 16 years for STPS and STMIPS (2021: 17 years) and 14 years for DVWS (2021: 15 years).

The most recent completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2019 for the STPS and STMIPS schemes and 31 March 2020 for DVWS. As a result of the STPS and STMIPS actuarial valuations, annual deficit reduction contributions of £32.4 million, increasing in line with CPI inflation until 31 March 2027, were agreed for the STPS.

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 these contributions are no longer needed.

b) Defined contribution pension schemes

The Group also operates the Severn Trent Group Personal Pension, a defined contribution scheme, for its UK employees.

The total cost charged to operating costs of £28.1 million (2021: £26.3 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2022, no contributions (2021: nil) in respect of the current reporting period were owed to the schemes.

Hafren Dyfrdwy operates two defined contribution pension schemes, neither of which were material in either the current or prior year.

29 Provisions

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2021	18.9	7.8	16.5	43.2
Charged to income statement	10.2	–	4.6	14.8
Other net additions	–	15.3	–	15.3
Utilisation of provision	(9.3)	–	(3.0)	(12.3)
Unwinding of discount	–	–	0.4	0.4
Dilapidations remeasurement on lease extension	–	–	(1.1)	(1.1)
At 31 March 2022	**19.8**	**23.1**	**17.4**	**60.3**

	2022 £m	2021 £m
Included in:		
Current liabilities	**38.4**	18.0
Non-current liabilities	**21.9**	25.2
	60.3	43.2

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. The associated outflows are estimated to arise over a period of up to five years from the balance sheet date.

Other provisions include provisions for dilapidations, commercial disputes, either from continuing or discontinued operations, and potential environmental claims. The associated outflows are estimated to arise over a period up to ten years from the balance sheet date.

30 Share capital

	2022 £m	2021 £m
Total issued and fully paid share capital		
253,410,074 ordinary shares of 97 17/19p (2021: 242,259,862)	**248.1**	237.2

At 31 March 2022, 3,116,579 treasury shares (2021: 3,376,054) were held at a nominal value of £3,051,131 (2021: £3,304,979).

On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97 17/19p 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 17/19p		
At 1 April 2020	241,537,324	236.5
Shares issued under the Employee Sharesave Scheme	722,538	0.7
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 31 March 2022	**253,410,074**	**248.1**

31 Share premium

	2022 £m	2021 £m
At 1 April	**148.1**	137.0
Share premium arising on issue of shares for Employee Sharesave Scheme	**11.2**	11.1
Share premium arising from equity placing	**235.1**	–
At 31 March	**394.4**	148.1

32 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 April 2020	157.1	(89.2)	67.9
Total comprehensive income for the year	–	33.8	33.8
At 1 April 2021	157.1	(55.4)	101.7
Total comprehensive income for the year	–	46.7	46.7
At 31 March 2022	**157.1**	**(8.7)**	**148.4**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arises from gains or losses on interest rate swaps and energy swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1.

33 Capital management

The Group's principal objectives in managing capital are:

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

The Group seeks to achieve a balance of long-term funding or commitment of funds across a range of funding sources at the best possible economic cost. The Group monitors future funding requirements and credit market conditions to ensure continued availability of funds.

The Group has continued to monitor market conditions and reduce its exposure to floating interest rates debt, which comprises 4% (2021: 8%) of our gross debt portfolio at the balance sheet date, with a further 27% (2021: 25%) of index-linked debt and 69% (2021: 67%) of fixed rate debt.

Exposure to credit risk (excluding credit risk relating to amounts receivable from contracts with customers) is set out in note 35 b).

Foreign exchange risk is set out in note 35 a) (ii).

At 31 March 2022 the Group had the following credit ratings:

	Moody's	Standard and Poor's
Severn Trent Plc	Baa2	BBB
Severn Trent Water	Baa1	BBB+

The ratings were stable.

A key metric in measuring financial sustainability and capital efficiency for companies in the water sector is RCV gearing. This is measured as net debt divided by Regulatory Capital Value (RCV). The Group aims to maintain its RCV gearing ratio close to the Ofwat assumption at the Price Review (60% for AMP 7). At 31 March 2022 the Group's RCV gearing ratio was 63.7% (2021: 67.5%) and Regulated gearing was 59.5% (2021: 64.5%).

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 2021/22 dividend at 102.14 pence, an increase of 0.6% compared to the total dividend for 2020/21 of 101.58 pence. Our policy is to grow the dividend annually at no less than CPIH until March 2025.

The Group's capital at 31 March was:

	2022 £m	2021 £m
Net cash and cash equivalents	**107.7**	44.0
Bank loans	**(782.5)**	(1,011.1)
Other loans	**(5,823.5)**	(5,471.3)
Lease liabilities	**(117.4)**	(121.3)
Cross currency swaps	**28.3**	31.9
Loans receivable from joint venture	**79.6**	84.0
Net debt	**(6,507.8)**	(6,443.8)
Equity attributable to owners of the company	**(1,263.9)**	(1,138.7)
Total capital	**(7,771.7)**	(7,582.5)

34 Fair values of financial instruments

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 – 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	2022 £m	2021 £m	Valuation techniques and key inputs
Cross currency swaps			Discounted cash flow
Assets	**28.3**	32.5	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**–**	(0.6)	
Interest rate swaps			Discounted cash flow
Assets	**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	**(39.6)**	(94.2)	
Energy swaps			Discounted cash flow
Assets	**27.6**	8.4	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**–**	–	
Inflation swaps			Discounted cash flow
Liabilities	**(3.7)**	(32.1)	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices. Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI. Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.

Changes in the carrying values of instruments that are measured using a Level 3 technique were as follows:

	Inflation swaps £m
At 1 April 2020	(27.7)
Losses recognised in profit or loss	(4.4)
At 31 March 2021	(32.1)
Net gains recognised in profit or loss	28.4
At 31 March 2022	**(3.7)**

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 £5.3 million.

34 Fair value 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:

	2022		2021	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**652.6**	**652.6**	888.8	890.4
Other loans	**147.8**	**161.4**	147.9	155.5
Overdraft	**7.7**	**7.7**	12.2	12.2
	808.1	**821.7**	1,048.9	1,058.1
Fixed rate debt				
Other loans	**3,984.3**	**4,253.0**	3,786.4	4,242.3
Lease liabilities	**117.4**	**126.6**	121.3	134.1
	4,101.7	**4,379.6**	3,907.7	4,376.4
Index-linked debt				
Bank loans	**129.9**	**149.5**	122.3	146.2
Other loans	**1,691.4**	**2,456.1**	1,537.0	2,490.1
	1,821.3	**2,605.6**	1,659.3	2,636.3
	6,731.1	**7,806.9**	6,615.9	8,070.8

To reflect the underlying terms of the debt, within the comparatives, £30.4 million carrying value of bank loans has been reclassified from fixed rate to floating rate debt, and £35.2 million carrying value of other loans has been reclassified from floating rate to fixed rate debt. The associated fair values have also been restated in the comparatives, with a net £10.3 million increase in the fair value of fixed rate debt, and a net £4.9 million decrease in the fair value of floating rate debt.

