



SEVERN

TRENT

WONDERFUL ON TAP

SEVERN TRENT SUSTAINABLE FINANCE FRAMEWORK

1. INTRODUCTION TO SEVERN TRENT

Severn Trent Plc (the “Group”, “Severn Trent” or “we”) is the holding company of the Severn Trent Group of companies. The Group was formed in 1989 following privatisation of the water industry in England and Wales and comprises two main businesses:

- (i) **Regulated Water and Waste Water** – this is by far the largest of the two businesses and includes the water and waste water activities of our regulated businesses Severn Trent Water Limited (“STW”) and Hafren Dyfrdwy Cyfyngedig (“HD”).
- (ii) **Business Services** – operates in the UK and includes the following businesses: Green Power, Operating Services and Property Development.

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

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

Property Development manages the sale of surplus land.

Other businesses include our affinity and searches businesses.

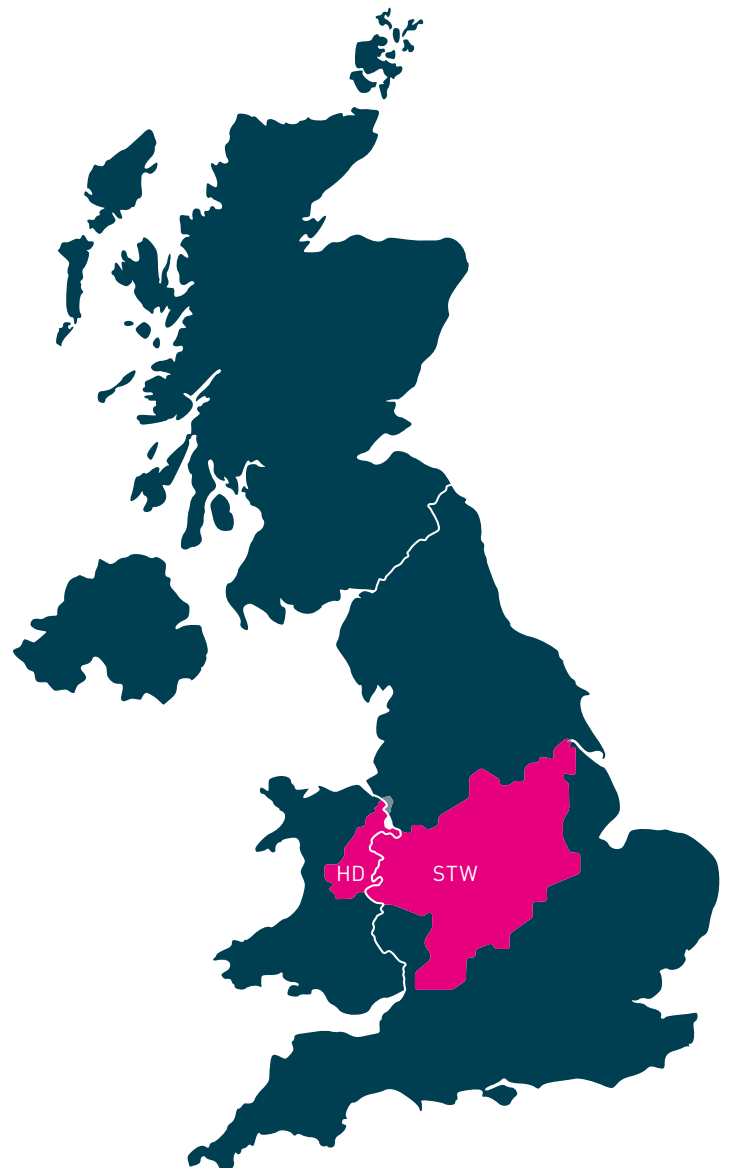
What we do

We provide clean water every time our customers turn on the tap. To do that, we collect it from reservoirs, rivers and underground aquifers across our region, then our treatment works clean it to the highest standards and make it good to drink. Our network of pipes and storage reservoirs brings a continuous supply of safe, reliable water to the taps of 4.8 million households and businesses in the Midlands and Wales every day of the year.

We also remove their waste water in an affordable, sustainable and reliable way through our network of sewers and pumping stations. At our sewage works, we carefully screen, filter and treat the waste water to stringent environmental standards before returning it to nature and recycle waste products to fertilise the land. Our Green Power business generates renewable energy and we draw upon our skills in water and waste treatment to provide similar services to other organisations through our Business Services division.

How we do it

We aim to anticipate and meet changing customer demands and wider societal needs for water. To supply and collect water, we look after some of the UK’s most impressive natural bodies of water and watercourses such as Carsington Water and Lake Vyrnwy. We maintain over 50,200 km of clean water pipes and over 92,900 km of sewer pipes. To do this, we attract, develop and retain over 7,000 talented people from all backgrounds and walks of life. We also build strong supplier relationships to support our business operations, working with about 3,000 direct suppliers. Our work is regulated by Ofwat, the Drinking Water Inspectorate (‘DWI’), the Environment Agency (‘EA’), Natural England and Natural Resources Wales who we work with to help ensure the right outcomes for customers and the environment.



1.1 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.

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.

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.

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.

Working with our regulators and stakeholders

We are subject to regulation of our prices and performance by economic, quality and environmental regulators, as outlined on the right.

We also work with a range of other regulators including:

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

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.



