Severn Trent Water Limited
Report and financial statements
For the year ended 31 March 2023

Company number 2366686

Severn Trent Water Limited

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WHAT DO WE MEAN BY PERFORMANCE DRIVEN, SUSTAINABILITY LED?

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

We provide essential services to over 4.7 million households and businesses in our region. We are one of the eleven regulated water and waste water businesses in England and Wales. Our regulated business serves a diverse region stretching across the heart of the UK, from the Bristol Channel to the Humber, and from Cheshire to the East Midlands.

We serve a diverse range of customers with different cultures, interests and experiences. Our region includes some of the most affluent areas of the country as well as some of the most deprived. We have more urban conurbations than any other water company, yet we serve predominantly rural counties and communities. It's a region which is characterised by, and benefits from, its diversity. In providing our water and waste water services, we always look to contribute social and environmental value for the long-term benefit of our stakeholders.

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

Highlights

Turnover

£1,965.9m (2021/22: £1,808.9m)

Profit before interest and tax

£482.7 (2021/22: £490.8m)

Households and businesses served

4.6 million

Litres of drinking water supplied each day

2 billion litres

Litres of waste water treated per day

2.8 billion litres

Employees[1]

6,998

[1] Average employees during the year.

OUR STRATEGY

INTRODUCTION TO OUR STRATEGY

We are guided by our Purpose – 'taking care of one of life's essentials' – which forms the foundation on which we can build meaningful and long-standing relationships with our stakeholders. Our Values – 'Having Courage', 'Embracing Curiosity', 'Showing Care' and 'Taking Pride' – underpin our Purpose and reflect the deep connection that we have with the stakeholders we serve. And our Strategy – 'performance driven, sustainability led' drives us in everything we do. What makes Severn Trent unique is our ability to consistently deliver sector-leading operational performance in a way that has a positive sustainable impact.

Our Strategy to be 'performance driven, sustainability led' acknowledges our relentless drive to deliver the operational and financial performance that our stakeholders expect. We believe this is achieved when we strike the right long-term balance between our customers and communities, the environment we depend on, our workforce and our investors. Success is not about putting any one outcome or stakeholder's need at the heart of our business; success can be found through striking the right balance between the four strategic pillars outlined in our Strategy. Our Strategy is an ambitious evolution from an already successful business position, rather than a revolution. From Outcome Delivery Incentives ('ODIs') delivery to net zero programmes, catchment management approaches to Get River Positive river pledges and societal ambitions, our Strategy captures and pushes forward our ambitions to date.

Read more about how the Board considered stakeholders when developing our Strategy in our Section 172 Statement.

OUR PURPOSE — **Taking care of one of life's essentials**

DRIVEN BY OUR STRATEGY — **Performance driven, sustainability led**

UNDERPINNED BY OUR VALUES

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

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

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

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

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

DELIVERING OUTCOMES OUR CUSTOMERS CARE ABOUT

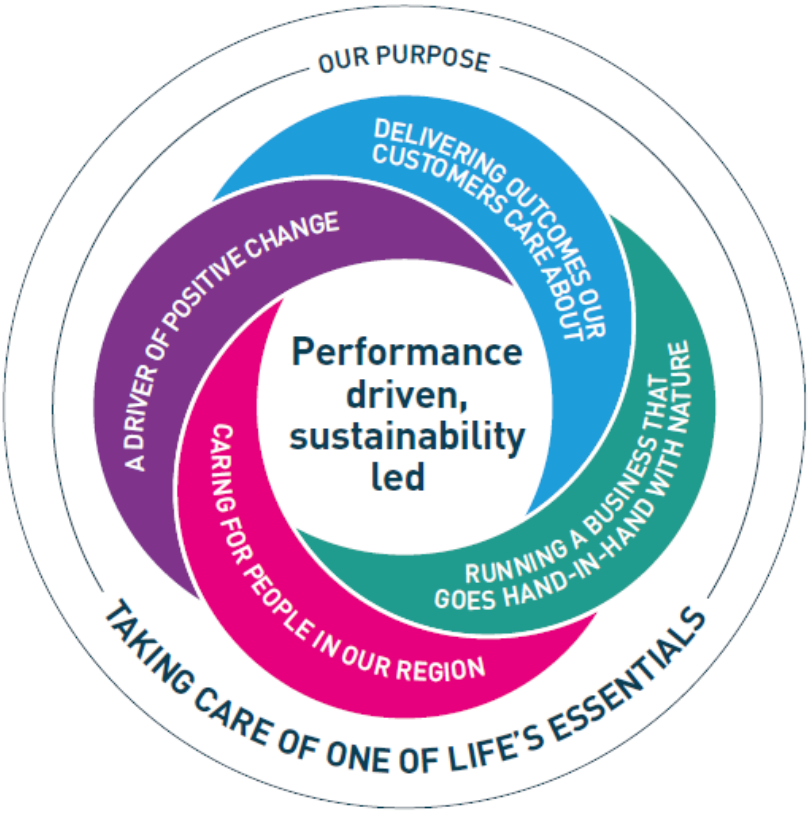
WATER ALWAYS THERE

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

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

GET RIVER POSITIVE

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



CARING FOR PEOPLE IN OUR REGION

OUR SOCIETAL STRATEGY

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

A DRIVER OF POSITIVE CHANGE

GREEN RECOVERY

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

OUR BUSINESS MODEL

WHAT WE DO

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

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

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

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

4 Customers enjoy our services
4.8 million households and businesses use our services, delivered by a team of over 7,600 employees, and supported by a 24/7 contact centre, always ready to help.

5 Collect waste water
Our network of sewers and pumping stations collect wastewater from homes and businesses and take it to our treatment works.

6 Clean waste water
Wastewater is carefully screened, filtered and treated in our sewage treatment works to meet stringent environmental standards. We generate energy from waste, wind and solar.

7 Recycle water to the environment
We safely return treated water to the rivers and watercourses.

HOW WE DO IT

We are a **performance driven, sustainability led** business.

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

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

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

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

WHAT SETS US APART

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

WHY WE DO IT

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

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

Now, more than ever, we know that taking care of one of life's essentials means that what we do really matters to the families, businesses and communities we serve. This is why our Values of Having Courage, Embracing Curiosity, Showing Care and Taking Pride are so important to us. Being a company that can be trusted, taking care of the environment, helping people to thrive and providing the best value service means we all need to be focused on living our Values, by doing the right thing, every single day – **the Severn Trent way.**

OUR VALUES

See page 2

OUR ENABLERS

Physical assets

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

Principal Risk links: **2, 3** Strategy links:

Technology and innovation

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

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

Natural resources

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

Principal Risk links: **2, 3, 10, 11** Strategy links:

Our people and culture

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

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

Financial capital

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

Principal Risk links: **8, 9** Strategy links:

Suppliers and partnerships

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

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

THE VALUE WE CREATE FOR ALL STAKEHOLDERS

Our Customers

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

How we measure this

OOI performance (% having met or exceeded target)

2022/23	79%
2021/22	88%

Our Colleagues

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

How we measure this

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

2022/23	8.4
2021/22	8.2

Our Communities

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

How we measure this

ST Community Fund (£m)

2022/23	2.0
2021/22	1.8

Our Suppliers and Contractors

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

How we measure this

Average time to pay (days)

2022/23	31
2021/22	28

Regulators, Government and NGOs

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

Ofwat

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

Environment Agency

Highly confident of receiving **EPA[1] 4*** for fourth year in a row

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

THE WATER SECTOR

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

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.

Policy

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

Regulation and representation

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

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

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

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

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

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

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

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

OUR PRICE REVIEW REGULATORY CYCLE

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

As part of each price review, companies are asked to submit their business plans, which set out their investment proposals, performance improvement commitments and the potential impacts on customer bills for the coming Asset Management Plan ('AMP'). Later this year, we will submit business plans for Severn Trent Water Limited for the latest price review ('PR24'), covering the period 2025-30 ('AMP8'). Ofwat's Final Determinations for PR24 will be issued by the regulator next year. The final methodology provided us with the regulator's guidance on expectations for our business plans.

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

CUSTOMERS	AFFORDABILITY	RESILIENCE
In developing our business plans for PR24, we have embarked on our most in-depth customer engagement activity and research programmes to date. As a provider of one of life's essentials, we gain insights from our everyday interactions, which help give us a rich understanding of the issues that are most important to our customers. For the first time, we have undertaken open challenge 'Your water, your say' sessions on our proposed business plans, which deepened our understanding of the issues most pertinent to our customers and enabled open discussion on our future ambitions. We know our customers want us to go beyond providing a resilient water supply, balancing supply and demand, providing clean drinking water and taking waste water away. Our customers want us to make a positive impact on their everyday lives and their communities.	Households are facing the most acute cost of living pressures for decades. This is why ensuring our bills are affordable for all our customers – including the most vulnerable – is central to our plans, as well as ensuring we retain fairness across future generations for some of our longer-term plans. Struggling to pay a water bill can be an indication of other issues in a customer's life, so we are working with partners in local communities to identify those who may need some extra help. In November 2022, we launched our Societal Strategy – with the aim of helping change the lives of 100,000 people in our region over the next ten years. This is part of our commitment to help tackle the underlying causes of poverty and improve life chances for people within our region. We also announced in May 2022, as part of our Affordability Strategy, a £30 million package of additional financial support in response to the cost of living challenges.	Reliable supplies and services depend on a reliable infrastructure. But to us 'resilience' is a broader issue than just having good-quality pipes, reservoirs and treatment works, which we are committed to investing in already. It means being operationally resilient, so our people are sufficiently well trained to carry out the tasks we need them to do, both in a steady state and in an emergency. And it means being financially resilient, with a stress-tested capital structure to maintain an investment-grade rating for our regulated business and the appropriate equity strength to effectively manage risks. It also means having corporate resilience, with the right governance processes to ensure that we are fair and transparent at all times and recognised as a responsible and trusted business by society. We are rightly regarded as a public service company, and we'll do everything in our power to deliver a service that the public and our people can be proud of.

Planning for the long term

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

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

As part of PR24, Ofwat has asked each company to submit a Long-Term Delivery Strategy ('LTDS') – out to 2050. The LTDS for Severn Trent will form part of our overall PR24 proposal and will outline the path we plan to take in delivering our long-term strategic aims, while also recognising that we will need to adapt our path to reflect the impact of broader 'macro' challenges on reaching our end destination. Our plans for AMP8 are a key stepping stone to delivering our longer-term strategic goals and ambitions.

Responding to customer needs today

We are not just waiting for the submission of our business plans to make the tangible changes our customers and stakeholders expect. Last year, we announced our Get River Positive river pledges, Societal Strategy and Affordability Strategy, and have already started to make progress on delivering on our aims. Their continuing delivery will also be a key part of our overall PR24 and longer-term plans. Through engaging with our stakeholders through the PR24 process, we are ensuring that our plans reflect the needs of today's customers, and generations of customers to come.

What happens next?

Ofwat's timetable for PR24 is as follows;

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

CHAIR'S STATEMENT

OPTIMISM THROUGH A CHALLENGING YEAR

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

Our Strategy, Purpose and Culture

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

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

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

Listening to our stakeholders

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

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

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

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

River health also remains a critical priority for our stakeholders. In last year's report, I wrote about the way in which we responded to the heightened focus on this important issue. Both the Board and

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

We published our first Get River Positive Annual Report in March 2023 which outlines the good progress we have made since the launch of our five river pledges.

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

Looking after our people

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

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

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

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

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

We were also delighted to be placed 58th by Corporate Knights as one of the world's most sustainable companies and in August 2022 we received 'Advancing' tier status from the Carbon Trust. We recognise that we are only partway on our journey. We continue to develop new ways of delivering our essential services and identify innovations that support the delivery of our sustainability ambitions.