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.

35 Risks arising from financial instruments

The Group's activities expose it to a variety of financial risks:

- market risk (including interest rate risk, exchange rate risk and other price risk);
- credit risk;
- liquidity risk; and
- inflation risk.

The Group's overall risk management programme addresses the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance or position.

Financial risks are managed by a central treasury department ('Group Treasury') under policies approved by the Board of Directors. The Board has established a Treasury Committee to monitor treasury activities and to facilitate timely responses to changes in market conditions when necessary. Group Treasury operates under the Group's Treasury Procedures Manual and Policy Statement and identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board defines written principles for overall risk management, as well as written policies covering specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments. The Group's policy is that derivative financial instruments are not held for trading but may be used to mitigate the Group's exposure to financial risk. The types of derivative instruments held and the related risks are described below.

Interest rate swaps are held to mitigate the Group's exposure to changes in market interest rates. Further details are set out in section a) (i) and note 36 b) (i).

Cross currency swaps are held to mitigate the Group's exposure to exchange rate movements on amounts borrowed in foreign currencies. Further details are set out in section a) (ii) and note 36 a) (i).

Energy swaps are held to mitigate the Group's exposure to changes in wholesale energy prices. Further details are provided in note 36 b) (ii).

Severn Trent Water, the Group's most significant business unit, operates under a regulatory environment where its prices are linked to inflation measured by CPIH. In order to mitigate the risks to cash flow and earnings arising from fluctuations in CPIH, the Group holds debt instruments where the principal repayable and interest cost is linked to RPI/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 AMP 7. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2022 £m	2021 £m
Net debt (note 38)	**6,507.8**	6,443.8
Cash	**115.4**	56.2
Loans receivable from joint venture	**79.6**	84.0
Cross currency swaps included in net debt at fair value	**28.3**	31.9
Fair value hedge accounting adjustments	**(21.1)**	(23.9)
Exchange on currency debt not hedge accounted	**(14.9)**	(8.4)
Interest-bearing financial liabilities	**6,695.1**	6,583.6

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates or by using interest rate swaps. Under these swaps the Group receives variable rate interest and pays fixed rate interest calculated by reference to the agreed notional principal amounts. In practice the swaps are settled by transferring the net amount. These swaps have the economic effect of converting borrowings from variable rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments beyond 2030.

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

The following tables show analyses of the Group's interest bearing financial liabilities by type of interest. Debt 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.

2022	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Total £m**
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		**69%**		
Weighted average interest rate of fixed debt		**3.84%**		
Weighted average period for which interest is fixed (years)		**9.2**		

2021	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Overdraft	(12.2)	–	–	(12.2)
Bank loans	(858.4)	(30.4)	(122.3)	(1,011.1)
Other loans	(183.1)	(3,718.9)	(1,537.0)	(5,439.0)
Lease liabilities	–	(121.3)	–	(121.3)
	(1,053.7)	(3,870.6)	(1,659.3)	(6,583.6)
Impact of swaps not matched against specific debt instruments	524.6	(524.6)	–	–
Interest bearing financial liabilities	(529.1)	(4,395.2)	(1,659.3)	(6,583.6)
Proportion of interest bearing financial liabilities that are fixed		67%		
Weighted average interest rate of fixed debt		3.81%		
Weighted average period for which interest is fixed (years)		7.2		

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate swaps not hedge accounted
The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £25.2 million (2021: £17.0 million) in the income statement.

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2022 %	2021 %	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Pay fixed rate interest						
1 – 2 years	**4.98**	–	**(50.0)**	–	**(2.2)**	–
2 – 5 years	**5.14**	5.10	**(150.0)**	(200.0)	**(13.6)**	(33.3)
5 – 10 years	**5.46**	5.52	**(75.0)**	(35.0)	**(21.2)**	(13.9)
10 – 20 years	**–**	5.41	**–**	(40.0)	**–**	(16.8)
	5.20	5.20	**(275.0)**	(275.0)	**(37.0)**	(64.0)

In addition to the above the Group has cross currency swaps that also swap fixed rate interest to floating (see below).

Interest rate sensitivity analysis
The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to changes in interest rates at 31 March is as follows:

	2022		2021	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**9.7**	**(10.6)**	9.6	(10.8)
Cash flow	**(1.5)**	**1.5**	(6.7)	6.7
Equity	**9.7**	**(10.6)**	9.6	(10.8)

(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 (2021: nil) in the income statement.

The Group has raised debt denominated in currencies other than sterling to meet its objective of accessing a broad range of sources of finance. The Group mitigated its exposure to exchange rate fluctuations by entering into cross currency swaps at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on LIBOR.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 36 a) (i).

The Group also has cross currency swaps with a sterling notional value of £98.3 million (2021: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed rate to floating, but they are not designated hedges under IFRS 9. This has led to a charge of £2.3 million (2021: charge of £19.7 million) in the income statement, as well as an exchange loss of £6.6 million (2021: gain of £14.8 million) on the underlying debt.

35 Risks arising from financial instruments (continued)

a) Market risk (continued)

(ii) Exchange rate risk (continued)

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

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	**–**	**–**	**–**

2021	Euro €m	US dollar $m	Yen ¥bn
Borrowings by currency	(19.9)	(180.0)	(2.0)
Cross currency swaps – hedge accounted	19.9	30.0	2.0
Cross currency swaps – not hedge accounted	–	150.0	–
Net currency exposure	–	–	–

b) Credit risk

Operationally the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history, other than in Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig, whose operating licences oblige them to supply domestic customers even in cases where bills are not paid. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 22.

Cash deposits and derivative contracts are only placed with high credit quality financial institutions, which have been approved by the Board. Group Treasury monitors the credit quality of the approved financial institutions and the list of financial institutions that may be used is approved annually by the Board. The Group has policies that limit the amount of credit exposure to any one financial institution.

Credit risk analysis

At 31 March the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Double A range	**150.0**	–	**–**	–
Single A range	**710.5**	890.5	**75.0**	–
Triple B range	**10.0**	10.0	**–**	–
	870.5	900.5	**75.0**	–

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2022 £m	2021 £m
Single A range	**58.7**	40.9
Triple B range	**6.2**	–
	64.9	40.9

35 Risks arising from financial instruments (continued)

c) Liquidity risk

(i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available; and the ability to close out market positions. Group Treasury manages liquidity and flexibility in funding by monitoring forecast and actual cash flows and the maturity profile of financial assets and liabilities, and by keeping committed credit lines available.