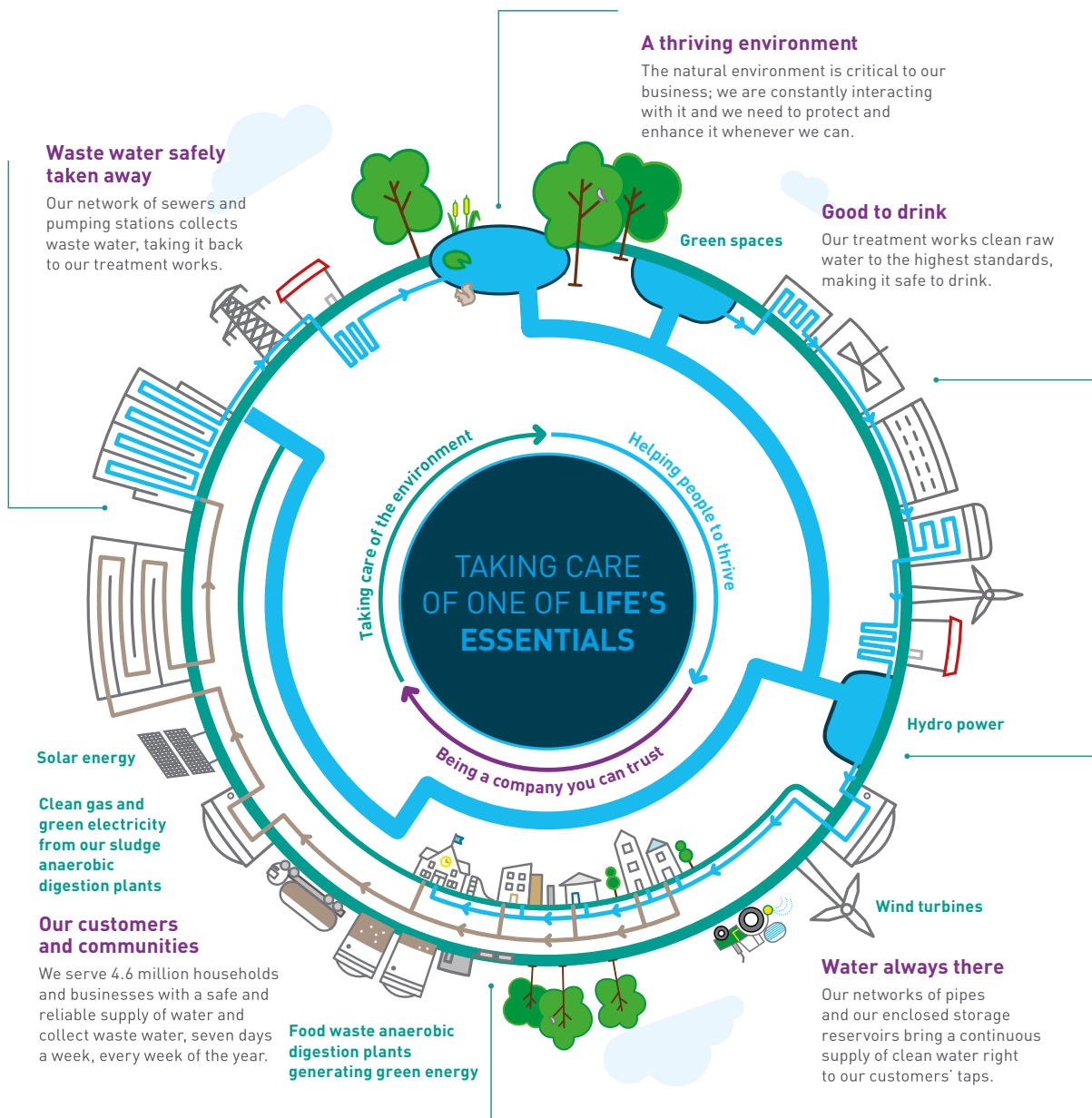
Ofwat is the economic regulator for the industry in England and Wales. Ofwat principally exercises its duty to protect the interests of customers through periodic reviews of charges (‘price reviews’) every five years.

1.2 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 protecting our planet and leading the way in combatting climate change in our industry. 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 power our operations. The green energy produced from food waste forms part of Severn Trent's Triple Carbon Pledge – with the objective of achieving net-zero operational carbon emissions, 100% renewable energy and an all-electric fleet of vehicles, subject to the availability of vehicles, by 2030.



1.3 OUR PURPOSE: SUSTAINABILITY FRAMEWORK

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.




OUR PURPOSE TAKING CARE OF ONE OF LIFE'S ESSENTIALS

TAKING CARE OF THE **ENVIRONMENT**

 Ensuring a sustainable water cycle

 Enhancing our natural environment


 Making the most of our resources


 Mitigating climate change

LINKED MATERIAL SDGs




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


LINKED MATERIAL SDGs




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

LINKED MATERIAL SDGs

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

Taking care of the environment

Our customers rely on us to look after their long-term water supply, so ensuring a sustainable water cycle and the health of the natural environment in our region is critical. We protect and enhance the wider environment by making the most of our resources and playing our part to mitigate climate change. As part of our Triple Carbon Pledge, we will ensure that our operational emissions meet net zero by 2030, as part of the combined UK water sector's net zero 2030 road map. We have verified and approved Science Based Targets ('SBTs') in line with the 1.5°C pathway.

An up-to-date overview of how we care for the environment can be found in our "[Caring for the Environment](#)" document and details of our latest Net Zero Transition Plan can be found in our Task Force on Climate-Related Financial Disclosures (TCFD) section of our [Annual Report and Accounts \(ARA\)](#).

Adapting to climate change - we recognise the risks from climate change as set out in the Intergovernmental Panel on Climate Change's sixth assessment report and understand the roles that business, government and communities need to play to mitigate and adapt to our changing world. The water sector is facing significant challenges and will need to ensure resilience against the predicted impacts of increased population growth and climate change.