A STABLE AND DIVERSE BOARD

Maintaining a strong, diverse and value adding team, with a varied range of professional backgrounds, skills and perspectives, is always an area of focus for me. Succession planning is vital to ensure the Board has the necessary plans in place for orderly succession to both the Board and senior management positions, and can oversee the development of a diverse pipeline for succession. The Severn Trent Plc Nominations Committee and Board have applied particular focus to this important area over the last 18 months and the recent internal Executive Committee appointments announced in February 2023 demonstrate the breadth and depth of the Executive talent pipeline that has been developed within the Severn Trent Water Group, including the development of senior leaders with potential to be future Executive Committee members.

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

Resilient performance and sharing the rewards

Against the background of a changing environment, it is more important than ever for us to maintain our sector-leading performance and continue delivering strong service to our customers. In December 2022, Ofwat named Severn Trent in the leading category for both financial resilience and performance and expenditure for the second year running. We have been awarded EPA 4* for three consecutive years by the EA and are highly confident of achieving it for the fourth consecutive year for 2022. This would be a unique accolade in the sector and something we are incredibly proud of.

Our aim is to deliver exceptional and consistent services to our customers at all times as well as being sector-leading in measures. I am pleased that we have delivered robust operational and resilient financial performance, and this year has been no exception, with around 80% of ODI measures green,

including leakage, pollutions and water quality complaints, resulting in a net reward[1] of £53 million and PBIT for the year of £482.7 million. Liv and James provide further detail within their respective reviews.

Focus on the long term

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

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

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

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

Christine Hodgson

Chair

[1] Our FY23 ODI outturn and percentage meeting or ahead of regulatory target (or within penalty deadband for compliance measures) include in year (including C-MeX and D-MeX) reward earnings of £35.8 million and £17.5 million, for work and milestones already delivered in relation to end of AMP ODIs (excluding PCC). 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. Value of £53.3 million is quoted pre-tax and in 2017/18 prices unless otherwise stated.

CHIEF EXECUTIVE'S REVIEW

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

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

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

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

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

Our Strategy is to be performance driven, sustainability led. Consistently executing this Strategy will deliver outstanding performance in a way that has a positive, sustainable impact.

Delivering for customers in a changing climate

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

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

Keeping clean water flowing

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

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

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

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

We've also accelerated our meter roll-out, installing over 100,000 meters this year alone, taking our metering coverage on household customers to 61%. Alongside reducing bills for many of our customers, this also gives us much greater visibility and insight into our network. This is especially the case for smart meters, which we're rolling out in Coventry and Warwickshire and through which we have already been able to collect valuable data on consumption and other trends. Given the success of our smart meter campaign, I was particularly pleased to receive approval from Ofwat to accelerate the roll-out of an additional 250,000 meters ahead of AMP8.

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

Focused on waste to create a better environment

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

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

One cause of pollutions is blockages in our network, and we've been successful in driving these down by 20% compared with the end of AMP6 through a relentless focus on data, sewer cleansing and customer education on the causes and impact of sewer misuse. While we have met a number of our key waste measures, we have incurred a penalty this year on external sewer flooding, where we missed a stretching target that reflects our historical sector-leading performance. The extreme fluctuations in rainfall we've experienced this year have been a key driver of our performance, with our region experiencing only 14% less rainfall than average despite the prolonged dry summer. We have also experienced a deterioration in some of our key performance drivers and are reviewing our delivery model on our waste infrastructure, including the insourcing of critical teams, such as planning and scheduling. We expect to continue to be a strong performer on this measure compared with the sector, but our customers rightly expect more of us and we are working hard to drive the required improvements to meet our target.

There for our customers when they need us most

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

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

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

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

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

Get River Positive – one year on

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

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

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

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

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

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

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

Taking care of our people

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

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

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

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

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

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

Thanks and outlook

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

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

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

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

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

Liv Garfield
Chief Executive

OUR PERFORMANCE AND KEY PERFORMANCE INDICATORS

Outcome Delivery Incentives ('ODIs') provide financial payments to water companies from customers for performing beyond their committed levels of service ('outperformance payments') or from companies to customers for performing below their commitments ('underperformance payments'). In order to aid stakeholders' review of this report, including how our ODIs and other operational Key Performance Indicators ('KPIs') link to our Strategy, key stakeholders and remuneration policies – each KPI has been labelled using the icons below. We hope this addition enhances the transparency of our reporting for stakeholders and we welcome feedback on this new approach.

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

Stakeholders

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

Relative performance

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

Remuneration

- Included in all employee Annual Bonus Scheme ('ABS')

There are additional ODIs that are not KPIs in this report.

DELIVERING OUTCOMES OUR CUSTOMERS CARE ABOUT

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

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

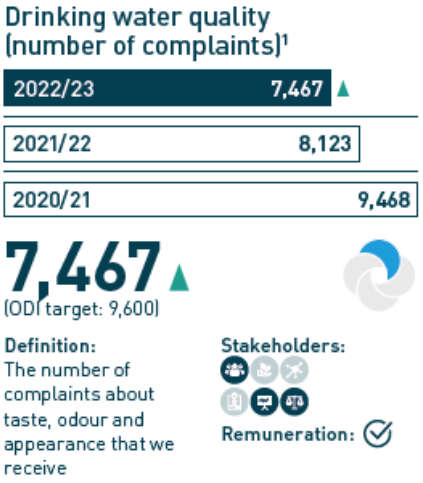
WATER ALWAYS THERE

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

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

Notwithstanding this excellent progress, our performance on the Compliance Risk Index ('CRI', the DWI's measure of risk to water quality) has deteriorated this year. Our indicative CRI score for 2022 was 5.65 (2021: 2.43). Our work to understand bacteria within our processes, using online flow cytometry, which provides live data on water safety, has enabled us to deliver improvements at our distribution service reservoirs.

We have implemented a dedicated improvement plan, CRISP ('Compliance Risk Index Sustainability Plan'), with the objective of eradicating high-impacting events in our water network and addressing bacteriological risk at water treatment works. We are confident that we have the right plans in place to improve performance and have already made a positive start to the financial year.



Working hard to reduce supply interruption events

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

The sector was impacted by a freeze thaw event in December 2022. Such events have potential to cause significant customer impact and it was pleasing that learnings from the 2018 freeze thaw event enabled us to improve our performance by 93% this year. Similarly, the significant investment in our water network and culture of continuous improvement enabled us to navigate the prolonged hot, dry weather conditions in 2022 with no enforced TUBs and improved service delivery for customers compared with similar events of this nature.

Supply interruptions (number of minutes)[1]

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

9 min 10 sec ▼
(ODI target: 5 min 45 sec)

Definition: The number of minutes the average customer is without supply in the year

Stakeholders:

Remuneration:

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

On track to deliver a 15% leakage reduction

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

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

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

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

2022/23	405 ▲
2021/22	411[2]
2020/21	430[2]

405 Ml/d ▲
(ODI target: 421 Ml/d)

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

Stakeholders:

Remuneration:

1 See footnote on page 14
2 Our baseline has been reset to reflect more up-to-date information and as such our 2021/22 and 2020/21 performance figures will not be comparable to last year's Annual Report.

Working in partnership with our customers to reduce demand

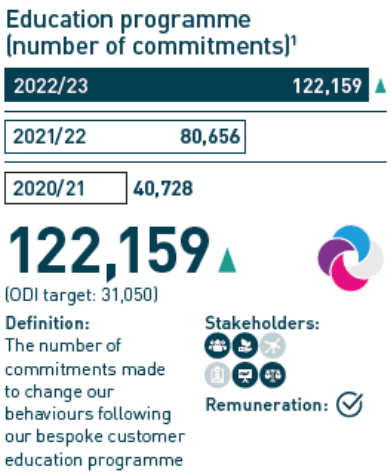
Good progress has been made to achieve our goal of adding 93 Ml/d of additional water supply at peak capacity (as part of our Green Recovery Programme), providing increased resilience to hotter, drier summers and winter freeze thaw events, and driving further performance improvements for customers.

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

Our water efficiency programme has delivered a number of customer benefits this year, including water efficiency advice through over 18,800 home visits; installing 100,108 water meters and offering

free and subsidised watersaving devices to customers. Our teams engage with thousands of customers every year to make them aware of how they can save water and reduce their bills, educate them on the sewage treatment process and share the way in which we are reducing our carbon footprint to help protect the environment.

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



Customer experience

We have significant focus on our customers' experience when dealing with us. Our ambition is to ensure that all customer queries are dealt with in a timely manner and deliver an outstanding experience for all. C-MeX, Ofwat's measure of customer experience, places the same weighting on the perceptions of all of our customers as on those who contact us. This year, our C-MeX score ranked ninth in the sector. We recognise there is more to do ensuring we can answer our customers' queries at point of contact, and keeping customers informed.

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

Reducing Demand

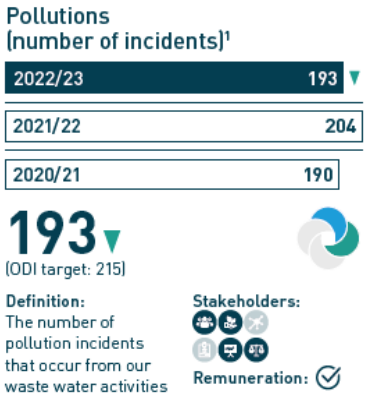
During the 2022 hot weather period, we directly engaged with customers across a range of channels – including text message, email and social media channels. We focused on behavioural change initiatives to deliver and sustain demand reduction. The incredible support from our customers meant that we didn't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

UPPER QUARTILE ON WASTE

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

Our best ever year on serious pollutions performance

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



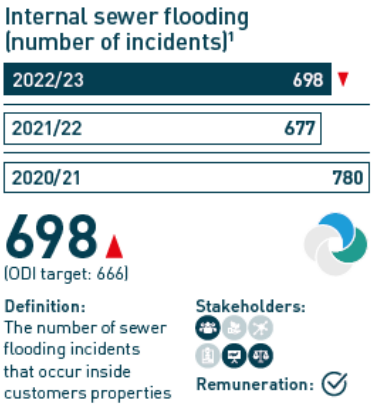
Reducing sewer flooding and blockages

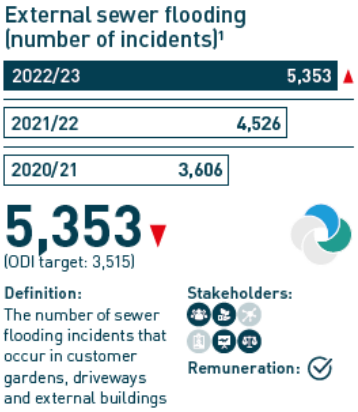
We recognise that not all our measures have performed to the level that both we and our customers expect. Sewer flooding remains a key focus, and despite our performance being one of the best in the sector, we have set ourselves some really stretching targets which unfortunately we have not delivered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

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

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

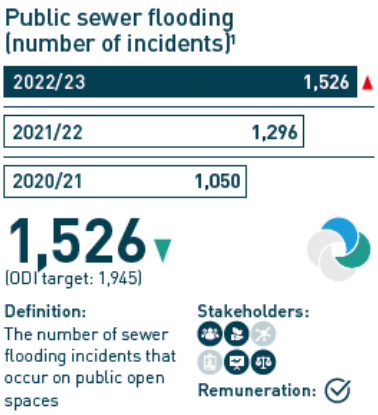
We have also quadrupled the size of our Network Protection Team, which communicates directly with customers to educate on what can and cannot go into sewers, helping to prevent blockages. We are continuing to work in partnership with food service providers in our region to prevent oils, fats and greases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





OUR 'BIN THE WIPE' CAMPAIGN

In April 2023, we announced our 'Bin The Wipe' initiative in support of a new campaign led by Water UK. 22% of people in the UK admit to flushing wet wipes down the toilet. This is the biggest cause of fatbergs that block sewage systems. By joining us on this campaign, our customers can help us protect the environment and prevent homes and businesses being flooded. This work complements our Get River Positive river pledge to support legislation to ban wet wipes that contain plastic and lobby for a ban on all wet wipes that are not 'Fine to Flush'. You can read more on our website.