At the balance sheet date the Group had committed undrawn borrowing facilities expiring as follows:

	2022 £m	2021 £m
Within 1 year	–	55.8
1 – 2 years	–	789.2
2 – 5 years	1,100.0	–
	1,100.0	845.0

(ii) Cash flows from non-derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's non-derivative net financial liabilities. The information presented is based on the earliest date on which the Group can be required to pay and represents the undiscounted cash flows including principal and interest.

Interest and inflation assumptions are based on prevailing market conditions at the year end date.

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 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	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

35 Risks arising from financial instruments (continued)

c) *Liquidity risk (continued)*

(ii) Cash flows from non-derivative financial instruments (continued)

2021 Undiscounted amounts payable:	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(247.8)	(396.3)	(28.1)	(53.8)	(726.0)
1 – 2 years	(11.0)	(390.9)	(124.3)	–	(526.2)
2 – 5 years	(661.5)	(1,194.3)	(129.8)	–	(1,985.6)
5 – 10 years	(172.0)	(1,395.7)	(187.0)	–	(1,754.7)
10 – 15 years	-	(752.7)	(221.1)	–	(973.8)
15 – 20 years	–	(735.0)	(153.8)	–	(888.8)
20 – 25 years	–	(367.1)	(181.0)	–	(548.1)
25 – 30 years	–	–	(210.8)	–	(210.8)
30 – 35 years	–	–	(918.8)	–	(918.8)
35 – 40 years	–	–	(2,950.8)	–	(2,950.8)
40 – 45 years	–	–	(20.2)	–	(20.2)
45 – 50 years	–	–	(257.8)	–	(257.8)
Total	(1,092.3)	(5,232.0)	(5,383.5)	(53.8)	(11,761.6)

Undiscounted amounts receivable:	Loans due from joint ventures £m	Trade and other receivables £m	Cash and short term deposits £m	Receipts from financial assets £m
Within 1 year	34.8	462.1	56.2	553.1
1 – 2 years	2.3	10.6	–	12.9
2 – 5 years	69.2	–	–	69.2
5 – 10 years	12.5	–	–	12.5
Total	118.8	472.7	56.2	647.7

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.

35 Risks arising from financial instruments (continued)

c) Liquidity risk (continued)

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

				Cross currency swaps		
2022	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £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)**

				Cross currency swaps		
2021	Interest rate swaps £m	Inflation swaps £m	Energy swaps £m	Cash receipts £m	Cash payments £m	Total £m
Within 1 year	(20.7)	0.1	7.7	6.0	(2.2)	(9.1)
1 – 2 years	(19.6)	0.1	3.9	6.0	(2.6)	(12.2)
2 – 5 years	(36.5)	0.6	0.5	35.5	(21.0)	(20.9)
5 – 10 years	(20.4)	(5.2)	–	147.8	(135.1)	(12.9)
10 – 15 years	(0.8)	2.0	–	–	–	1.2
15 – 20 years	–	(37.3)	–	–	–	(37.3)
	(98.0)	(39.7)	12.1	195.3	(160.9)	(91.2)

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 which pays interest at a fixed coupon based on a principal amount that is adjusted for the change in inflation during the life of the debt instrument ('index-linked debt'). The amount of index-linked debt at the balance sheet date is shown in section a) (i) Interest rate risk, and the estimated future cash flows relating to this debt are shown in section c) (ii) Cash flows from non-derivative financial instruments.

Ofwat is moving the measure of inflation used in the economic regulatory model from RPI to CPIH over a period of time. In anticipation of this the Group has entered into CPI/RPI swaps with a notional value of £350 million (2021: £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.

	2022		2021	
	+1.0% £m	**-1.0% £m**	+1.0% £m	-1.0% £m
Profit or loss	**(14.8)**	**14.8**	(13.4)	13.4
Equity	**(14.8)**	**14.8**	(13.4)	13.4

36 Hedge accounting

The Group uses derivative financial instruments to hedge exposures to changes in exchange rates and interest rates. Hedge accounting is adopted for such instruments where the criteria set out in IFRS 9 are met. Hedge ineffectiveness arises from credit risk, which is not hedged.

a) Fair value hedges

(i) Cross currency swaps

The Group raises debt denominated in currencies other than sterling. Cross currency swaps are entered into at the time that the debt is drawn down to swap the proceeds into sterling debt bearing 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	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Euro	**11.4**	11.4	**7.4**	9.1
US dollar	**23.2**	23.2	**0.9**	(0.6)
Yen	**8.5**	8.5	**6.3**	7.4
	43.1	43.1	**14.6**	15.9

b) Cash flow hedges

(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
Period to maturity	**2022 %**	2021 %	**2022 £m**	2021 £m	**2022 £m**	2021 £m
2 – 5 years	**1.70**	–	**50.0**	–	**1.0**	–
5 – 10 years	**2.10**	2.53	**325.2**	130.4	**(0.7)**	(11.1)
10 – 20 years	**–**	1.83	**–**	248.0	**–**	(19.1)
	2.05	2.07	**375.2**	378.4	**0.3**	(30.2)

The Group recognised a loss on hedge ineffectiveness of £0.6 million (2021: loss of £2.0 million) in gains/losses on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group has entered into a series of energy swaps under which it has agreed to exchange the difference between fixed and market prices of electricity at six-monthly intervals up to March 2023.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
Period to maturity	**2022 £/MWh**	2021 £/MWh	**2022 MWh**	2021 MWh	**2022 £m**	2021 £m
Less than 1 year	**38.5**	43.2	**131,520**	306,360	**27.6**	3.8
1 – 2 years	**–**	38.6	**–**	175,680	**–**	2.0
2 – 5 years	**–**	48.3	**–**	284,040	**–**	2.6
	38.5	44.0	**131,520**	766,080	**27.6**	8.4

36 Hedge accounting (continued)

b) Cash flow hedges (continued)

(ii) Energy swaps (continued)

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	
2022	**Assets £m**	**Liabilities £m**	**Assets £m**	**Liabilities £m**
Cross currency swaps	**-**	**(58.2)**	**-**	**(13.7)**
Interest rate swaps	**-**	**(374.9)**	**-**	**-**
	-	**(433.1)**	**-**	**(13.7)**

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
2021	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Cross currency swaps	-	(58.7)	-	(15.3)
Interest rate swaps	-	(377.9)	-	-
	-	(436.6)	-	(15.3)

£58.2 million (2021: £58.7 million) of the carrying amount of hedged items and £13.7 million (2021: £15.3 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.