Over the next 25 years, we anticipate a period of increased investment across the sector to build a more resilient and flexible infrastructure that can cope with greater overall demand and volatility and lessen our impact on the natural environment. For that reason we are planning and investing for the climate change impacts that two degrees of warming will make, but preparing ourselves for four degrees of warming where possible. Further details can be found in our [Climate Change Adaptation Report](#) and TCFD.

Helping people to thrive

We are more than a service provider – we are committed to helping the people of the region we serve. We support them by making sure our services are affordable for everyone and making a positive difference in the community, especially for the most vulnerable among us. We provide a fair, inclusive and safe place to work, and we invest in skills and knowledge for our employees and our wider community.

We are investing an extra £30 million to accelerate our ambition of making bills more affordable for all our customers who are in water poverty (as described in section 1.5.3) by 2030. This recognises that more households are currently struggling with affordability and that the effects of rising inflation will impact those on the lowest incomes the most. To do this, we will expand our social tariff known as The Big Difference Scheme to support a further 100,000 customers. Taking a more long-term view, we also want to help such customers improve their life chances, by offering skills and employability training to help them open up new career opportunities and in time, hopefully raise themselves out of water poverty or stop those at risk of water poverty becoming water poor in the future.

Being a Company you can trust

Addressing and delivering sustainable outcomes is core to our strategy and essential to the Company's ability to achieve long-term sustainable growth. Effective Board oversight of the Group's Sustainability Framework, and the Framework's alignment with our existing governance processes, help ensure robust consideration and scrutiny of sustainability issues including climate-related risks and opportunities.

To ensure effective governance of sustainability and climate related risks and opportunities, the Board delegates certain oversight activities to its Board Committees to support the continued delivery of the Group's Sustainability Framework. Our Corporate Sustainability Committee has responsibility for sustainability and is supported by Steering Committees that have oversight of sustainability performance. Further details on the sustainability governance structure can be found overleaf.

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 in our ARA (pages 115 to 121)	Further detail of the work of the Committee can be found in our ARA (pages 124 to 127)	Further detail on actions and appointments in the year can be found in our ARA (pages 110 to 114)	Further detail on remuneration policy can be found in our ARA (pages 128 to 148)	Further detail on our Sustainable Finance Framework can be found in our ARA (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 – ARA p34

STEC Members – ARA 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.





1.4 OUR PURPOSE UNDERPINS OUR APPROACH TO SUSTAINABILITY

Sustainability is intrinsically linked to every aspect of what we do and how we do it. Having an agreed Sustainability Framework allows us to draw together our environmental, social and governance ambitions while at the same time pursuing them as an integral part of our business plan.

The SDGs were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

By incorporating SDGs into our materiality assessment, we found clear alignment between our most material issues and the four SDGs listed below. We have detailed specific actions and targets that deliver to these goals.

We also contribute significantly to parts of two further SDG's - SDG 3 (Good health and wellbeing) through our water provision and treatment systems, and SDG 4 (Quality education) through training programmes for our employees and wider communities.

SDG NO.	SDG NAME	DESCRIPTION	OUR ACTIONS	MATERIAL ISSUE
	Clean water and sanitation Ensure availability and sustainable management of water and sanitation for all.		Sustainable water withdrawals: We do not source water from high or extremely high baseline water stress regions.	Water resources for the future River water quality
			Improved water quality through effluent treatment: Severn Trent treats effluents so that what goes back into rivers is as clean as possible.	
			Improved water efficiency: Clean water efficiency is increased through leakage reduction and customer education. Wastewater is screened, filtered and treated to stringent environmental standards before being returned to nature. Waste products are recycled to fertilise the land.	
	Climate Action Take urgent action to combat climate change and its impacts		Energy efficiency: We monitor and minimise our energy use, and use renewables where possible.	Climate change and carbon
			Environmental investments: Supporting charities, farmers and organisations to protect the natural environment and mitigate climate change impacts.	
			GHG emissions: We monitor our GHG emissions and have a net-zero plan.	
	Life on land Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.		Deforestation and forest degradation: We are working in partnership to enhance our natural environment by planting 1.3 million native trees.	Enhancing nature
			Land remediation: Severn Trent works with organisations to restore landscapes through nature-based solutions.	
	No poverty (partial contribution) End poverty in all its forms everywhere.		Availability of products and services for those on low incomes: Severn Trent works with vulnerable customers and ensures that clean water is affordable for all.	Affordability and accessibility

1.5 OUR MOST MATERIAL ISSUES

As governments and individuals hold more companies accountable to their sustainability commitments, we at Severn Trent continue to work on improving our reporting, setting ambitious but realistic targets, presenting evidence of actions, and documenting our progress.

To ensure that we are focusing our efforts on the right areas on behalf of all our stakeholders, we reviewed and improved our methodology for identifying our most material issues and conducted our second annual materiality assessment.

The SDGs align governments and businesses around the world to work towards common sustainability targets.

To ensure that the actions we take as a business serve not only our region but also the global agenda for sustainability, we incorporated SDGs into this year's materiality assessment, mapping our most material issues to the corresponding SDGs, and reviewing our targets to ensure they support the SDG targets and Key Performance Indicators (KPIs).

OUR MOST MATERIAL ISSUES



RIVER QUALITY

How do we protect and restore our rivers and their environments now and for future generations?



WATER RESOURCES FOR THE FUTURE

How do we make sure that the importance of this precious resource is understood and valued by all?



AFFORDABILITY AND ACCESSIBILITY

How do we ensure that water is accessible and affordable for everyone in our communities?



CARBON AND CLIMATE CHANGE

How do we deliver on our net zero commitment with a credible journey plan and build resilience into our long-term plan?