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

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

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

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

Our Net Zero Transition Plan and Task Force on Climate-related Financial Disclosures ('TCFD') are clearly labelled to aid readers of this report.

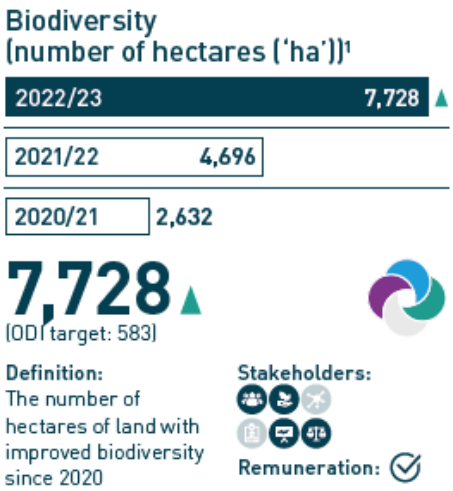
We are delighted that our biodiversity approach has been recognised externally, including at the Responsible Business Awards, where we were the winners of the Biodiversity Champion Award. We also won a partnership award at the Chartered Institute of Ecology and Environmental Management Awards.

Great Big Nature Boost

In 2020, we announced our Great Big Nature Boost, one of the biggest nature projects in the UK, to boost nature across 5,000 hectares of land in our region by 2027 and to plant 1.3 million trees.

We are proud to have exceeded our biodiversity target four years early, and in May 2023, we announced that we will be extending and accelerating our commitment to improve biodiversity by doubling our target to 10,000 hectares by 2025. This now means our work will account for 2% of the nation's 2042 Nature Recovery Network target.

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



WORLD'S FIRST NET ZERO WASTE WATER TREATMENT HUB

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

A YEAR ON FROM THE COMMONWEALTH GAMES

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

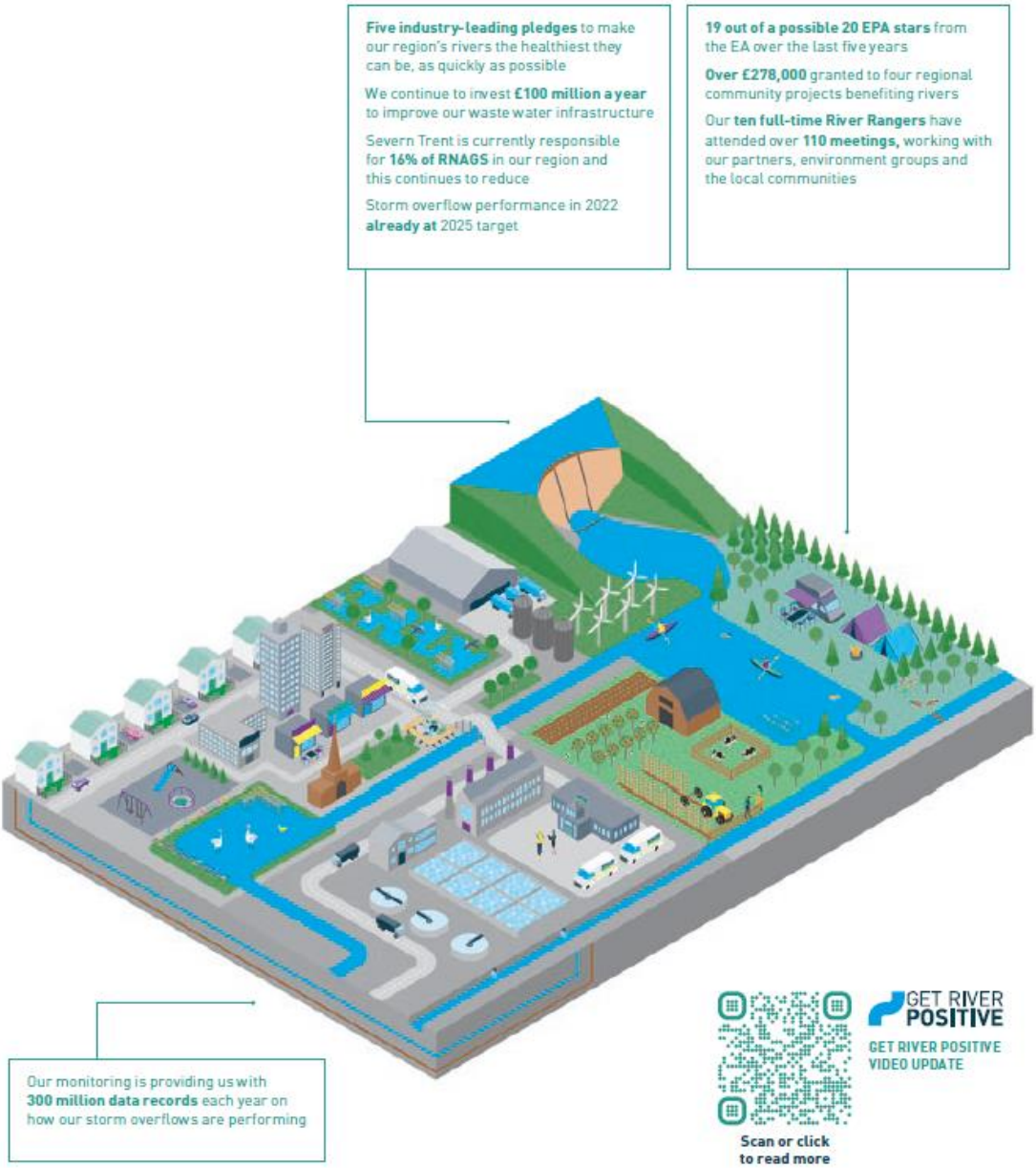
Alongside these activities, our people, customers and communities worked together to create 72 Tiny Forests, one for each Commonwealth nation, in urban areas across our region, delivering a lasting legacy for the Commonwealth Games and creating inspiring outdoor classrooms for children to learn first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

GET RIVER POSITIVE

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

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

Through our significant investment, this year has seen us deliver significant improvements in river quality, reducing our share of RNAGS (Reasons for Not Achieving Good Status) in our region to 16%. We have reduced the number of RNAGS that Severn Trent is responsible for from 960 to 870 this year and we are committed to driving this down to zero by 2030. We want our stakeholders to hold us to account on issues of importance to them and we published our first Get River Positive Annual Report this year, which outlines the progress we have made since the launch of our river pledges – ensuring that all of our stakeholders have access to the facts so they can form a balanced opinion.



PLEDGE ONE

ENSURE STORM OVERFLOWS AND SEWAGE TREATMENT WORKS DO NOT HARM RIVERS

Progress in 2022/23

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

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

PLEDGE THREE

SUPPORT OTHERS TO IMPROVE AND CARE FOR RIVERS

Progress in 2022/23

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

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

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

PLEDGE FIVE

OPEN AND TRANSPARENT ABOUT OUR PERFORMANCE AND OUR PLANS

Progress in 2022/23

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

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

Scan or click to read more

GET RIVER POSITIVE ANNUAL REPORT MARCH 2023

PLEDGE TWO

CREATE MORE OPPORTUNITIES FOR EVERYONE TO ENJOY OUR REGION'S RIVERS

Progress in 2022/23

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

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

PLEDGE FOUR

ENHANCE OUR RIVERS AND CREATE NEW HABITATS SO WILDLIFE CAN THRIVE

Progress in 2022/23

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

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

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

CARING FOR PEOPLE IN OUR REGION

Showing care is one of our Values and we want that to shine through whenever we meet people in our region. We know that our sector-leading performance is made possible thanks to our dedicated people. The vast majority of our people, and their friends and families, are also our customers, who live in the communities we serve. This section of our report sets out how we are taking positive action to deliver our strategic pillar to care for people in our region.

Helping our own people to thrive

Our people are fundamental to taking care of one of life's essentials and we believe our culture is what makes us special. Our teams are passionate about the positive role they can play in helping customers and communities thrive and they want an environment where everyone can feel comfortable to bring their whole self to work.

Keeping our people safe and well

We believe passionately that no one should be hurt or made unwell by what we do, and our people have done a great job of keeping themselves, and those around them safe, with a total of 16 Lost Time Incidents ('LTIs') this year (2021/22: 19), our best ever performance. Though 16 of our colleagues getting hurt while working is still too many, since we refreshed our strategy in 2018/19, we have seen consecutive year-on-year improvements, giving us confidence that our strategy will continue to drive improvements in our future performance.

Employee support

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

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

We are mindful of the effect that the increasing cost of living is having on our employees, and we continue to do everything we can to help support our people. At our annual leadership event held at Tittesworth Reservoir in September, we reminded all of our leaders and team managers of the extensive range of free benefits that are available to all employees. We were delighted to offer two new all-employee benefits during 2022. The first, launched in October, was our partnership with Seniorcare by Lottie, which provides free support in sourcing care for elderly or disabled family members.

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

HAWKSLEY PARK – NEW EXPERIENTIAL TRAINING ASSETS

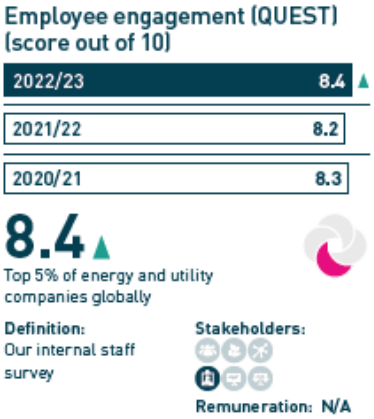
In March 2023, the Academy introduced two new experiential training assets:

Hawksley House and the River Bown. These are a 'training house' and 'training river' which represent the assets, customers and environment we interact with and influence every day. Hawksley House enables us to train our people in a 'real-life' environment. We want learners to increase their curiosity on detecting leaks, show courage and care when interacting with customers and take pride in knowing every potential aspect of leakage has been investigated and resolved for our customers.

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

Listening to our people

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



Developing our people

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

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

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

Future Leaders Programme

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

New Manager Induction Pathway

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

Senior Management Development

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

SUPPORT FOR OUR **EMPLOYEES**

PHYSICAL WELLBEING

Elective Treatment Fund

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

Benefits include:

- 24/7 Virtual GP Access
- Elective Treatment Fund
- Physiotherapy
- Musculoskeletal Rehabilitation
- Eye Tests and Flu Vaccinations
- Menopause Support
- Second Medical Opinion Service
- Health and Dental Cash Plans

MENTAL WELLBEING

Benefits include:

- Employee Assistance Programme
- Psychotherapy Support
- Mental Health First Aiders
- Wellbeing Challenges
- Occupational Health Support
- Elephant Talk Podcasts
- Supportive Guides
- Community Volunteering Days

Elephant Talk Podcasts

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

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

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

FINANCIAL WELLBEING

Eldercare Support

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

Benefits include:

- Severn Trent Money Hub
- Financial Wellbeing Webinars
- Pre-retirement Advice
- Will Writing
- Daily Savings Portal
- Life Assurance
- Group Income Protection
- Eldercare Support
- Sharesave

SHOPPING AND LEISURE

Benefits include:

- YuLife Wellbeing App
- Holiday Buy/Sell
- Rewarding You – our flexible benefits platform
- Daily Savings Portal
- Nursery Discount
- Electric Vehicles Salary Sacrifice
- Gymflex

YuLife Wellbeing App

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

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

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

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

Wonderfully You – providing a diverse and inclusive place to work

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

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

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

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

Over the last year, we have continued to champion the voices of colleagues from diverse backgrounds, in part through our four Employee Advisory Groups for LGBTQ+, Ethnicity, Disability, and Women in STEM and Operations.