(iii) Impact of interest rate benchmark reform

From 1 April 2019, the Group early adopted the amendments to IFRS 7 and IFRS 9 introduced to provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the planned replacement of benchmark interest rates such as LIBOR. The Group has applied Phase 2 with effect from 1 April 2021. Under Phase 2, to the extent that modifications are made to financial instruments that are necessary to implement Interest Rate Benchmark Reform, reliefs from the discontinuation of hedge accounting or immediate recognition of any gains or losses in the income statement on the modification of financial instruments measured at amortised cost are available on transition to alternative rates, provided that the modification is a direct consequence of the reform and the new basis for calculating cash flows is economically equivalent to the previous basis.

The Group established a LIBOR transition group within Group Treasury with an objective of identifying and assessing LIBOR exposures within the business and developing and delivering an action plan to enable a smooth transition to alternative risk-free rates ahead of 31 December 2021. During 2021 the Group successfully transitioned all its floating rate debt instruments and derivatives from LIBOR to alternative risk-free rates (SONIA). The actions taken included:

- Refinancing its committed bank facilities and agreeing new facilities which use SONIA as a reference rate.
- Amending the LIBOR provisions within its bank term loans, floating rate USPP notes and intercompany loans.
- Applying the International Swaps and Derivatives Associates (ISDA) fallback protocol to the derivative financial instruments held by the Group affected by the IBOR Reform where the interest rate benchmark was previously linked to LIBOR.

37 Share based payments

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £8.3 million (2021: £7.8 million) related to equity settled share based payment transactions.

The weighted average share price during the period was £27.30 (2021: £23.86).

At 31 March 2022, there were no options exercisable (2021: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plan (LTIP)

Under the Long Term Incentive Plan ('LTIP'), conditional awards of shares may be made to executive directors and senior staff. Awards are subject to performance conditions and continued employment throughout the vesting period.

(i) Awards made under the LTIP

The 2018, 2019, 2020 and 2021 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated 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% (2021: 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 2020	718,151
Granted during the year	221,997
Vested during the year	(171,326)
Lapsed during the year	(76,633)
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 31 March 2022	**639,198**

Details of LTIP awards outstanding at 31 March were as follows:

Date of grant	Normal date of Vesting	Number of awards 2022	2021
July 2018	2021	–	237,003
July 2019	2022	**231,442**	237,863
July 2020	2023	**205,651**	217,323
July 2021	2024	**202,105**	–
		639,198	692,189

The awards outstanding at 31 March 2022 had a weighted average remaining contractual life of 1.1 years (2021: 1.3 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages 129 and 133.

37 Share based payments (continued)

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in the Company to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

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 2020	**3,956,022**	**1,633p**
Granted during the year	**1,046,301**	**1,860p**
Forfeited during the year	**(56,751)**	**1,607p**
Cancelled during the year	**(117,426)**	**1,689p**
Exercised during the year	**(722,538)**	**1,640p**
Lapsed during the year	**(2,848)**	**1,652p**
Outstanding at 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 31 March 2022	**4,042,399**	**1,824p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	**Normal date of exercise**	**Option price**	**2022**	2021
January 2016	2021	1,724p	**–**	113,104
January 2017	2022	1,633p	**123,540**	129,788
January 2018	2021 or 2023	1,652p	**112,993**	710,275
January 2019	2022 or 2024	1,474p	**1,101,868**	1,155,083
January 2020	2023 or 2025	1,787p	**885,178**	956,427
January 2021	2024 or 2026	1,860p	**943,311**	1,038,083
January 2022	2025 or 2027	2,307p	**875,509**	–
			4,042,399	4,102,760

The options outstanding at 31 March 2022 had a weighted average remaining contractual life of 1.7 years (2021: 2.0 years).

37 Share based payments (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:

	2022			2021		
	LTIP	SAYE		LTIP	SAYE	
		3 year scheme	5 year scheme		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,676**	**2,939**	**2,939**	2,460	2,336	2,336
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 (%)	**3.9**	**3.5**	**3.5**	4.2	4.3	4.3
Risk free rate (%)	**n/a**	**0.1**	**0.1**	n/a	(0.1)	(0.1)
Fair value per share (pence)	**2,659**	**543**	**521**	2,443	342	302

Expected volatility is measured over the three years prior to the date of grant of the awards or share options.

Volatility has been calculated based on historical share price movements.

The risk free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.

The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

38 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2022 £m	2021 £m
Profit before interest and tax	**506.2**	470.7
Depreciation of property, plant and equipment	**361.5**	342.0
Depreciation of right-of-use assets	**3.8**	3.6
Amortisation of intangible assets	**34.2**	32.1
Amortisation of acquired intangible assets	**2.1**	2.1
Pension service cost	**0.2**	0.5
Defined benefit pension scheme administration costs	**3.8**	3.9
Defined benefit pension scheme contributions	**(61.9)**	(38.1)
Share based payment charge	**8.3**	7.8
Profit on sale of property, plant and equipment and intangible assets	**(5.4)**	(2.2)
Profit on disposal of subsidiary undertaking	**–**	(0.2)
Release from deferred credits	**(17.5)**	(15.5)
Contributions and grants received	**42.8**	41.4
Provisions charged to the income statement	**14.8**	4.9
Utilisation of provisions for liabilities	**(12.3)**	(12.2)
Operating cash flows before movements in working capital	**880.6**	840.8
Increase in inventory	**(1.2)**	(1.6)
(Increase)/decrease in amounts receivable	**(87.6)**	51.6
Increase in amounts payable	**99.9**	10.9
Cash generated from operations	**891.7**	901.7
Tax paid	**(1.2)**	(23.2)
Net cash generated from operating activities	**890.5**	878.5

38 Cash flow statement (continued)

b) Non-cash transactions

Non-cash investing and financing cash flows disclosed in other notes were:

- Acquisition of right-of-use assets (note 19);
- Acquisition of infrastructure assets from developers at no cost (note 18); and
- Shares issued to employees for no cash consideration under the LTIP (note 37).

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2021: nil).