ENHANCING NATURE

How do we leverage our scientific expertise to increase biodiversity and protect the ecosystems that sustain us?



1.5.1 RIVER QUALITY

River positive by 2030



Pledge One

Ensure storm overflows and sewage treatment works do not harm rivers



Pledge Three

Support others to improve care for rivers



Pledge Five

Open and transparent about our performance and our plans



Pledge Two

Create more opportunities for everyone to enjoy our regions rivers



Pledge four

Enhance our rivers and create new habitats so wildlife can thrive

River Rangers

Our new River Rangers Team is dedicated to protect 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, it also works 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.

Check out getriverpositive.co.uk for more information on our river pledges.



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



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



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 introduced a team of River Rangers.



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



We have been awarded **4-star** Environmental Performance Assessment status by the Environment Agency for the **third year running**, reflecting our long-standing commitment to the environment.

1.5.2 WATER RESOURCES FOR THE FUTURE

Our priorities for ensuring a sustainable water cycle

We are committed, as a business and a sector, to build and maintain a sustainable water cycle, from balancing resource needs, to minimising leaks and to reducing per capita consumption.

Water is precious. By minimising consumption, we place ourselves as unobtrusively as possible in the natural water cycle; we conserve limited water resources, we ensure river ecosystems and biodiversity are protected, and we reduce the volume of water we need to pump and treat across our network. To achieve this, we focus on two things, water efficiency and reducing leaks.

Our goal is to reduce household consumption of water to 122.77 litres per person per day by 2025. This goal is currently under review by Ofwat as a result of the ongoing impact of COVID on water consumption. Last year we reported an increase of 3.3% to 133 litres per person per day – reflecting how the COVID-19 pandemic has increased concerns about hygiene, forced many into home-working and schooling, and placed more value on gardens and gardening.

This trend has continued into the current year, with household consumption at 135 litres per person. In order to meet our targets, we need to help our customers value water beyond their bill, understand their usage and provide options to help reduce consumption.

This is why we remain committed to building on our water efficiency programme that has saved over 25 million litres per day between 2015 and 2020 by:

- installing an additional 106k water meters, which help household customers reduce their consumption by 10% on average;
- prioritising home water efficiency checks using high-consumption water meter data, saving 1.57 ML/d or 573 million litres of water over a year;
- providing over 38,000 free water efficiency products, saving an estimated 0.79 ML/d or 288 million litres of water each year; and
- introducing our new Get Water Fit platform to help our customers to understand their current use and how to reduce consumption.

Reducing leaks

When water leaks from pipes before it reaches our customers, not only is it wasted, but so is the energy we used to treat it and move it around. It also affects our reputation with customers, who consider it a key issue, so we aim to reduce leakage as much as possible. We aim to reduce leakage by 15% by 2025 and by 50% by 2045. This year we have reduced leakage by 3.5% from the 2019/20 baseline. Our investment in leakage reduction has meant we have hit our target for ten out of the last eleven years.

Removing less water from the environment

Healthy rivers need consistent and plentiful flows of water in order to function as a habitat for plants and animals, and to support the wellbeing of local people. That means our abstraction of water – the rate and volume at which we pump water from rivers and aquifers – needs to be at a sustainable level, minimising impacts on water flow and quality. We have committed to this in three important ways:

- Actively managing existing impacts.
- Moving abstraction to less vulnerable areas.
- Balancing water needs across catchments.



1.5.3 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.

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.



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



What else are we doing?

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

- We are donating c.£10 million over AMP7, through our Community Fund, supporting local charities and community groups. In the first two years, the fund has supported 166 non-profit organisations with c£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 recovery from the pandemic and creating c.2,500 new jobs in the Midlands.

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

1.5.4 ENHANCING NATURE

Enhancing our natural environment Our priorities

Our natural environment is the vital partner to our reservoirs, treatment works, and pipelines – capturing, holding, cleaning, and carrying our water – which makes our investment in its recovery, enhancement and improvement not only ethically sound, but also business critical. We also know from talking to our customers and stakeholders, how important it is to improve the environment they live in.

Nature recovery on our land

There are many habitat types on our estate, situated in Wales and in England, from urban areas and forestry grassland habitats, through to tenanted farmland and our own farms – protecting and enhancing biodiversity in all of the unique ecosystems on our land is a core part of our nature recovery plan. We focus our efforts in three key ways:

- Understanding and monitoring what we have.
- Looking after our rivers and designated sites.
- Nature-friendly forestry and farming.

Boosting nature beyond our boundaries

Nature does not recognise property lines, so any solution designed to boost nature must include partners across our landscape, regardless of ownership.

The Great Big Nature Boost and Boost for Biodiversity

One of the biggest nature projects in the UK, the Great Big Nature Boost, aims to improve biodiversity across 5,000 hectares of land in the Severn Trent region by 2027, vastly exceeding our regulatory commitments. Achieving this relies fundamentally on developing and nurturing meaningful relationships with key conservation partners across the region and beyond. Our partners, who are largely non-profit conservation organisations, are expertly placed to design and execute ambitious and scientifically informed conservation projects, and we are proud to work with them to meet our joint strategic objectives for nature recovery. So far we have worked with over 50 partners across 223 projects.



1.5.5 CARBON AND CLIMATE CHANGE

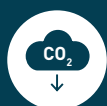
Our key challenges across Scope 1, 2 and 3 emissions are understanding and measuring our emissions accurately and our supply chain and process emissions. Our Net-Zero Transition Plan shows how we intend to achieve those targets, by using industry leading technology to measure our emissions, building a portfolio of innovations and solutions, and engaging with our supply chain to find joint solutions.