As at 31 March 2023, our Executive Team comprised three female and six male members (33% and 67% respectively). 17 members (38%) of our senior leaders, including our executive team) were female and 28 were male, including our executive team (62%). Female representation in the Company was 29.5% (2,135 women), with male representation at 70.5% (5,105 men). Five members of our Board were female (56%) and four were male (44%). The table below sets out a gender breakdown of Directors, senior managers (as defined in the 2018 UK Corporate Governance Code and Companies Act 2006) and employees of the Company as at 31 March 2023.

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

Gender Representation as at 31 March 2023

	Directors	Senior Leaders (including Executive Team)	Graduates and Apprentices	All Employees
Male	4 (44%)	28 (62%)	199 (80%)	5,105 (70.5%)
Female	5 (56%)	17 (38%)	49 (20%)	2,135 (29.5%)

	Senior Leaders		Graduates / Apprentices		All Employees	
White	**42**	**93.33%**	**174**	**70.16%**	**5977**	**82.56%**
Ethnic Minority	**1**	**2.22%**	**54**	**21.77%**	**818**	**11.30%**
Asian / Asian British	1	2.22%	34	13.71%	516	7.13%
Black / African / Caribbean / Black British			10	4.03%	146	2.02%
Mixed / Multiple ethnic groups			10	4.03%	127	1.75%
Other ethnic group			0	0.00%	29	0.40%
Not Stated	**2**	**4.44%**	**20**	**8.06%**	**445**	**6.15%**

DISABILITY

2022/23 Highlights

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

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

Shane Anderson
Director of Strategy and Regulation

NEURODIVERSITY NETWORKING EVENT

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

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

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

WOMEN IN STEM AND OPERATIONS

2022/23 Highlights

- Continued to improve our Personal Protective Equipment offer for women in the business.
- Supported Career Discovery Days for women to enhance their skills and 'Mentor Me' to utilise the benefits of mentoring to support technical development and career growth of women in STEM roles.
- Highlighted topics like menopause, cervical cancer and endometriosis through awareness sessions and educational comms.
- Engagement with colleagues to seek feedback on our maternity, paternity and flexible working policies. Shared outcomes with our HR policy colleagues to identify opportunities for improvement, including introducing new family friendly policies such as fertility treatment and IVF support, neonatal care, and emergency grandparental leave.
- Hosting informative events for International Women's Day and International Women in Engineering Day.
- Introduced 'The Pathway Podcast' shining a light on some of our women colleagues' career pathways.
- In the FTSE Women Leaders Review, we ranked 3rd for Women on Boards and 21st for Senior Leadership.

WOMEN IN WATER TREATMENT – SCAN OR CLICK TO READ MORE

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

Helen Miles
Chief Financial Officer Designate

ETHNICITY

2022/23 Highlights

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

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

James Jesic
Capital and Commercial Services Director

LGBTQ+

2022/23 Highlights

- Focus on representing Birmingham Pride and supporting Pride Month across our sites with activities held at Raynesway, Pride Park, Shelton, Wrexham and STC.
- We have seen solid and sustainable progress in our Stonewall ranking, from 414th in 2018 to 23rd this year, which is an amazing result and means we are now a top 25 employer.
- Continuation of work with Stonewall to help Severn Trent become a truly LGBTQ+ inclusive place to work.

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

James Bowling
Chief Financial Officer

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

2023 BLOOMBERG GENDER-EQUALITY INDEX

74%

Tortoise

Ranked 14th on Equality in the Tortoise Responsibility100 Index

STONEWALL WORKPLACE EQUALITY INDEX

23rd

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

2022/23	23rd
2021/22	40th
2020/21	175th

SOCIAL MOBILITY EMPLOYER INDEX

5th

Ranked 5th in the Social Mobility Employer Index

2022/23	5th
2021/22	5th
2020/21	8th

Attracting and retaining diverse talent

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

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

Applications opened in 2023 for our biggest ever intake of 210 apprentices, with roles available right across our region, ranging from level two (equivalent to GCSEs) to level seven (equivalent to a degree) apprenticeships available in Operations, Commercial, HR, Customer Service, Business Administration and Engineering. Once our apprentices have successfully passed the programme, they're guaranteed a permanent role with us.

Jade Pearson, our New Talent Lead, said: "We're really proud of the continual growth of our apprenticeship programme, creating opportunities for people in our communities to gain the skills and knowledge that will lead them into a meaningful career and helping us deliver the best service and outcome for our customers and the environment". Since 2014, over 590 apprentices have joined us at Severn Trent and 82% of these individuals are still with us.

Our #10000BlackInterns programme was a huge success last year, with 61 placements and 44% of those gaining employment following their placement with us. In 2021, we announced that we had embraced the Government Kickstart Scheme with our ambitious plans to support 500 unemployed 16-to-24 year-olds into employment with paid work experience and skills development. We are delighted that over 340 individuals chose to join us, 106 of which went on to gain full time employment with us. Of those 106 individuals, 69% are still with us at Severn Trent.

Fairly rewarding our people

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

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

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

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

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

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

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

WELCOME TO OUR 2022 EMPLOYABILITY INTERNS!

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

CIPD AWARDS

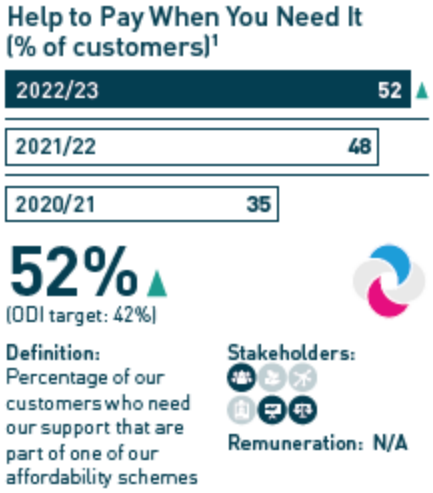
We are proud to have been recognised for our work by winning last year's CIPD People Management Awards for 'Best Employee Experience', which included entrants from a range of high-profile organisations in the UK. We are also pleased to benchmark highly in the Tortoise Responsibility100 Index across of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

A FORCE FOR GOOD FOR CUSTOMERS

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

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

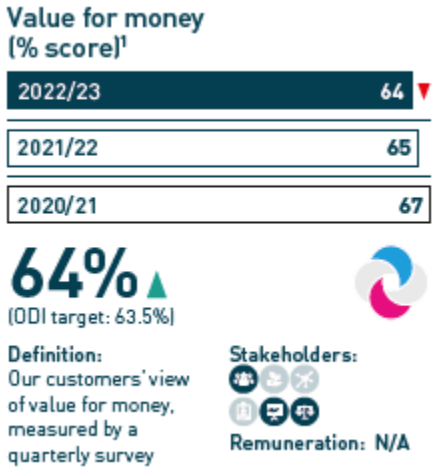
In May 2022, we announced a new £30 million affordability package allowing us to help a further 100,000 people to reduce their water bill by up to 90% through our social tariff. In August 2022 we simplified the qualifying criteria and raised the household income threshold from £16,480 to £18,278. By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



Engaging hard-to-reach, vulnerable customers

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

We are improving accessibility We are focused on being there for our customers – 24 hours a day, seven days a week – through whatever channel they choose. Throughout the year, we have continued to improve our online platform to ensure our digital offer continues to meet our customers' changing needs and provide the



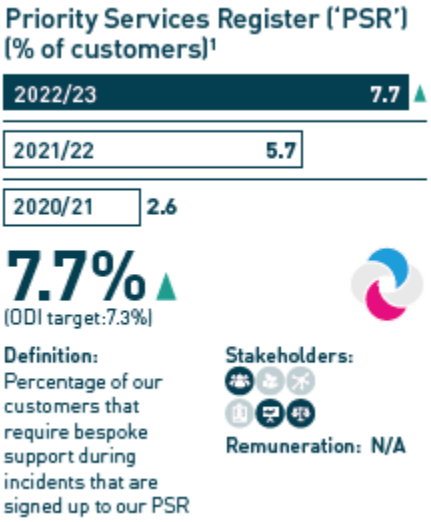
best experience possible for them. Earlier in the year, we introduced the capability to allow our customers to switch to a meter via our website and, since October 2022, over 10,000 customers have used this service. We have continued our focus on improving the content and the design of our website to make the customer journey smoother.

Care Leavers Scheme

Our new Care Leavers Scheme helps young adults leaving the care system by putting them directly onto our social tariff for the first twelve months. We currently offer the Scheme in eight Local Authorities, and are actively working to extend it to all Local Authorities in our region. Our ambition is to broaden the support we offer to this group beyond financial support, including offering employability training.

SUPPORTING VULNERABLE CUSTOMERS

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



SUPPORT FOR OUR CUSTOMERS AND COMMUNITIES

Scan or click to read more

INVESTMENT AND JOB CREATION

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

SUPPORTING OUR COMMUNITIES

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

116

projects supported through our Community Fund this year

NATIONAL SUPPORT SCHEMES

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

DIRECT SUPPORT FOR CUSTOMERS

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

132,296 customers

helped this year through our Big Difference Scheme

SOCIETAL STRATEGY, TRAINING AND EDUCATION

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

WORKING WITH PARTNERS

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

CREATING OPPORTUNITIES IN OUR COMMUNITIES

Improving employability

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

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

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

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

A YEAR OF RIVER RANGERS

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

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

As well as educating customers to prevent wipes and sanitary products from reaching rivers, the team carries out vital operational, monitoring and sampling activities that inform our understanding of the contributors to river quality and what's needed to protect and improve them. In addition to our River Ranger Team, we launched our Get River Positive river pledges in March 2022 to provide a clear and actionable response to calls for a revival of rivers in England. We have committed that, by 2030, our operations will not be the reason for any stretch of river in our region to be classified as unhealthy. Severn Trent is currently responsible for 16% of reasons for rivers in our region not achieving good ecological status. We are working in partnership with the other parties contributing to the 84% to address this important issue.

OUR SOCIETAL STRATEGY

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

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

SOCIETAL STRATEGY AMBITION:

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

MEANINGFUL WORK EXPERIENCE

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

EMPLOYABILITY TRAINING IN SCHOOLS

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

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

ACADEMY POP-UPS

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

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

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

MENTORING YOUNG PEOPLE IN PRISON

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

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

COMMUNITY FUND

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

£2m **1m**

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

682 **£7.6m**

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

Scan or click to read more

SUPPORTING OUR SUPPLIERS TO BE THE BEST THEY CAN BE

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

Fair pay and working conditions

We are proud to be an accredited Living Wage Employer. We also contractually require suppliers to sign up to the real Living Wage. We are signatories of the Prompt Payment Code and are committed to paying suppliers on time and giving clear guidance on payment terms. We aim to pay 95% of our small suppliers within 30 days, in line with the Prompt Payment Code. For the payment practices reporting period ended 31 March 2023, the average time to pay for Severn Trent Water Limited was 31 days.