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

	Net cash and cash equivalents £m	Bank loans £m	Other loans £m	Lease liabilities £m	Cross currency swaps £m	Loans due from joint venture £m	Net debt £m
At 1 April 2021	44.0	(1,011.1)	(5,471.3)	(121.3)	31.9	84.0	(6,443.8)
Cash flow	63.7	238.5	(250.6)	12.1	–	13.0	76.7
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)	(3.6)	(17.4)	(30.5)
At 31 March 2022	**107.7**	**(782.5)**	**(5,823.5)**	**(117.4)**	**28.3**	**79.6**	**(6,507.8)**

e) Liabilities from financing activities

	Bank loans £m	Other loans £m	Lease liabilities £m	Total £m
At 1 April 2020	(1,251.9)	(5,058.5)	(122.7)	(6,433.1)
Cash flow	243.3	(415.5)	5.6	(166.6)
Fair value adjustments	–	5.4	–	5.4
Inflation uplift on index-linked debt	(1.0)	(18.2)	–	(19.2)
Foreign exchange	–	14.8	–	14.8
Other non-cash movements	(1.5)	0.7	(4.2)	(5.0)
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 31 March 2022	**(782.5)**	**(5,823.5)**	**(117.4)**	**(6,723.4)**

39 Contingent liabilities

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2021: 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 could be held in late 2022.

c) Ongoing regulatory investigations

Ofwat and the Environment Agency have each issued their own investigations into the waste water industry to investigate compliance with the conditions of environmental permits. We were able to respond quickly and comprehensively and have had open conversations since. It is not yet clear what the scope or likely outcome of this investigation will be as it is in its early stages.

40 Financial and other commitments

a) Investment expenditure commitments

	2022 £m	2021 £m
Property, plant and equipment contracted for but not provided for in the financial statements	**354.7**	236.4

In addition to these contractual commitments, Severn Trent Water Limited has longer term expenditure plans which include investments to achieve improvements in performance mandated by the Director General of Water Services (Ofwat) and to provide for growth in demand for water and waste water services.

41 Post balance sheet events

Refinancing

On 4 April 2022 the Group elected to extend £916.7 million of the available commitments under the revolving credit facility ('RCF') for a further year until April 2027.

On 9 May 2022 the Group completed the refinancing of an existing £100.0 million bank loan maturing in August 2023 with a new £150.0 million bank loan maturing in May 2030.

Defined benefit pension scheme

At 31 March 2022, the Group's net defined benefit pension scheme deficit was £128.0 million. On 6 April 2022, the Group made a further scheduled contribution of £32.4 million to the scheme.

Dividends

On 24 May the Board of Directors approved a final dividend of 61.28 pence per share. Further details of this are shown in note 14.

42 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Trading transactions between the Group and its joint venture Water Plus are disclosed below.

	2022 £m	2021 £m
Sale of services	**259.8**	216.1
Net interest income	**2.5**	2.3
	262.3	218.4

Outstanding balances between the Group and the joint venture as at 31 March were as follows:

	2022 £m	2021 £m
Amounts due to related parties	**(0.2)**	(2.4)
Loans receivable from joint venture	**79.6**	84.0
	79.4	81.6

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year, and non-executive directors of the Company. The prior year comparative has been restated to include the remuneration of the 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 page 137.

	2022 £m	2021 (restated) £m
Short term employee benefits	**5.7**	7.3
Service contract non-executive director benefits	**0.7**	0.7
Share based payments	**6.6**	4.9
	13.0	12.9

43 Alternative performance measures ('APM's)

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.

b) Adjusted PBIT

Adjusted profit before interest and tax is profit before interest and tax excluding exceptional items as recorded in the income statement. This provides a consistent measure of operating performance excluding distortions caused by exceptional items and reflecting the operational performance of the acquired subsidiaries. The calculation of this APM is shown on the face of the income statement and in note 5 for reportable segments.

c) Adjusted earnings per share

Adjusted earnings per share figures exclude the effects of exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on net losses/gains on financial instruments and deferred tax. The Directors consider that the adjusted figures provide a useful additional indicator of performance and remove non-performance related distortions. See note 15.

43 Alternative performance measures ('APM's) (continued)

d) Net debt

Net debt comprises borrowings including remeasurements for changes in fair value of amounts in fair value hedging relationships, cross currency swaps that are used to fix the sterling liability of foreign currency borrowings (whether hedge accounted or not), net cash and cash equivalents, and loans to joint ventures. See note 38.

e) Effective interest cost

The effective interest cost is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

	2022 £m	2021 £m
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Capitalised finance costs	**34.5**	30.4
	297.2	212.1
Average net debt	**6,292.2**	6,263.6
Effective interest cost	**4.7%**	3.4%

This APM is used as it shows the average finance cost for the net debt of the business.

f) Effective cash cost of interest

The effective cash cost of interest is calculated on the same basis as the effective interest cost except that it excludes finance costs that are not paid in cash but are accreted to the carrying value of the debt (principally indexation adjustments on index-linked debt).

	2022 £m	2021 £m
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Indexation adjustments	**(106.5)**	(19.2)
Capitalised finance costs	**34.5**	30.4
	190.7	192.9
Average net debt	**6,292.2**	6,263.6
Effective cash cost of interest	**3.0%**	3.1%

This is used as it shows the average finance cost that is paid in cash.

g) Adjusted PBIT interest cover

The ratio of adjusted PBIT (see (b) above) to net finance costs excluding net finance costs from pensions.

	2022 £m	2021 £m
Adjusted PBIT	**508.3**	472.8
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Net finance costs excluding net finance costs from pensions	**262.7**	181.7
Adjusted PBIT interest cover ratio	**1.9**	2.6

This is used to show how the adjusted PBIT of the business covers the financing costs associated only with net debt on a consistent basis.

43 Alternative performance measures ('APM's) (continued)

h) EBITDA and EBITDA interest cover

The ratio of adjusted profit before interest, tax, exceptional items, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

	2022 £m	2021 £m
Adjusted PBIT	**508.3**	472.8
Adjusted depreciation (including right-of-use assets)	**365.3**	345.6
Adjusted amortisation	**34.2**	32.1
EBITDA	**907.8**	850.5
Net finance costs	**269.4**	187.1
Net finance costs from pensions	**(6.7)**	(5.4)
Net finance costs excluding finance costs from pensions	**262.7**	181.7
EBITDA interest cover ratio	**3.5**	4.7

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

i) Adjusted effective current tax rate

The current tax charge for the year, excluding prior year charges, exceptional current tax, and current tax on exceptional items, and on financial instruments, divided by profit before tax, net losses/gains on financial instruments, exceptional items, amortisation of intangible assets recognised on acquisition of subsidiaries, and share of net loss of joint ventures accounted for using the equity method.

	2022		2021	
	£m	Current tax thereon £m	£m	Current tax thereon £m
Profit before tax	**274.1**	**–**	267.2	(30.4)
Adjustments				
Share of net loss of joint venture	**2.2**	**–**	13.8	–
Amortisation of acquired intangible assets	**2.1**	**–**	2.1	–
Net (gains)/losses on financial instruments	**(39.3)**	**(1.4)**	6.2	(2.6)
	239.1	**(1.4)**	289.3	(33.0)
Adjusted effective current tax rate		**0.6%**		11.4%

This APM is used to remove distortions in the tax charge and create a metric consistent with the calculation of adjusted earnings per share in *note 15. Share of net loss of joint ventures is excluded from the calculation because the loss is included after tax and so the tax on joint venture* profits is not included in the current tax charge.

j) Operational cashflow

Cash generated from operations less contributions and grants received.