Our approach is to follow the carbon hierarchy, prioritising solutions to reduce first, replace next and then find ways to remove and finally offset emissions.

Our Net-Zero Transition Plan brings together targets associated with our Triple Carbon Pledge and our Science-Based Targets, 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 want, at a price they can afford. This is an ambitious undertaking and one which we are proud of.

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 specialist vehicles such as tankers become available within that time)

SCIENCE-BASED CARBON TARGETS ('SBTS')

Our Science-Based Targets 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 2019/20 baseline



70%

of our supply chain (by emissions) have set a SBT by 2026



13.5%

reduction in emissions from sold products by 2031

1.6 WORKING TOGETHER FOR A GREENER FUTURE

Green Recovery

In summer 2021, Ofwat gave us approval to invest around £566 million (2017/18 prices) to support 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% ethnic minority. 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 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.

Green Recovery Project 1: Rivers safe for swimming



We will be able to enjoy a swim in the River Leam and River Teme, knowing the water is safe for our family.

Green Recovery Project 2: More water for more customers



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

Green Recovery Project 3: Homes protected from flooding



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

We have made excellent progress on the Green Recovery programmes to date, successfully getting into delivery 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 learnt 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. Importantly, we raised new finance from our equity investors to help keep bills affordable.

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.

Green Recovery Project 4: Leadership on removing lead



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

Green Recovery Project 5: Lower water consumption



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

Green Recovery Project 6: Faster environmental improvements



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

2. SEVERN TRENT SUSTAINABLE FINANCE FRAMEWORK

We have established this Sustainable Finance Framework (the “Framework”) under which Severn Trent Plc and its subsidiaries can raise debt to support the financing and/or refinancing of assets and expenditures of a sustainable nature across their activities.

We can demonstrate a large part of our operations create, either directly or indirectly, positive social and/or environmental outcomes. As such, the Framework supports the financing and refinancing of the majority of our business.

We have developed this Framework under which we can issue various “Sustainable Financing Instruments”, including but not limited to:

- Committed Facilities (revolving and term debt from banks and institutional investors).
- Green, Social and Sustainable Bonds (all “Sustainable Bonds”).
- Private Placements (including US Private Placements).
- Finance Leases.

This Framework is based on the existing international standards:

- The Green Bond Principles (“GBP”), Social Bond Principles (“SBP”) and Sustainability Bond Guidelines (“SBG”) as published by the International Capital Market Association (“ICMA”) in June 2021¹.
- The Green Loan Principles (“GLP”) as published by the Loan Market Association (“LMA”) in February 2021².

The Principles are a collection of voluntary frameworks with the stated mission and vision of promoting the role that the global debt capital markets can play in financing progress towards environmental and social sustainability. In alignment with these Principles, this Framework is presented through the following four core components:

1. Use of Proceeds.
2. Process for Project Evaluation and Selection.
3. Management of Proceeds.
4. Reporting.

It is our intention to follow best practice and take into account in due course the technical screening criteria of the ‘EU Taxonomy’³ and, when published, the ‘UK Taxonomy’. Therefore, our Finance Framework may be amended and/or updated to reflect the requirements of the EU Taxonomy and the UK Taxonomy, and in particular that related to the sustainable use and protection of water and marine resources, and/or changes in market practice.

¹ ICMA, Green Bond Principles, June 2021, <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

² LMA, Green Loan Principles, February 2021: <https://www.lma.org/content/green-loan-principles/>

³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

2.1 USE OF PROCEEDS

An amount equivalent to the net proceeds from the Sustainable Financing Instruments raised under the Framework will be allocated to finance and/or refinance new or existing assets and expenditures of Severn Trent and its subsidiaries.

Assets, capital and selected operational expenditures falling within the Social Eligible Categories (“Eligible Social Investments”) will be aggregated to form the Eligible Social Portfolio. These are assets and expenditures that have a benefit for societies and communities.

Assets, capital and selected operational expenditures falling within the Green Eligible Categories (“Eligible Green Investments”) will be aggregated to form the Eligible Green Portfolio. These are assets and expenditures that have a benefit for the natural environment.

Under this Framework:

- The Social Eligible Categories and Green Eligible Categories together form the Sustainable Eligible Categories;
- Eligible Social Investments and Eligible Green Investments are together Eligible Sustainable Investments; and
- Together, they form the Eligible Sustainable Portfolio (the “Eligible Sustainable Portfolio”); and
- We will allocate an amount at least equal to the net proceeds from the issue of our sustainable funding instruments to finance, refinance or invest in the Eligible Sustainable Portfolio.

Although many of our assets and expenditures could be eligible, when it comes to existing assets and expenditures, we will (re)finance Eligible Sustainable Investments that have been completed or charged (in the case of operating expenditures) three years prior and/or two years following the date the finance was raised.

We aim to allocate the net proceeds of the transaction within two years of issuing the respective Sustainable Financing Instruments.

In our previous Framework launched in November 2019, the eligible categories reflected our business plan outcomes. For this Framework update we have revised the Use of Proceeds section to follow standard market practice, and as a result we have updated the mapping process as can be seen in table overleaf.