OUR COMMITMENT TO SUSTAINABLE PROCUREMENT

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

CIPS
Chartered Institute of Procurement & Supply

A DRIVER OF POSITIVE CHANGE

The world we operate in and the needs of our customers and society continuously change. **We seek to embrace the challenges and opportunities this presents, not only driving change in what we do, but also acting as a catalyst in our sector, our region and within the homes of the people we serve**. This section of our report sets out how we are taking action to deliver our strategic pillar to be a driver of positive change, setting out our progress against our Green Recovery Programme.

GREEN RECOVERY PROGRAMME

PROGRESS UPDATE

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

Scan or click to read more

GREEN RECOVERY REPORT

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

1. BATHING RIVERS

Our Goal

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

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

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

Our progress

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

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

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

Bathing Rivers Virtual Room

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

https://creatingbathingrivers.co.uk/

2. SECURING OUR WATER

Our Goal

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

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

Our progress

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

Floating wetlands

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

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

Pilot plant

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

Witches Oak water treatment works

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

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

Non-household audits

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

3. OUR GREENER, CLEANER FUTURE FOR MANSFIELD

Our Goal

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

Our progress

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

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

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

Rain gardens

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

Permeable paving

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

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

Basins, planters and swales

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

Collaborative working

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

4. PROTECTING CUSTOMER SUPPLY PIPES

Our Goal

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

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

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

Our progress

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

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

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

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

Technology

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

5. A SMARTER WAY TO USE WATER

Our Goal

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

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

Our progress

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

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

Leakage savings

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

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

My Smart Tracker

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

6. IMPROVING OUR REGION'S RIVERS

Our Goal

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

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

Our progress

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

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

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

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

Improving CSOs

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

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

Reactive reedbeds

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

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

OUR APPROACH TO CLIMATE CHANGE

At Group Level, 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. The below information includes a summary of our TCFD disclosures as outlined within our full TCFD disclosure which forms part of our Severn Trent Plc Annual Report and Accounts 2022/23.

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

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

Our Ambitions	Our Priorities	Investment to date
Carbon and Climate Change	Triple Carbon Pledge Science-Based Targets Climate adaptation	£164 million
Enhancing Nature	Biodiversity Pollutions reductions River water improvements Catchment management	£231 million
Water Resources for the Future	Leakage reduction Per capita consumption reduction Meter installations Interconnector investment	£432 million
Affordability and Accessibility	Reducing water poverty Building our Academy Creating a Community Fund Increasing conservation	£96 million

CLIMATE CHANGE GOVERNANCE

Our Approach and Performance on Net Zero

As a Group, we have committed to achieving net zero operational carbon emissions by 2030. We also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available. This is known as our Triple Carbon Pledge. We have also set Science Based Targets to reduce Scope one and two emissions by 46% by 2031 in line with a 1.5c pathway, and for 70% of our supply chain (by emissions) to have set a Science Based Target by 2026.

OUR APPROACH TO CLIMATE CHANGE

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

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business. Our fifth TCFD disclosure is provided on behalf of the Group and is presented in ST Plc ARA 2022/23. Our TCFD disclosure is supported by our separate Sustainability Report (to be published in June), which includes wider detail on the progress we are making on our journey.

These detail the outputs from the risks we have assessed, the potential responses to those risks, the investment options available, and the wider considerations that need to be taken into account when making decisions. These include affordability, nature and climate, and alignment to our strategic objectives, customer outcomes and statutory obligations. Ultimately, which investments are progressed is decided through the industry price review process. The water industry operates to five-year business planning cycles, as part of a framework for economic regulation overseen by Ofwat. As part of these five-year periodic (or price) reviews, Ofwat reviews company investment proposals and sets revenue allowances sufficient to finance them. This statutory process therefore has an important bearing on companies' investment plans, with many elements contingent on a successful submission to Ofwat.

This includes our Net Zero Transition Plan for the Group and outlines how our strategy considers the best operational, technological and economic route to meeting our climate goals. We constantly review this as part of our net zero programme to ensure decisions reflect latest advancements and best practice.

While we believe it will be possible to significantly outperform our SBT reduction target for Scope 1 and 2 operational emissions by 2030/31, we show that it will not be a linear journey. The step change in effort and investment required between now and 2030 to deliver the next phase of reduction will require innovation at scale in the next 18 months, followed by a strong delivery programme in the second half of the decade. The additional challenge we will face along the way is implementing the required reduction interventions that not only cope with today's demand, but the incremental demand on our business that comes from population growth, increased water quality standards and resilience of water supply.

Greenhouse gas reporting method

For Severn Trent Water we have been publicly reporting our emissions since 2002. Our GHG emissions are reported in tonnes of carbon dioxide equivalent (tCO2e), for the period 1 April 2022 to 31 March 2023. We report our location based and market-based emissions separately and report on ten Scope 3 categories. We report using a financial control boundary and follow the practices set out by the Greenhouse Gas Protocol.

Method for calculating process emissions

We used the UK Water Industry Research ('UKWIR') standardised methodology for estimating

operational GHGs, Carbon Accounting Workbook ('CAW'), to calculate our 2019/20 baseline. However, deeper insights led us to enhance our measurement practices, and over the last three years we've been running an industry-leading monitoring programme that shows our process emissions are substantially higher than the previous CAW estimations. Our method for estimating process emissions reflects guidance from the International Panel for Climate Change ('IPCC') which highlights the need to improve on broad emission factors by taking measurements at the facility-specific level. We are targeting effective monitoring at sites responsible for 42% of N2O and 40% of CH4 emissions and have met this target for N2O emissions. This data will give us an insight into long term seasonal and diurnal profiles as well as any variation caused by processes on site. This is the second year we are reporting our process emissions based on our own measured data, rather than a crude emission factor estimate. The emissions factors across our process emissions have increased as a result of our wider monitoring (to just below IPCC factors), which continues to confirm that emissions factors are substantially higher than the previous UKWIR CAW calculations. This method has been applied to our historical emissions. In addition, our monitoring has allowed us to capture new sources which were previously unreported.

Assuring our data

The GHG data we report is tracked internally during the year through the Corporate Sustainability Committee and reported to the Board. We have subjected our GHG data and processes to external assurance by Jacobs. They completed a full audit of our Scope 1, 2 and 3 data in line with the principles of the IS0 14064 International standard for GHG emissions and found our processes for reporting are consistent with reporting requirements the GHG Protocol. In addition, we achieved the Advancing Tier for the Carbon Trust pilot Route to Net Zero Standard – this certification recognises the progress of an organisation on its journey to net zero. This included assurance to the principles of IS0 14064-3 International standard for GHG emissions for our Scope 1 and 2 and a small portion of our Scope 3 data. We are in the process of verifying our 2022/23 footprint with the Carbon Trust to maintain our accreditation.

Summary of performance

Our Group emissions have fallen by 24% against a 2019/20 baseline for our SBT of 46% reduction by 2031 on a 2019/20 baseline, driven predominantly by moving to 100% renewable electricity from our suppliers. Our Scope 1 emissions are broadly flat from last year. Our use of natural gas is higher due to the deployment of Thermal Hydrolysis sludge treatment process at an increasing number of sites, which produces better quality sludge digestate and more renewable energy, but requires high temperatures. This is balanced by a reduction in our process emissions, which continue to make up the majority of our Scope 1 emissions. Even though we are processing higher volumes of sludge, approximately 60% of our sludge is now being treated using advanced digestion ('THP', 'APD') which has approximately half the emission factor of traditional anaerobic digestion. For Scope 2, whilst we have used more electricity, we have benefitted from reduced grid emissions factors for location based factors. We also report the benefit of our 100% renewable green tariff as reflected in the market based emissions.

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

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

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

	2022/23	2021/22
Scope 1		
- Combustion of fossil fuels on site	49,217	44,869
- Process emissions - CAW[1]	133,225	142,948
- (Process emissions) - Revised methodology[2]	339,979	342,908
- Transport fleet	17,203	16,702
Scope 1 Total Emissions [3]	406,399	404,478
Scope 2 Emissions (Electricity purchased for own use) - Location Based[3]	145,861	154,592
Scope 2 Emissions (Electricity purchased for own use) - Market Based [3]	7	-
Scope 1+ 2 - Location based	552,260	559,070
Scope 1+2 - Market based	406,406	404,478
Scope 3 Emissions (Business Travel)	947	615
Scope 3 Emissions (Outsourced bioresource activities)	6,055	2,424
Scope 3 Emissions (Electricity Transmission and Distribution)	13,343	13,681
Total Annual Gross Operational Emissions[3] (Location based)	**572,605**	575,790
Total Annual Gross Operational Emissions[3] (market based)	**426,751**	421,198

[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 44 for more details

[3] These values use the revised process emissions numbers

Avoided emissions (tCO2e)

	2022/23	2021/22
Estimated emissions benefit of the renewable electricity we export	29,093	33,961
Estimated emissions benefit of the renewable biomethane we export	46,484	54,032
Total	75,576	87,993

To align 21/22 with updates in methodology since publication the following changes have been made:

1) 2063 tonnes have been removed from combustion fuel from the total as propane has been re-classified as Scope 3. We do not burn propane, our customers burn it when they burn the biogas which is why we have reclassified as Scope 3.

2) The CAW process emissions has been revised as we have revised our treatment types.

3) The process emissions number has been revised and backdated with new methodology.

We report on our Group Scope 3 emissions in the Severn Trent Plc ARA and a subset of Scope 3 emissions for STW in our STW APR. See our Sustainability Report for wider reporting on our Scope 3 journey.

REPORT ON ENERGY

We continue to report our energy use and generation data to provide more detail on how we manage energy use. Below is data on our energy consumption and generation for the last five years across Severn Trent Water. This is source data for the carbon data and is tracked internally on a monthly basis. All data is collected from metered data for electricity and gas imports and exports. Biogas combustion information is calculated using assumptions based on metered data.

Fuel use is reported based on financial records of fuel purchased. We have applied assumptions on standard calorific values to convert all liquid and gas fuel types to a common energy metric ('GWh') and data is reported for the period 1 April 2022 to 31 March 2023. All energy is used in the UK.

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.

We also report on our consumption of energy at Group level in our Severn Trent Plc Annual Report and Accounts 2022/23.

Energy efficiency

Energy became an even more important focus for us this year as prices rose to record levels. Our energy management policy and dedicated team and investment programme have enabled us to manage these pressures effectively during the year. We also established new communication campaigns focused on energy use management and expanded our flexibility approach to participate in the world's first National Grid Demand Flexibility Scheme to mitigate price rises.

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

in ISO 50001, the international energy management standard. To reduce our operational emissions further, we continue to focus on improving our energy efficiency to offset the additional demands of a growing population and greater treatment to improve water quality. Our long-term energy strategy is to increase the amount of renewable energy we generate and procure, to continue to focus on energy efficiency and to take advantage of incentives to use energy flexibly.

Our total use of electricity rose this year, driven primarily by the drought conditions during summer, which required more water into supply, abstraction restrictions on our cheapest gravity sources and intensive reservoir recovery pumping over the winter period to prepare for the year ahead. This rise was mitigated by our energy efficiency activity and our like-for-like year end position on total electricity use is 2% lower, when removing the impacts of drought conditions. The figures below include the large quantity of renewable biogas from organic waste, which we generate from sludge and food waste and then either combust in combined heat and power engines or export to the national gas grid. Our import of gas has increased over the last three years, driven by the commissioning of new heat-intensive sludge treatment processes and our deployment of combined heat and power ('CHP') generation fed by imported gas to mitigate high electricity costs.