	2022 £m	2021 £m
Cash generated from operations	**891.7**	901.7
Contributions and grants received	**(42.8)**	(41.4)
Operational cashflow	**848.9**	860.3

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

43 Alternative performance measures ('APM's) (continued)

k) *Cash capex*

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2022 £m	2021 £m
Purchase of property, plant and equipment	**610.3**	613.7
Purchase of intangible assets	**36.3**	22.2
Payments to acquire right-of-use assets	**–**	0.7
Contributions and grants received	**(42.8)**	(41.4)
Proceeds on disposal of property, plant and equipment	**(9.5)**	(2.0)
Cash capex	**594.3**	593.2

This APM is used to show the cash impact of the Group's capital programmes.

l) 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.

	2022 £m	2021 £m
Additions to property, plant and equipment	**714.3**	659.4
Additions to intangible assets	**36.3**	22.2
Contributions and grants received	**(42.8)**	(41.4)
Assets contributed at no cost	**(69.0)**	(44.9)
Capitalised finance costs	**(34.5)**	(30.4)
Capital investment	**604.3**	564.9

44 Subsidiary undertakings

Details of all subsidiary undertakings as at 31 March 2022 are given below. Details of the joint venture are set out in note 20. All subsidiary undertakings have been included in the consolidation.

Owned directly by Severn Trent Plc	**Country of operation and incorporation**	**Percentage of share capital held**	**Class of share capital held**
Athena Holdings Limited	Hong Kong	100%	Ordinary

44 Subsidiary undertakings (continued)

The following subsidiary undertakings all operate and are incorporated in the United Kingdom. The percentage of share capital held is 100% and the class of share capital held is ordinary.

All subsidiary undertakings	
Aqua Deva Limited	Severn Trent Green Power Group Limited
Chester Water Limited	Severn Trent Green Power Holdings Limited
Debeo Debt Recovery Limited	Severn Trent Green Power Limited
Dee Valley Group Limited	Severn Trent Holdings Limited
Dee Valley Limited	Severn Trent Investment Holdings Limited
Dee Valley Services Limited	Severn Trent LCP Limited
Dee Valley Water (Holdings) Limited	Severn Trent Leasing Limited
East Worcester Water Limited	Severn Trent Metering Services Limited
Etwall Land Limited	Severn Trent MIS Trustees Limited
Hafren Dyfrdwy Cyfyngedig	Severn Trent Overseas Holdings Limited
Midlands Land Portfolio Limited	Severn Trent Pension Scheme Trustees Limited
North Wales Gas Limited	Severn Trent PIF Trustees Limited
Northern Gas Supplies Limited	Severn Trent Property Solutions Limited
Severn Trent (W&S) Limited	Severn Trent Reservoirs Limited
Severn Trent Data Portal Limited	Severn Trent Retail and Utility Services Limited
Severn Trent Draycote Limited	Severn Trent Services (Water and Sewerage) Limited
Severn Trent Finance Holdings Limited	Severn Trent Services Defence Holdings Limited
Severn Trent Finance Limited	Severn Trent Services Defence Limited
Severn Trent General Partnership Limited	Severn Trent Services Holdings Limited
Severn Trent Green Power (Ardley) Limited	Severn Trent Services International (Overseas Holdings) Limited
Severn Trent Green Power (Bridgend) Limited	Severn Trent Services International Limited
Severn Trent Green Power (Cassington) Limited	Severn Trent Services Operations UK Limited
Severn Trent Green Power (CW) Limited	Severn Trent Services UK Limited
Severn Trent Green Power (Hertfordshire) Limited	Severn Trent SSPS Trustees Limited
Severn Trent Green Power (North London) Limited	Severn Trent Trimpley Limited
Severn Trent Green Power (RBWM) Limited	Severn Trent Utilities Finance Plc
Severn Trent Green Power (Wallingford) Limited	Severn Trent Water Limited
Severn Trent Green Power (West London) Limited	Severn Trent Wind Power Limited
Severn Trent Green Power Biogas Limited	Severn Trent WWIF Limited
Severn Trent Green Power Composting Limited	Wrexham Water Limited

The Group owns 100% of the share capital of the following subsidiary undertakings.

All subsidiary undertakings	Country of operation and incorporation	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

44 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

44 Subsidiary undertakings (continued)

Subsidiary audit exemptions

Severn Trent Plc has issued guarantees over the liabilities of the following companies at 31 March 2022 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 Trimpley Limited	10690056
Severn Trent WWIF Limited	11966722

COMPANY STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Profit for the year		**141.8**	55.9
Other comprehensive income/(loss)			
Items that will not be reclassified to the income statement:			
Net actuarial gains/(losses)	11	**0.1**	(0.7)
Deferred tax on net actuarial gains/losses	3	**–**	0.1
Deferred tax arising on change of rate	3	**0.5**	–
Other comprehensive income/(loss) for the year		***0.6***	*(0.6)*
Total comprehensive income for the year		**142.4**	55.3

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2022

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2020		236.5	137.0	160.7	2,988.2	3,522.4
Profit for the year		–	–	–	55.9	55.9
Net actuarial losses	11	–	–	–	(0.7)	(0.7)
Tax on net actuarial losses	3	–	–	–	(0.1)	(0.1)
Total comprehensive income for the year		–	–	–	55.3	55.3
Share options and LTIPs						
– proceeds from shares issued	7,8	0.7	11.1	–	–	11.8
– value of employees' services		–	–	–	7.8	7.8
Transfer		–	–	(3.6)	3.6	–
Dividends paid	15	–	–	–	(240.2)	(240.2)
At 31 March 2021		237.2	148.1	157.1	2,814.7	3,357.1
Profit for the year		–	–	–	141.8	141.8
Net actuarial gains	11	–	–	–	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
Proceeds from equity placing	7,8	10.2	235.1	–	–	245.3
Share options and LTIPs						
– proceeds from shares issued	7,8	0.7	11.2	–	–	11.9
– value of employees' services		–	–	–	8.4	8.4
Dividends paid	15	–	–	–	(254.5)	(254.5)
At 31 March 2022		**248.1**	**394.4**	**157.1**	**2,711.0**	**3,510.6**

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 £1,489.8 million.