We’ve established high level principles that guide the allocations:

- All capital enhancement expenditure, whether driving quality improvements, enhancing the level of service we provide for customers and the environment or accommodating future growth will be eligible under the framework. This will be directly allocated to ‘Sustainable Water and Wastewater Management’ if no other category is appropriate.
- Operational investment in upstream activities such as Catchment Management and Biodiversity will be eligible under the framework.
- All investment under the Green Recovery portfolio will be eligible under the framework as this programme is designed to drive sustainable improvements in quality and service.
- General maintenance investment will not be eligible under the framework unless it directly supports delivery of a sustainability criteria. For example:
 - Investment in electric vehicles; or
 - Mains renewals to support leakage improvements.
- Assets and expenditure for financing costs, legal costs, and any potential fines will be excluded from the eligible categories and investments for eligible expenditures under the framework.
- We’ll continue to explore other operational expenditure related to affordability to support the most financially vulnerable customers in our region. We anticipate this will be eligible under the framework once we have identified direct costs.

Eligible Sustainable Investments will fall within one or several Social Eligible Categories or Green Eligible Categories. A description of the categories and their alignment with the SDGs can be found overleaf.

Mapping of Severn Trent activities against ICMA categories and UN Sustainable Development Goals.

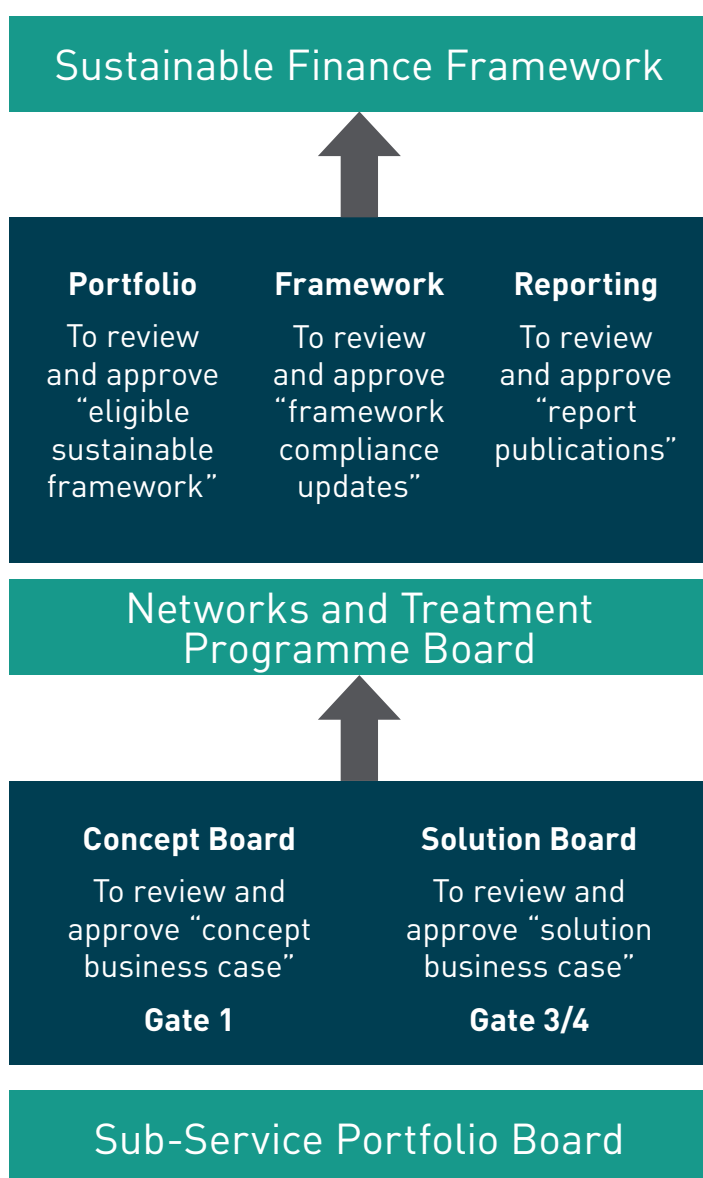
GREEN CATEGORIES	UN SDGS	ELIGIBILITY CRITERIA	EXAMPLE ACTIVITIES	POTENTIAL IMPACT METRICS
Sustainable water and wastewater management.		<p>Investment and expenditure to ensure a sustainable water cycle by:</p> <ul style="list-style-type: none"> Reducing the amount of water used and reducing losses (leakage) from the system. Reducing abstraction from water resources that have a detrimental impact on the environment. Improving water quality and compliance. Mitigating flooding risk. Reducing pollutions and returning treated water safely back to our rivers. Enhancing the resilience of the water and waste water network. 	<ul style="list-style-type: none"> Water efficiency programmes. Customer metering. Investments to manage abstraction and create new supplies. Investment in water infrastructure to enhance resilience, improve water quality and reduce losses from the system. Investment in sewerage infrastructure to increase capacity, improve treatment processes and reduce pollution incidents and flooding. 	<p>Leakage reduction MI/d (3-yr average).</p> <p>Per capita consumption (litres/person/day 3-yr average).</p> <p>Number of meters installed.</p> <p>Abstraction Incentive Mechanism.</p> <p>Water quality compliance (CRI).</p> <p>Treatment works compliance (%).</p> <p>Number of km of river improved</p> <p>Pollution incidents.</p> <p>Sewer flooding.</p>
Terrestrial and Aquatic biodiversity.		Expenditure on the restoration, remediation and the conservation of habitats and ecosystems to enhance biodiversity in our region.	<p>Improve the biodiversity in our region (The Great Big Nature Boost) including:</p> <ul style="list-style-type: none"> Improving the biodiversity across 5,000 hectares of land in our region by 2027. Planting 1.3 million trees by 2030. Peatland restoration of over 2,000 acres across England and Wales. Creating wildflower meadows. Restoring moorland in the Upper Peak District. 	<ul style="list-style-type: none"> Number of trees planted. Area covered by sustainable land and water resources management practices (ha). Expenditure on conservation and sustainable use of biodiversity and ecosystems.
Environmentally sustainable management of living natural resources and land use.		Investments and/or expenditure in nature-based solutions and catchment management schemes.	<ul style="list-style-type: none"> Catchment management - working directly with farmers to reduce discharges from agriculture, at the same time as boosting on farm biodiversity Sustainable Urban Drainage Systems 	<ul style="list-style-type: none"> Pollution load reduction per catchment (kg). Area covered by sustainable land and water resources management practices (ha).
Pollution prevention and control.		Investments to reduce pollutions from the wastewater network.	Investing in sewerage infrastructure to reduce pollutions and sewer flooding.	<ul style="list-style-type: none"> Treatment works compliance (%). Reduction in pollution incidents per 10,000 km of waste network. Our five River Pledges.
Climate Change Adaptation and mitigation.		<p>Investments and/or expenditure in projects that:</p> <ul style="list-style-type: none"> Reduce Scope 1, 2, and 3 emissions. New technologies to reduce or capture fugitive emissions at our bioresource and wastewater treatment works, reducing natural gas usage and optimising our treatment processes. Help us adapt for future risks to continue delivering services in the long term. 	<p>To achieve our Triple Carbon Pledge of Net Zero Operational Emissions (Scope 1 and 2).</p> <p>Within the programme we plan to follow a recognised carbon reduction hierarchy to reduce emissions in the first instance before replacing, removing and finally offsetting any residual emissions. We'll achieve this by:</p> <ul style="list-style-type: none"> Reducing or capturing fugitive emissions at our bioresource and wastewater treatment works, reducing natural gas usage and optimising our treatment processes. Developing our land to sequester carbon from the atmosphere through natural capital solutions. <p>For Scope 3:</p> <ul style="list-style-type: none"> We are designing a sludge strategy that will support the 13.5% reduction in sold products SBT. We have a supplier engagement programme to help our supply chain reduce their emissions. 	<ul style="list-style-type: none"> Reduce our direct (Scope 1 and 2 emissions) by 46% by 2031. For Scope 3, we have two defined Science Based Targets (SBT): Supply chain with a SBTs plan by 2026 (%). Reduction in emissions from sold products (%).