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

Energy type	Source	Units	2022-23
Electricity	Electricity Imported	GWh	754
	Electricity Generated from renewable sources and Used on site	GWh	151
	Electricity Generated from renewable sources and Exported	GWh	12
	Electricity Generated from fossil gas and Used on site	GWh	48
Gas Fuels	Gas Imported from the Grid	GWh	233
	Biogas Generated and Combusted on site	GWh	376
	Biomethane Generated and exported to the Grid	GWh	255
Liquid Fuels	Fuel used by plant (gas oil and diesel)	GWh	24
	Fuel used by company fleet & company cars	GWh	66
	Fuel used for business travel (personal cars)	GWh	2
Total	**Total Energy** (i.e. annual quantity of energy consumed from activities for which the company is responsible, including combustion of fuel and operation of facilities)	**GWh**	**1,608**
	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**	**1,080**
Normalised Metrics	Total Energy per unit of revenue	GWh/£m	0.82
	Energy Imported per unit of revenue	GWh/£m	0.55
	Clean Water Electricity Use per unit treated	kWh/Ml	718

DISCLOSURE UNDER SUSTAINABILITY ACCOUNTING STANDARDS BOARD

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

SASB standards		Equivalent reporting	Location of reporting	Description of reporting
Energy management	1) Total energy consumed 2) Percentage grid electricity 3) Percentage renewable	1) Total energy used 2) Electricity imported 3) Electricity generated from renewable sources and used on site; biogas generated and combusted on site	Annual Report and Accounts page 62	We report on the change in energy usage expressed in GWh over three years from 2018/19 baseline
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	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
Water supply resilience	Total water sourced from regions with High or Extremely High Baseline Water Stress, percentage purchased from a third party	Reported in the EA Water Scarcity Status report ('WSSR')	EA Water Scarcity Strategy[2]	Our reporting on sourcing from high-stress regions is outlined within the WSSR
	Volume of recycled water	Not reported		We do not currently report on the volume of recycled water delivered to customers
	Discussion of strategies to manage risks associated with the quality and availability of water resources		Water Resources Management Plan	
Network resiliency and impacts of climate change	Waste water treatment capacity located in 100-year flood zones		Drainage and Wastewater Management Plan	
	(1) Number and (2) volume of sanitary sewer overflows ('SSO') and (3) percentage of volume recovered	Not reported		
	(1) Number of unplanned disruptions, and (2) customers affected, each by duration category	Supply interruptions	Annual Performance Report[1]	
	Description of efforts to identify and manage risks and opportunities related to the impact of climate change on distribution and waste water infrastructure		Water Resources Management Plan / Drainage and Wastewater Management Plan	

1 Read our Severn Trent Water and Hafren Dyfrdwy Annual Performance Reports online at www.stwater.co.uk/regulatory-library/regulatory-library-documents/ and www.hdcymru.co.uk/regulatory-library/regulatory-library/ respectively.
2 Read the EA Water Scarcity Strategy online at www.gov.uk/government/publications/water-stressed-areas-2021-classification.

CHIEF FINANCIAL OFFICER'S REVIEW

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

- Unprecedented wholesale energy prices;
- Cost pressures on chemicals, other materials and licence fees; and
- Additional operating costs during the exceptionally hot and dry summer and the freeze thaw event in December.

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

Despite these challenges we have delivered PBIT of £482.7 million, broadly in line with the previous year (2021/22 £490.8 million).

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

	2023	2022	Change	
	£m	£m	£m	%
Turnover	**1,965.9**	1,808.9	157.0	8.7
PBIT	**482.7**	490.8	(8.1)	(1.7)
Net finance costs	**(355.3)**	(259.0)	(96.3)	(37.2)
Gains on financial instruments and impairment of loans receivable	**61.6**	52.8	8.8	16.7
Profit before tax	**189.0**	284.6	(92.0)	(33.6)
Tax	**(33.3)**	(349.9)	316.6	90.5
Profit for the year	**155.7**	(65.3)	221.0	338.4

On 31 March 2022, the Company transferred its ownership of Hafren Dyfrdwy Cyfyngedig to Severn Trent Draycote Limited, the Company's immediate parent, by way of a dividend in specie. The results for the year ended 31 March 2022 include a full year of Hafren Dyfrdwy.

Further analysis of the changes in turnover and PBIT are set out in the section below.

Net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. Our effective interest cost was 140 bps higher at 6.2% (2021/22: 4.8%); our effective cash cost of interest (which excludes the inflation uplift on index-linked debt) was lower at 3.0% (2021/22: 3.1%).

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

In his 2023 Budget, the Chancellor introduced 100% first year capital allowances for qualifying plant and machinery for a three year period from 1 April 2024. As a result, we expect our adjusted effective tax rate to remain around nil while the allowance is in place.

The tax charge of £33.3 million reflects our full effective tax rate this year of 17.6% (2021/22: 21.3% before exceptional deferred tax). In the previous year, the increase in the corporation tax rate to 25% from FY24 was reflected in our deferred tax provision and in an exceptional deferred tax charge to the income statement of £289.2 million.

Group profit after tax was £155.7 million (2021/22: a loss of £65.3 million as a result of the exceptional deferred tax charge) reflecting higher net finance costs from the impact of inflation on the cost of our index-linked debt.

Our balance sheet remains strong. At 31 March 2023 our net debt was £6,875.0 million (2022: £6,065.8 million) and our shadow RCV gearing, taking into account amounts that will be included in the RCV at the end of the AMP but which we have already incurred, is 60.2% (2022: 59.6%). Our regulatory gearing is 62.1% (2022: 61.9%), well below the sector average and close to Ofwat's notional capital structure for AMP7.

Our net pension deficit on an IAS 19 basis is £278.6 million (2022: £137.6 million). Gross liabilities decreased as the discount rate, which is based on the yield observed on high quality corporate bonds, increased and inflation expectations over the life of the liabilities decreased. Hedging assets moved broadly in line with the fall in liabilities, with other asset values affected by the higher yield environment in the second half of the year. The 2022 triennial actuarial valuation was agreed in November 2022, with an unchanged future funding plan.

Operational cash flow was £703.2 million, (2021/22: £813.5 million). EBITDA was in line with the previous year, but pension contributions increased by £38.4 million as we paid two years' deficit reduction contributions in the year and changes in working capital increased cash outflows by £61 million more than the previous year. Cash capex was £652.2 million, up £73.9 million due to the increasing capital programme. Net cash outflow before changes in net debt was £597.3 million (2021/22: inflow of £222.8 million).

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

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

Profit before interest and tax

	2023	2022	Better/(worse)	
	£m	£m	£m	%
Turnover	**1,965.9**	1,808.9	157.0	8.7
Net labour costs	**(157.6)**	(166.7)	9.1	5.5
Net hired and contracted costs	**(210.3)**	(190.2)	(20.1)	(10.6)
Power	**(198.4)**	(113.9)	(84.5)	(74.2)
Raw materials and consumables	**(97.3)**	(67.2)	(30.1)	(44.8)
Bad debts	**(23.1)**	(24.8)	1.7	6.9
Other costs	**(170.6)**	(171.7)	1.1	0.6
	(857.3)	(734.5)	(122.9)	(16.7)
Infrastructure renewals expenditure	**(233.2)**	(198.2)	(35.0)	(17.7)
Depreciation and amortisation	**(392.7)**	(385.4)	(7.3)	(1.9)
PBIT	**482.7**	490.8	(8.1)	(1.7)

Turnover was £1,965.9 million (2021/22: £1,808.9 million) and PBIT was £482.7 million (2021/22: £490.8million).

Turnover increased by £157.0 million with the main movements being:

- An increase of £77.4 million for the annual CPIH uplift in tariffs, partially offset by reductions of £15.4 million from the 'K' factor for the year;
- A £65.1 million increase representing the recovery, under the RFI mechanism, of lower than allowed revenue in 2020/21;
- £35.0 million of in-year allowance for the Green Recovery programme;
- £24.4 million additional energy generation revenue in our Bioresources business driven by higher wholesale energy prices;
- An increase of £18.7 million in diversions income largely due to the increase in activity related to HS2 as expected. This represents a recovery of costs incurred and is offset by an increase in infrastructure renewals expenditure;
- Lower revenue from the Voids and Gaps Incentives Scheme (£4.7 million lower);
- Lower revenues billed by other water companies on our behalf (£11.3 million) and other small differences (£6.4 million lower); and
- Hafren Dyfrdwy revenue included in the previous year was £30.8 million.

Net labour costs of £157.6 million were 5.5% lower year on year. Gross employee costs increased due to the annual pay award of 2.3% and an increase in FTE from the step up in the capital programme. This was offset by higher capitalisation of employee costs and an £8.3 million credit related to a change in defined benefit scheme options developed with the Trustee. The new bridging pension option allows members who retire early to bridge the gap between their retirement date and the date when the state pension becomes payable, by taking more of their occupational pension up front, which has a positive effect on expected pension liabilities.

Net hired and contracted costs increased by £20.1 million (10.6%). The increase is driven by higher tankering and jetting activity, more hired staff to support leakage reduction and improve operational performance, third party technology consultants and other contract management cost increases.

Power costs were £84.5 million (74.2%) higher than the previous period although our weighted average wholesale price was about 30% less than the average market wholesale energy price. We benefitted from self-generation and favourable energy export in Bioresources.

Raw materials and consumables increased by £30.1 million, due mainly to higher chemical costs.

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

Other costs decreased by £1.1 million, as higher Environment Agency abstraction and discharge consent fees and insurance costs were more than offset by the Hafren Dyfrdwy costs included in the previous year.

Infrastructure renewals expenditure was £35.0 million higher in the year, reflecting the planned step up in the programme and activity related to HS2 referred to above.

Depreciation and amortisation of £392.7 million was £7.3 million higher year on year due to new assets coming into service as part of our Water Framework Directive programme as well as a full year of depreciation on the advanced digestion and biogas-to-grid plants at Finham and Stoke Bardolph, partly offset by a saving of £8.1 million from Hafren Dyfrdwy's depreciation cost in the previous year.

Return on Regulated Equity ('RoRE')

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

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

	2022/23 %	AMP7 to date %
Base return	3.9	3.9
Enhanced RoRE reward[1]	–	0.2
ODI outperformance[2]	0.7	1.3
Wholesale totex performance	–	–
Retail cost performance	(0.1)	(0.2)
Financing outperformance[3]	7.7	3.7
Regulatory return for the year[4]	**12.2**	**8.9**

1 Fast track reward taken over the first two years of AMP7.
2 ODI performance includes in year ODI reward, PCC and forecast C-MeX and D-MeX outturn.
3 Includes 0.7% for the variance on tax from the benefit of super deduction capital allowances.
4 Calculated in accordance with Ofwat guidance set out in RAG 4.11, which excludes Ofwat's AMP7 tax true-up mechanism.

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

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

Net finance costs

Net finance costs for the year were £96.3 million higher than the prior year at £355.3 million. During the year we issued £1,351 million of new debt at rates consistently below the iBoxx index and our effective cash cost of interest (excluding the RPI uplift on index-linked debt and pensions-related charges) was 3.0% (2021/22: 3.1%).

Average net debt increased 9.5% to £6,547.7 million (2021/22: £5,977.4 million) and higher inflation in the year increased the cost on our index-linked debt by £101.8 million. Our effective interest cost was 6.2% (2021/22: 4.8%).

Capitalised interest of £54.7 million was £20.5 million higher year on year, due to the higher effective interest cost compared to last year.

Our EBITDA interest cover was 2.5 times (2021/22: 3.5 times) and PBIT interest cover was 1.4 times (2021/22: 1.9 times). See note 41 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 £423 million floating to fixed, and cross currency swaps with a sterling principal of £98.3 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 £35.7 million (2020/21: £51.4 million) in relation to these instruments.

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

As part of our power cost management strategy, we have fixed the wholesale price for more than 95% of our estimated wholesale energy usage for 2023/24.