COMPANY BALANCE SHEET FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 £m	2021 £m
Non-current assets			
Tangible fixed assets		**0.3**	0.4
Right-of-use assets		**0.8**	0.9
Investments in subsidiaries	2	**3,362.1**	3,353.8
Deferred tax asset	3	**2.0**	1.5
Trade and other receivables	4	**1,126.0**	846.3
		4,491.2	4,202.9
Current assets			
Trade and other receivables	4	**25.6**	21.3
Current tax receivable		**13.6**	–
		39.2	21.3
Current liabilities			
Borrowings	5	**(96.2)**	(28.3)
Trade and other payables	6	**(94.0)**	(95.9)
Current tax payable		**–**	(47.4)
Provisions for liabilities		**(0.8)**	(1.8)
		(191.0)	(173.4)
Net current liabilities		**(151.8)**	(152.1)
Total assets less current liabilities		**4,339.4**	4,050.8
Non-current liabilities			
Borrowings	5	**(819.2)**	(684.6)
Trade and other payables	6	**(0.1)**	(0.1)
Retirement benefit obligations	11	**(7.9)**	(8.3)
Provisions for liabilities		**(1.6)**	(0.7)
		(828.8)	(693.7)
Net assets		**3,510.6**	3,357.1
Capital and reserves			
Called up share capital	7	**248.1**	237.2
Share premium account	8	**394.4**	148.1
Other reserves	9	**157.1**	157.1
Retained earnings		**2,711.0**	2,814.7
Total capital and reserves		**3,510.6**	3,357.1

The profit for the year is £141.8 million (2021: £55.9 million).

Signed on behalf of the Board who approved the accounts on 24 May 2022.

Christine Hodgson
Chair

James Bowling
Chief Financial Officer

Company Number 02366619

1 Employee Numbers

The average number of employees during the year was 14 (2021: 11).

2 Investments in subsidiaries

	£m
At 1 April 2021	**3,353.8**
Additions	**8.3**
At 31 March 2022	**3,362.1**

Details of subsidiaries of the Company are given in note 44 to the Group financial statements.

3 *Deferred tax*

	£m
At 1 April 2020	1.5
Charge to income	(0.1)
Credit to income arising from rate change	0.1
At 1 April 2021	1.5
Credit to equity arising from rate change	0.5
At 31 March 2022	**2.0**

4 Trade and other receivables

	2022 £m	2021 £m
Current assets		
Other amounts receivable	**0.2**	0.5
Prepayments	**0.2**	0.2
Amounts owed by group undertakings	**25.2**	20.6
	25.6	21.3
Non-current assets		
Other amounts receivable	**2.7**	2.9
Loan receivable	**78.8**	97.6
Amounts owed by group undertakings under loan agreements	**1,044.5**	745.8
	1,126.0	846.3
	1,151.6	867.6

5 Borrowings

	2022 £m	2021 £m
Current liabilities		
Bank overdraft	**–**	12.2
Amounts due to group undertakings under loan agreements	**–**	16.0
Other loans	**96.1**	–
Lease liabilities	**0.1**	0.1
	96.2	28.3
Non-current liabilities		
Amounts due to group undertakings under loan agreements	**619.4**	392.0
Other loans	**199.0**	291.7
Lease liabilities	**0.8**	0.9
	819.2	684.6
	915.4	712.9

At the balance sheet date the Company had £100 million (2021: £100 million) undrawn borrowing facilities.

6 Trade and other payables

	2022 £m	2021 £m
Current liabilities		
Trade payables	**0.1**	0.1
Social security and other taxes	**0.1**	0.1
Other payables	**3.2**	2.8
Accruals	**1.2**	2.4
Amounts due to group undertakings	**89.4**	90.5
	94.0	95.9
Non-current liabilities		
Accruals	**0.1**	0.1
	94.1	96.0

7 Share capital

	2022 £m	2021 £m
Total issued and fully paid share capital		
253,410,074 ordinary shares of 97 17/19p (2021: 242,259,862)	**248.1**	237.2

At 31 March 2022 3,116,579 (2021: 3,376,054) treasury shares were held at a nominal value of £3,051,131 (2021: £3,304,979).

On 25 May 2021 the Company issued 10,420,000 ordinary shares of 97 17/19p 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 17/19p		
At 1 April 2020	241,537,324	236.5
Shares issued under the Employee Sharesave Scheme	722,538	0.7
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 31 March 2022	**253,410,074**	**248.1**

8 Share premium

	2022 £m	2021 £m
At 1 April	148.1	137.0
Share premium arising on issue of shares for Employee Sharesave Scheme	11.2	11.1
Shares premium arising from equity placing	235.1	–
At 31 March	394.4	148.1

9 Other reserves

	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 31 March 2020	157.1	3.6	160.7
Transfer to retained earnings	–	(3.6)	(3.6)
At 31 March 2021 and 31 March 2022	**157.1**	**–**	**157.1**

The capital redemption reserve arose on the redemption of B shares.

The hedging reserve arose from gains or losses on interest rate swaps taken directly to equity under the hedge accounting provisions of IFRS 9 and the transition rules of IFRS 1. The hedging reserve was transferred to retained earnings in the prior year.

10 Share based payment

For details of employee share schemes and options granted over the shares of the Company, see note 37 of the Group financial statements. Details of options exercised and awards vesting during the year and of the weighted average share price of the Company during the year are also disclosed in that note.

11 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 (2021: £0.4 million). There were no amounts outstanding for contributions to the defined benefit schemes (2021: nil).

The Company has an obligation to pay pensions to a number of former employees, whose benefits would otherwise have been restricted by the Finance Act 1989 earnings cap. This unfunded scheme is part of the Severn Trent Pension Scheme.

Information about the schemes as a whole is disclosed in note 28 to the Group financial statements.

12 Related party transactions

The retirement benefit schemes operated by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 28 to the Group financial statements.

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 £54.1 million (2021: £54.1 million).

The Company has a revolving credit facility available to Water Plus totalling £100 million. The previous additional facility of £32.5 million was terminated on 23 April 2021. At 31 March 2022 the amount drawn was £80.5 million (2021: £100.0 million).

13 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 2022, the Company had no contingent liabilities (2021: nil).

14 Post balance sheet events

Following the year end the Board of Directors has proposed a final dividend of 61.28 pence per share.

15 Dividends

For details of the dividends paid in the years ended 31 March 2022 and 31 March 2021 see note 14 in the Group financial statements.