Table 1 (cont.): Mapping of Severn Trent activities against ICMA categories and UN Sustainable Development Goals.

GREEN CATEGORIES	UN SDGS	ELIGIBILITY CRITERIA	EXAMPLE ACTIVITIES	POTENTIAL IMPACT METRICS
Clean Transportation.		Investment in electric vehicles and associated infrastructure and investments in low carbon alternatives for HGVs and tankers (such as HVO or Hydrogen equivalents).	<ul style="list-style-type: none"> Electric vehicle fleet and associated infrastructure – target 100% electric vehicles by 2030 (where available). Replacing all our traditional diesel and petrol vehicles with electric or lower carbon alternatives (such as HVO or Hydrogen equivalents) Low carbon or zero emission alternatives for HGVs and tankers 	<ul style="list-style-type: none"> Number of electric or alternative fuels (%). Number of charging points installed.
Renewable Energy.		Investments in the development and operation of renewable energy facilities with a life cycle GHG emissions below 100g CO ₂ e/kWh.	<ul style="list-style-type: none"> Generating energy from sewage and food waste, wind, solar, hydropower. Generating renewable energy through our bioresources and Green Power growth targets to offset any residual emissions. 	<ul style="list-style-type: none"> Electricity generated from renewable sources and used on site. Biogas generated and combusted on site.
Energy Efficiency.		Expenditures to improve energy efficiency of processes.	Efficiency programmes in energy use and Pump/air blowers replacement programme.	<ul style="list-style-type: none"> Energy savings in MWh/GWh (electricity). GHG emissions reduced/avoided in tonnes of CO₂.
SOCIAL CATEGORIES	UN SDGS	ELIGIBILITY CRITERIA	EXAMPLE ACTIVITIES	POTENTIAL IMPACT METRICS
Affordable basic infrastructure		<ul style="list-style-type: none"> Expenditure to provide financial support to customers who struggle to pay their bills. <p>Target population: in need customers that receive support through the company's affordability support measures.</p> <ul style="list-style-type: none"> Expenditure to eradicate water poverty. <p>Target population: 6% of our customers will be supported by a social tariff by the end of the AMP.</p>	<ul style="list-style-type: none"> Supporting 315,000 vulnerable customers through our schemes including the Big Difference Scheme, Severn Trent Trust Fund and Our Through Care Scheme. Affordability scheme to support an additional 100,000 customers through a rising inflationary environment. 	<ul style="list-style-type: none"> Customers supported who struggle to pay (%). Customers in vulnerable circumstances receiving priority services (%).
Socioeconomic advancement and empowerment.		<p>Expenditure to support the socioeconomic advancement and empowerment of people within the Severn Trent region.</p> <p>Target population: Severn Trent communities (including underserved and unemployed) to support with more people getting back into work following the pandemic.</p>	<ul style="list-style-type: none"> Investment in training facilities. Employability scheme - we are aiming to deliver 100,000 hours of free employability training. 	<ul style="list-style-type: none"> Number of hours of employability training (%).

2.2 PROCESS FOR PROJECT EVALUATION AND SELECTION

All investments in assets and expenditures carried out by Severn Trent must follow the Group's strict capital governance process.



Investment in assets by Severn Trent is proposed through business cases that outline the costs and benefits of the investment. These business cases are approved by different boards as they progress through their life cycle.

All investment proposals are initially reviewed by the sub-service Portfolio Boards, to ensure they are a strategic fit in those specific delivery areas (Networks and Treatment across Water and Waste, and Bioresources).