Taxation

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

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

The corporation tax charge for the year recorded in the income statement, before exceptional taxes, was £33.3 million (2021/22: £60.7 million) and we made net corporation tax payments of £7.8 million in the year (2021/22: £61.3 million received).

Note 12 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 £0.5 million (2021/22: £7.1 million) and the deferred tax charge was £33.8 million (2021/22: £67.8 million before the exceptional charge arising from the change of rate).

Our effective tax rate was 17.6% (2021/22: 21.3% before the exceptional charge arising from the change of rate), which is lower than the UK rate of corporation tax (19%), mainly due to permanent difference that arise from revaluation of Group's investments and the additional 30% deduction included in the super deduction, partly offset by deferred tax on temporary differences arising during the year charged at 25% (2021/22: higher 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).

Our adjusted effective current tax rate was 0% (2021/22: 0%) (see note 41).

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 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.

Profit for the year

Total profit for the year was £155.7 million (2021/22: loss of £65.3 million).

Cash flow

	2023 £m	2022 £m
Cash generated from operations	**703.2**	813.5
Net capital expenditure	**(652.2)**	(578.3)
Net interest paid	**(201.4)**	(179.3)
(Payments)/proceeds for swap cancellations	**(11.1)**	5.6
Tax paid	**(7.8)**	61.3
Free cash flow	**(169.3)**	122.8
Dividends	**(428.0)**	(150.0)
Issue of shares	**-**	250.0
Change in net debt from cash flows	**(597.3)**	222.8
Non-cash movements	**(211.9)**	(117.7)
Change in net debt	**(809.2)**	105.1
Debt disposed with Hafren Dyfrdwy	**–**	3.1
Opening net debt	**(6,065.8)**	(6,174.0)
Closing net debt	**(6,875.0)**	(6,065.8)

	2023 £m	2022 £m
Cash and cash equivalents	**4.0**	77.8
Bank overdraft	**–**	(7.7)
Net cash and cash equivalents	**4.0**	70.1
Loans due from parent company	**154.5**	226.2
Bank loans	**(689.4)**	(755.7)
Other loans	**(6,274.5)**	(5,525.9)
Lease liabilities	**(103.2)**	(108.8)
Cross currency swaps	**33.6**	28.3
Net debt	**(6,875.0)**	(6,065.8)

Operational cash flow was £703.2 million (2021/22: £813.5 million). EBITDA was broadly in line with the previous year but increased pension contributions and higher working capital reduced cash flow.

Net cash capex of £652.2 million (2021/22: £578.3 million) reflected progress on our core capital programme.

Our net interest payments of £201.4 million (2021/22: £179.3 million) were higher than the previous year due to the impact of higher net debt with the effective cash cost of interest (which excludes the non-cash indexation charge on index linked debt) in line with the previous year.

The benefits of the super deduction capital allowance and the impact of higher interest costs meant that we had no taxable profit in the year and therefore paid no corporation tax in relation to the year. Our net tax payments of £7.8 million related to previous years. In the previous year we received £61.3 million as a result of a refund of an intra-group overpayment in a previous year.

In the prior year, our share issue raised net proceeds of £250.0 million. Our dividends paid increased reflecting our sustained strong performance on ODIs and the environment.

These cash flows, together with accounting adjustments to the carrying value of debt, resulted in an increase of £597.3 million in net debt (2021/22: reduction of £222.8 million).

At 31 March 2023 we held £4.0 million (2022: £70.1 million) in net cash and cash equivalents. Average debt maturity was around 14 years (2022: 13 years). Including committed facilities, our cash flow requirements are funded until November 2024.

Net debt at 31 March 2023 was £6,875.0 million (2022: £6,065.8 million)). Shadow RCV gearing was 60.2% at 31 March 2023 (2022: 59.6%).

The estimated fair value of debt at 31 March 2023 was £329 million lower than book value (2022: £1,039.3 million higher). The change in the difference between book and fair value is largely due to the impact of higher inflation expectations on the fair value of our index-linked debt.

Our policy for the management of interest rates is that at least 40% of our borrowings should be at fixed interest rates, or hedged through the use of interest rate swaps or forward rate agreements. At 31 March 2023 interest rates for 69% (2022: 67%) of our gross debt of £7,070.5 million were fixed; 4% were floating and 27% were index linked. We continue to carefully monitor market conditions and our interest rate exposure.

Our long-term credit ratings are:

	Long-term ratings	**Outlook**
Moody's	Baa1	Stable
Standard and Poor's	BBB+	Stable
Fitch	BBB+	Stable

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

Pensions

We have two defined benefit pensions arrangements. The schemes are closed to future accrual.

The most recent formal actuarial valuations for the Severn Trent Pension Scheme ('STPS') was completed as at 31 March 2022. The agreement reached with the Trustee for the STPS, which is by far the largest of the schemes, included:

- Annual deficit reduction payments to be made until the year ending 31 March 2027, with a forecast[1] payment of c. £40 million in the year ending 31 March 2024, increasing thereafter in line with November CPI.
- Payments under an asset-backed funding arrangement of £8.2 million per annum to 31 March 2032, which will only continue beyond 31 March 2025 if the Scheme's assets are less than the Scheme's Technical Provisions; and
- Inflation-linked payments under an asset-backed funding arrangement, with a forecast[1] payment of c.£28 million in the year ending 31 March 2024, potentially continuing to 31 March 2031, although these contributions will cease earlier should a subsequent valuation of the STPS show that these contributions are no longer needed.

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

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

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 £278.6 million (2022: £137.6 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 scheme's assets or their expected returns.

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

The movements in the net deficit during the year were:

	Fair value of scheme assets £m	**Defined benefit obligations £m**	**Net deficit £m**
At start of the period	2,595.3	(2,732.9)	(137.6)
Amounts credited/(charged) to income statement	72.8	(72.4)	0.4
Actuarial gains/(losses) taken to reserves	(899.5)	658.3	(241.2)
Net contributions received and benefits paid	(24.1)	123.9	99.8
At end of the year	**1,744.5**	**(2,023.1)**	**(278.6)**

The income statement includes:

- A past service credit of £8.3 million following a change in the STPS's rules to allow members to take a higher initial pension on retirement in exchange for a lower pension from state pension age;
- Scheme administration costs of £4.0 million; and
- Interest on scheme liabilities and expected return on the scheme assets – together a net cost of £3.9 million

Higher interest rate expectations increased the discount rate, which is derived from yields on high quality corporate bonds, by 200bps. Inflation expectations decreased by around 30bps since the previous year end. The impacts of these changes resulted in a net decrease in the scheme liabilities of around £731 million.

Changes to demographic assumptions to align with the 2022 funding valuation increased scheme liabilities by around £16 million. This was partly offset by an update to the most recent CMI data tables and also a weighting to allow for higher mortality experienced in 2021.

The actual outturn in the year for inflation and other assumptions increased scheme liabilities by £56 million.

Higher bond yields impacted the value of scheme assets, which decreased in value by £900 million more than the return included in the income statement in the year.

Contributions paid to the STPS in the year included:

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

There was also a payment of £0.4 million for MIPS running costs.

RISK MANAGEMENT

OUR APPROACH TO RISK

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

2022/23 risk positioning

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

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

Risk appetite statement

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

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

Our regulated water and waste water business is a monopoly provider that is economically regulated and characterised by relatively stable, inflation-linked cash flows.

Our risk priorities

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

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

Overseeing risk

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

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

Top down

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

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

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

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

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

Bottom up

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

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

Risk reporting

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

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

RISK MANAGEMENT FRAMEWORK

Top-down ↓

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 and oversight of risk.
- Assesses the level of risk taken in achieving objectives by challenging the AMP7 business plan and the forthcoming AMP8 business plan.
- Approves risk mitigation strategies of significant risks – assigned to the individual members of the Executive Committee.
- Sets and evaluates risk tolerances.
- Identifies and assesses Principal and Emerging Risks.

Risk ownership, management and oversight

1st line of defence

Strategic planning:
- Longer-term, holistic risk response plans, e.g. WRMP, our AMP7 business plan and forthcoming AMP8 business plan.
- Establishes critical controls for ensuring the operational effectiveness of essential services.

Service Area Boards:
- 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:
- Assesses the Business Units' ('BU') reported risks (Bottom-up BU Risks) and mitigation plans, and challenges any ERM information or deliverables as required.
- Reviews and validates all ERM reporting and risk-related information prior to Board and Audit and Risk Committee meetings.
- Reviews the Company's Principal Risks and proposes amendments to the Board for the Annual Report and Accounts.
- Ensures the efficient and effective delivery of the risk management programme carried out by the Central ERM Team.
- Monitors compliance across the organisation with the Company's risk management framework and processes.

Central ERM Team:
- Applies the risk management framework.
- Owns the corporate ERM system.
- Monitors and reports key risk information, including response plans and risk tolerance.
- Establishes best practice risk processes across the Group.
- Provides guidance and training for Risk Champions and Risk Co-ordinators.
- Assists with the identification and assessment of Principal and Emerging Risks.
- Facilitates risk escalation processes.

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 Severn Trent Water 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 Severn Trent Plc Audit and Risk Committee and Board on a six monthly basis. The report provides an assessment of the effectiveness of controls over each risk and action plans to improve controls where necessary.

Our recognised ERM risks are linked with our Licence to Operate process. This helps create a dynamic link and improves our risk reporting to the Board and Severn Trent Plc Audit and Risk Committee. Additionally, our ERM risks have been mapped against our business model and we have linked risk causes with recognised climate drivers where the likelihood could be exacerbated by a different climatic future.

OUR PRINCIPAL RISKS

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

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

This list does not comprise all the risks that the Group may face, and they are not presented in order of importance. The nature and profile of these risks are updated each year to reflect the changing risk landscape.

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

Our Principal Risks reported in 2022/23 are detailed on the following pages and each individual Principal Risk includes:

- examples of risk mitigation (these mitigation examples are not exhaustive, opportunities have been consolidated within this section);
- the risk exposure level movement at year end;
- a risk update; and
- key risk indicators are used as a metric for measuring the probability of an event and its consequences. They reflect the level of risk exposure, and the effectiveness of key controls.

Key risk indicators play an important role in the Severn Trent ERM function, providing advance notice of potential risks that could harm Severn Trent, insight into possible weaknesses in the monitoring and control tools, and ongoing risk monitoring between the formal risk assessments and reporting.

Health and safety

Risk 1

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

Strategic pillars

Stakeholders

Examples of risk mitigation

- The Group's Goal Zero policy clearly sets out our target that no one should be injured or made unwell by what we do.
- We have a well-established Health, Safety and Wellbeing Framework to ensure all our operations and processes are conducted in compliance with Health and Safety legislation and in the interests of the safety of our people and our contractors. The Framework is subject to regular review.
- We employ a competency framework and compliance with mandatory training is regularly monitored.
- Monitoring of our supply chain through site manager forums and on site inspections, including Health and Safety reviews to ensure compliance.
- Health and Safety bulletins are cascaded throughout the Group, including the supply chain.
- A dedicated Health, Safety and Wellbeing toolkit, called Safety Net, allows real time data recording to capture, analyse and report on all Health, Safety and Wellbeing incidents and implement targeted interventions in a timely manner.
- We monitor and investigate relevant Health and Safety incidents from other sectors.

Change in year

- This year we have completed reviews of electrical safety across the estate and chemical safety management, including the design, build, operation and decommissioning of chemical related assets.
- We have upskilled key senior stakeholders in the principles of process safety and have started a gap analysis on the key components/controls of the framework.