FIVE YEAR SUMMARY

Continuing operations	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Turnover	**1,943.3**	1,827.2	1,843.5	1,767.4	1,696.4
Profit before interest, tax, amortisation of acquired intangible assets and exceptional items	**508.3**	472.8	570.3	573.6	539.8
Reduction in expected credit loss on loan receivable	**0.2**	3.6	–	–	–
Net exceptional items before tax	**–**	(4.9)	(51.7)	(9.6)	(12.6)
Amortisation of acquired intangible assets	**(2.1)**	(2.1)	(2.1)	(0.7)	–
Net interest payable before gains/(losses) on financial instruments and exceptional finance costs	**(269.4)**	(187.1)	(188.4)	(194.2)	(219.5)
Gains/(Losses) on financial instruments	**39.3**	(6.2)	(17.4)	16.0	(6.7)
Results of associates and joint ventures[1]	**(2.2)**	(8.9)	–	(0.4)	0.2
Profit on ordinary activities before taxation	**274.1**	267.2	310.7	384.7	301.2
Current taxation on profit on ordinary activities	**4.8**	(26.8)	(30.1)	(31.8)	(32.9)
Deferred taxation	**(71.7)**	(28.2)	(29.1)	(39.4)	(28.7)
Exceptional tax	**(294.4)**	–	(92.7)	1.8	–
(Loss)/profit on ordinary activities after taxation	**(87.2)**	212.2	158.8	315.3	239.6
Results from discontinued operations	**–**	–	–	–	13.2
Profit for the year	**(87.2)**	212.2	158.8	315.3	252.8
Net assets employed					
Fixed assets	**10,609.3**	10,261.4	9,954.8	9,337.7	8,660.1
Other net liabilities excluding net debt, retirement benefit obligation, provisions and deferred tax	**(1,315.9)**	(1,276.0)	(1,142.0)	(992.6)	(956.0)
Derivative financial instruments[2]	**(12.8)**	(86.0)	(158.5)	(95.1)	(104.3)
Net retirement benefit obligation	**(128.0)**	(367.7)	(234.0)	(452.9)	(519.8)
Provisions for liabilities and deferred tax	**(1,380.9)**	(949.2)	(945.1)	(798.9)	(726.5)
	7,771.7	7,582.5	7,475.2	6,998.2	6,353.5
Financed by					
Called up share capital	**248.1**	237.2	236.5	235.9	235.1
Reserves	**1,015.8**	901.5	1,007.2	928.2	761.8
Total shareholders' funds	**1,263.9**	1,138.7	1,243.7	1,164.1	996.9
Non-controlling interests	**–**	–	–	–	–
Net debt[3]	**6,507.8**	6,443.8	6,231.5	5,834.1	5,356.6
	7,771.7	7,582.5	7,475.2	6,998.2	6,353.5
Statistics					
Earnings per share (continuing) – pence	**(35.2)**	89.1	66.7	133.4	101.8
Adjusted earnings per share – pence	**96.9**	105.4	146.0	145.8	120.5
Dividends per share (excluding special dividend) – pence	**102.1**	101.6	100.1	93.4	86.6
Dividend cover (before exceptional items and deferred tax)	**0.9**	1.0	1.5	1.6	1.4
Gearing[4] – %	**83.7**	85.0	83.4	83.3	84.4
Ordinary share price at 31 March – pence	**3,078.0**	2,306.0	2,280.0	1,976.0	1,844.0
Average number of employees					
– Regulated Water and Waste Water	**6,612**	6,536	6,345	5,680	5,660
– Other	**506**	497	451	900	605

1 Excludes exceptional share of net losses of joint venture.

2 Excludes instruments hedging foreign currency debt.

3 Includes instruments hedging foreign currency debt.

4 Gearing has been calculated as net debt divided by the sum of equity and net debt.

INFORMATION FOR SHAREHOLDERS

Severn Trent shareholder helpline

The Company's registrar is Equiniti. Equiniti's main responsibilities include maintaining the shareholder register and making dividend payments.

If you have any queries relating to your Severn Trent Plc shareholding, you should contact Equiniti.

Registrar contact details:
Online: shareview.co.uk
From here you will be able to securely email Equiniti with your query.
Telephone: +44 (0) 371 384 2967[1]
Text phone: 0371 384 2255[1]
By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

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 strategy;
- details of the Group's Business Model and Business Plan; and
- the Company's approach to sustainability and innovation.

There is also a dedicated investors' section on the website which contains up to date information for shareholders including:

- comprehensive share price information;
- financial results;
- a history of dividend payment dates and amounts; and
- access to current and historical shareholder documents such as the Annual Report and Accounts and Notice of Meeting.

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 shareview.co.uk

Dividend payments

Bank mandates

Dividends can be paid automatically into your bank or building society account.

The benefits of doing this are that you will:

- receive cleared funds in your bank account on the payment date;
- avoid postal delays; and
- remove the risk of your cheques getting lost in the post.

To take advantage of this service or for further details, contact Equiniti or visit shareview.co.uk

Dividend reinvestment plan ('DRIP')

The DRIP gives shareholders the option of using their dividend payments to buy more Severn Trent Plc shares instead of receiving cash. If you would like to participate in the DRIP, please request a dividend reinvestment plan mandate from Equiniti Financial Services Limited.

Telephone: +44 (0) 371 384 2967[1]

1 Please use the country code when contacting Equiniti from outside the UK.

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 shareview.co.uk or contact 0345 603 7037* 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.

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 on 0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date;
- Search the list of unauthorised firms to avoid at fca.org.uk/scams;
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme;
- Think about getting independent financial and professional advice before you hand over any 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 the share fraud reporting form at fca.org.uk/scams, where you can also find out more about investment scams and check their warning list.

You can also call the Freephone FCA Consumer helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Unsolicited mail

The Company is legally obliged to make its share register available to the general public. Consequently some shareholders may receive unsolicited mail. If you wish to limit the amount of unsolicited mail you receive, please contact:

The Mailing Preference Service ('MPS'), DMA House, 70 Margaret Street, London, W1W SS.

Alternatively, register online at mpsonline.org.uk or call the MPS Registration line on 0207 291 3310.

American Depositary Receipts ('ADRs')

Severn Trent has a sponsored Level 1 ADR programme, for which The Bank of New York Mellon acts as Depositary.

The Level 1 ADR programme trades on OTCQX which is the premier tier of the US over the counter ('OTC') market under the symbol STRNY (it is not listed on a US stock exchange). Each ADR represents one Severn Trent ordinary share.

If you have any enquiries regarding Severn Trent ADRs, please contact The Bank of New York Mellon.

By post: BNY Mellon Shareowners Services, PO Box 30170, College Station, TX 77842-3170, US

By telephone:
If calling from within the US: (888) 269 2377 (toll-free)

If calling from outside the US: +1 201 680 6825

By email: shrrelations@cpushareownerservices.com

Website: mybnymdr.com

Financial calendar

Ex dividend date – final dividend	1 June 2022
Record date to be eligible for the final dividend	6 June 2022
DRIP election date - final	22 June 2022
AGM	7 July 2022
Final dividend payment date	13 July 2022

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.

** Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, (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.

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Severn Trent Plc

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