Our Concept Board reviews and approves funding for new capital projects and programmes of work.

Our Solution Board reviews and approves funding and deliverables, or changes to funding or deliverables, for capital projects at Solution Stage. This Board's decisions are based on the submitted business cases which are prepared during the Concept, Optioneering and Detailed Design stages. Investment proposals are considered and assessed against a number of factors including affordability, environmental and social impact, and that benefits remain relevant and aligned to the strategic intentions of the business plan.

Assets and expenditure will be formally assessed for their eligibility and inclusion into the Eligible Sustainable Portfolio by the Sustainable Finance Committee (the "Committee") including representatives from our Treasury, Finance and Sustainability teams. The Committee, which meets at least once a year, will review the asset and expenditure categories submitted for inclusion to confirm their alignment with the Social Eligible Categories and Green Eligible Categories outlined in Section 2.1.

The Committee is responsible for reviewing and approving updates to the Framework to ensure it remains compliant with the latest market practices, guidelines produced by financial industry bodies, and for determining whether any changes are necessary to the allocation of the proceeds due to disposals, cancelling or ineligible projects.

2.3 MANAGEMENT OF PROCEEDS

The net proceeds arising from the issuance under this Framework will be appropriately managed by our Treasury function, and will be allocated to finance, refinance or invested in eligible projects that are in keeping with the ICMA Green and Social Bond Principles and Sustainability Bond Guidelines and the Green Loan Principles.

We intend that the amounts represented by the Eligible Sustainable Portfolio will exceed, or at least be equal to, the amount of finance raised under this Framework. The balance of proceeds will be periodically adjusted, to match allocations to Eligible Green and Social Projects (re)financed during this period. To this end, if for any reason projects become no longer eligible, we commit to substitute them as soon as practical, on a best effort basis. Where any proceeds cannot be initially allocated the funds will be held or deposited in accordance with our Treasury Policy. We will aim to allocate the proceeds within one year of issuance.

As part of our standard business and regulatory reporting requirements, we closely monitor our assets and expenditures. The net proceeds from the sustainable financing will be tracked using our internal reporting processes. Our financial reporting team will report all expenses recognised against eligible projects. All expenditure items will be tracked and managed accordingly to ensure no double counting occurs. An analysis will be presented to the Committee at least annually and on request.

We will use existing processes from across our capital and operational investment programmes and align them to the categories on a one-to-one basis, removing the need for complex cost allocation principles. We acknowledge that this will not be possible for all elements of our investment programme, as such we're exploring options for both principle and proportional allocations on a case-by-case basis.

We've established high level principles that guide the allocations (as described in section 2.1). By undertaking this mapping, we will then be able to develop processes around our business planning, budgeting, and reporting processes that automate eligible investment and/or expenditure for the Framework. This will align business plan lines and cost centres to the ICMA categories identified in the framework. Where necessary we will develop proportional allocation rules to split costs appropriately. Where any proceeds cannot be initially allocated the funds will be used to repay short term drawings on our bank facilities or deposited in accordance with our Treasury Policy.



2.4 REPORTING

The principles to which this Framework is aligned (GBP, SBP, SBG and GLP) encourage reporting on both the use of proceeds and the expected impacts and we commit to reporting annually until full allocation, with the first reporting published within a year after the finance was raised under the Framework.

We will provide investors with information regarding the assets and expenditures financed and/or refinanced under the Framework, the amounts of proceeds allocated, and the estimated impact of these investments in a combined report or a series of reports.

Any material developments, such as modification of the Framework or allocation portfolio will be reported at the next reporting period.

Reporting will be available through our [website](#).

Allocation Reporting

Allocation Reports will be made available to investors within one year of the date the finance raised under the Framework, which will detail:

- How much of the financing raised has been allocated and to which sub-portfolio (Social or Green or Both Green and Social) and at least per category;
- A brief description of assets and expenses financed or refinanced with the proceeds and selected case studies if applicable;
- The balance of the unallocated proceeds and type of temporary investments;
- The division of the allocation between new financing and refinancing.

Subsequent details of allocations will be released annually thereafter and as necessary following material developments.

Impact Reporting

We intend to report on the environmental and social impacts of the Eligible Sustainable Portfolio by way of our [Sustainability reporting](#) and our existing ARA and Annual Performance Report. Where relevant, information may be provided on data reporting and impact assessment methodologies, to increase transparency.

We will report on a range of environmental and social impacts of the investments and expenditure funded by our Sustainable funding instruments. They cover all aspects of our service and examples include:

Environment

- Annual renewable energy generated (GWh) with electricity generated from renewable sources and used on site.
- Emissions - reduction of Scope 1 and 2 emissions by 46% by 2031.
- Leakage – reductions in leakage in ML/d (3-yr average).
- Biodiversity - the number of trees planted or area covered (in number of hectares) by sustainable land and water resources management practices.
- Length of River Improved – number of km of river improved in the Severn Trent Water region.

Social

- Vulnerable customers - number of customers supported who struggle to pay (%).
- Employability scheme - The number of hours of free employability training delivered.

Further examples of impact metrics can be found in section 2.1 of this framework.

2.5 EXTERNAL REVIEW

This Framework has been reviewed by DNV. The Second Party Opinion prepared by DNV confirms the alignment of this Framework with the GBP, SBP, SBG, GLP and the Framework's strong environmental and social credentials. The Second Party Opinion for this Framework can be found [here](#).

We will appoint an independent external auditor to provide third party limited assurance, including the verification of the internal tracking method, within one year of issuance of any Sustainable Financing Instrument, and annually thereafter until fully allocated. The assurance reporting will be available alongside our allocation reporting as per this Framework.