Infrastructure failure and asset resilience

Risk 2

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

Strategic pillars

Stakeholders

Examples of risk mitigation

- We have developed comprehensive resilience plans, such as our WRMP and Drought Plan to inform our capital investment programme and business plan.
- Key operational employees are required to complete mandatory Water Quality Competency training.
- We have invested in our in-house capability to bolster repair teams and facilitate accelerated response times.
- Our 24/7 control centre monitors our operations and assets, including real-time telemetry coverage from our loggers.
- We run strategic modelling to assess potential changes to supply and demand on our water network and the impact of climate change. See Principal Risk 10.
- We regularly review and update processes, standards, and operational procedures.

Change in year

- Our final 2022 CRI score was outside of the target, driven mainly by water treatment works performance.
- We launched a more detailed initiative assessing compliance with our operating standards which are based on regulations and industry best practices. Since starting the initiative, our compliance against the standard has increased to over 88%.

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 pillars

Stakeholders

Examples of risk mitigation

- We run strategic modelling, such as the DWMP, to assess potential changes to supply and demand on our waste water network, to reduce service issues and potential damage to the environment. See Principal Risk 10.
- Our 24/7 control centre monitors our asset performance, including real-time telemetry coverage. We operate an in-house Waste Water Network Response Team.
- Key operational employees are required to complete mandatory training programmes to ensure continued competence with evolving standards.
- We run educational programmes for customers promoting safe use of the waste water system, including appropriate disposal of wet wipes and cooking fat.
- We monitor all sites with Flow to Full Treatment ('FFT') permit requirements with a dedicated Flow Performance Team.

Change in year

- We monitor 100% of CSOs with EDM monitors that can provide 300 million data points on operation of storm overflows.
- We have successfully insourced our Wet Well Cleansing Team enabling greater flexibility with our planning and delivery of cleaning activities.
- Performance of our sites is being monitored closely through MCERTS, the Environment Agency's Monitoring Certification Scheme For Equipment, and we are promoting additional MCERTS monitoring equipment where necessary.

Customer service and experience

Risk 4

We do not meet the needs of our customers or anticipate changing expectations through the level of customer experience we provide

Strategic pillars

Stakeholders

Examples of risk mitigation

- Service Level Agreements ('SLA's) in place and communicated to our customers that require assistance.
- We have a specialist digital team that monitors activity and allow us to engage with and respond to customers digitally, whether on social media or WhatsApp, informing customers of planned and reactive work.
- The Priority Service Register ('PSR') supports customers with special requirements to give them a better, more personalised service.
- Our retail transformation plan and customer experience steering group helps drive further improvements of our customers' journeys on an end-to-end basis.
- Our Developer Services Team proactively engages with local new-build developers, to ensure the appropriateness of supply planning and connection.
- We have an incident management processes and procedures for vulnerable customers in the event of operational events impacting services.
- A dedicated Non-Household ('NHH') customer team engages and responds to market retailers.

Change in year

- We made an additional £30 million support fund available for our customers facing difficult circumstances through cost of living pressures, offering up to a 90% reduction on their water bill.
- We have made improvements in our customer-facing processes and the digital experience we offer to our customers.

Supply chain and capital project delivery

Risk 5

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

Strategic pillars

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 run contract performance meetings, including KPI reviews and proactive supplier and market assessments.
- Appropriate regular training for contract management teams.
- We regularly check the stability of the Severn Trent supply chain; we have a methodology in place to assess financial stability with lead measures.
- We have regular management reviews with our strategically material suppliers through to CEO level where needed.

Change in year

- We have experienced cost pressures due to the economic climate which have led to multiple rounds of re-scoping and re-designing to reach affordable prices for some of our capital programmes for the benefit of our customers.
- We are refreshing and updating our Standard Operating Procedures ('SOPs').

Cyber security and technology resilience

Risk 6

Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems

Strategic pillars

Stakeholders

Examples of risk mitigation

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

Change in year

- We have delivered 13 Contributing Outcomes ('CO's) this year (29 since 2021/22) for Network and Information Systems Regulations ('NIS-R') compliance ahead of the DWI's expectation of the end of April 2023.
- We have improved our internal structure to delivery, bringing all workstreams under one programme manager with a focus on delivering to the Sector Specific Profile ('SSP') for each CO.
- We are supplementing our NIS-R regulatory requirements with best practices for security using the National Institute of Standards and Technology ('NIST') framework.

Political, legal and regulatory

Risk 7

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

Strategic pillars

Stakeholders

Examples of risk mitigation

- Delivery of our AMP7 plan, which was based on customer research, and developing our AMP8 plan, which will be submitted later in 2023.
- We actively engage with the UK Government, MPs, the Welsh Government, regulators and other stakeholders about the future shape and direction of the water sector, sharing our experience where possible.
- We operate an established Governance Framework, policies and training ensuring our ongoing compliance with all applicable laws and regulations, including Competition Law and General Data Protection Regulations ('GDPR'), for the operation of separate wholesale and retail business and between our Group businesses. This is subject to regular review.
- Investment plans are subject to regular review, on at least an annual basis, to take account of changes to legislation, regulation and our business.
- External legal advisers provide detailed reviews in respect of upcoming legislation that may affect the Group.
- As part of our Licence to Operate process, we ask relevant managers, strategic leaders and Directors to complete a self-declaration twice a year.

Change in year

- We are actively developing an ambitious PR24 business plan, with high levels of customer engagement and feedback, which will set out what we aim to achieve in the next AMP (2025-30).

Financial liabilities

Risk 8

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

Strategic pillars

Stakeholders

Examples of risk mitigation

- Our deficit recovery plans are agreed by the Trustees and the Company setting out the cash contributions required from Severn Trent to the Scheme.
- In November 2022, the Company agreed the triennial actuarial valuation as at 31 March 2022, including repair payments of c.£65 million per annum.
- Interest rate, inflation and equity risk are managed through appropriate hedging strategies to manage downside risks, with regular monitoring in place.
- We continue to work with the Trustee in considering The Pensions Regulator's consultation on its funding code of practice.
- The Company is represented on the Investment Committee of the Scheme and the investment policy is formally approved by the CFO.

Change in year

- We agreed the 2022 triennial valuation in November 2022, confirming an unchanged contribution schedule which is locked in for three years.

Financial liabilities

Risk 9

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

Strategic pillars

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 terms of both tenor and access to global debt capital markets to mitigate risks.
- The Group maintains liquidity headroom of at least 15 months.
- The Group has committed credit facilities for five years.
- The Group cash balances are deposited across a range of investment-grade counterparties to spread and mitigate risk.
- The proportion of the Group's debt maturing in any AMP period does not exceed 40% of the Group's total debt to reduce refinancing risks.
- Treasury policy statements and procedure manuals are in place and operating effectively. These are reviewed at least annually.

Change in year

- We are in a strong liquidity position supported by our £1.3 billion committed facilities, providing liquidity until November 2024.
- We have been active in the debt markets during the year raising £1,351 million new debt from a range of diverse sources.
- We have issued a further £450 million after the year end through a £400 million GBP bond, which we priced in March 2023, and a £50 million private placement.
- Our strong balance sheet and ESG credentials provides a level of resilience during periods of higher interest rates and rising inflation as a result of the gilt crisis.

Climate change, environment and biodiversity

Risk 10

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

Strategic pillars

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).
- The Water Resources Management Plan and Drainage and Wastewater Management Plan provides a 25 year, longer-term planning approach to future challenges.
- Our AMP7 business plan supports increased resilience against the potential impacts of climate change through capital scheme delivery. See Principal Risk 5.
- Our climate change strategy (described in more detail on pages 43 to 48).
- Our Triple Carbon Pledge commits us to net zero carbon emissions, 100% renewable energy and an all-electric fleet (where available) by 2030. Read more on page 54.
- We have committed to significantly reducing our greenhouse gas emissions by 2030. Read more on page 57.

Change in year

- We're working with our high-impact suppliers to help them set one SBT for their organisation as the majority of our total Company carbon footprint is made up of emissions associated with our value chain (also known as Scope 3 emissions).
- We've made an ambitious public commitment to ensure 70% of suppliers, by emissions, set an SBT by 2026. We are in regularly in conversations with our suppliers to make sure we meet this target.

Climate change, environment and biodiversity

Risk 11

We fail to influence positively the natural capital in our region

Strategic pillars

Stakeholders

Examples of risk mitigation

- We support the Get Nature Positive journey in our region working to protect biodiversity by working in partnership with regulators and other stakeholders.
- Strategic plans to enhance biodiversity in our region and a number of ODI commitments to protect our local environment, including pollution incidents, biodiversity improvements and environmental compliance.
- Use of catchment-management approaches to work with landowners in our region to mitigate the effect of pesticides, fertilisers and organic nutrients on the environment and biodiversity.
- Modelling to estimate the impact of increasing pressures on nature, for example from climate change, including, drought or extreme weather events (see Principal Risk 10) and biodiversity loss that has potential to impact ecosystems.
- Using our in-house ecology expertise to enhance the Group's capability to work towards enhancing biodiversity.

Change in year

- Doubled our biodiversity target to 10,000 hectares by 2025.
- In Mansfield, we're trialling a nature-based approach to reduce flooding, while creating a green environment to protect people from flooding, improving river quality, and creating green environments to be enjoyed.
- Our WINEP project is helping accelerate our environmental commitments by improving 500 km of river, five years earlier than planned; allowing communities and wildlife to benefit sooner.
- Our Green Recovery Bathing Rivers Programme is helping to create bathing-quality stretches of river along the River Leam in Warwickshire and the River Teme in Shropshire.

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 Severn Trent Plc Audit and Risk Committee and Board.

We closely monitor Emerging Risks that may, with time, become either complete ERM risks, incorporated into the existing corporate risk reporting process, have potential to be superseded by new Emerging Risks, or cease to be relevant as the internal and external environments in which we operate evolve. The Directors have carried out a robust assessment of the Company's Emerging Risks and consider the following to be risks that have the potential to increase in significance and affect the performance of the Group.

Title	Detail	Area/Factor	Time horizon
Energy infrastructure stability	We are reliant on the stability of the energy grid and are susceptible to power disruptions, brownouts, partial outages, blackouts and complete shutdown of electricity due to problems with the local, or national, energy grid. We are focused on delivering our longer-term energy strategy.	Operational	Short-Medium
Geopolitical tensions	Ongoing conflict in Ukraine and resulting sanctions could further increase commodity prices and could result in an economic slowdown. The cyber threat environment has increased globally following the Russian invasion of Ukraine in 2022.	Economic	Short-Medium
Supply chain disruption	Dynamic market conditions can cause supply chain shortages and resource security pressures, increasing commodity prices globally. We are dependent on our supply chains, including foreign suppliers, which could be impacted by ongoing global matters.	Operational	Short-Medium
Evolving research and understanding around 'forever chemicals'	Increasing research into the impact of Per- and Polyfluorinated Substances ('PFAS'), known as 'forever chemicals', results in changes to existing regulations and alters testing and treatment processes.	Operational	Short-medium

VIABILITY STATEMENT AND GOING CONCERN

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 from page 50. Important aspects of that assessment that are most relevant to the assessment of viability are:

- The Group's shadow RCV gearing is 60.2%, 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 November 2024;
- The Group's credit ratings from three agencies (S&P, Moody's and Fitch) are 2 notches above the investment grade base level and are stable; and
- The defined benefit pension deficit increased to £279 million in the year. The triennial valuation as at 31 March 2022 was completed during the year and the contributions remained unchanged.

The Company 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 Plan ('AMP') periods, 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 the Company has developed its plans to deliver the operational and financial performance set out in Ofwat's determination. We have based our assessment of prospects for the next two years on these plans.

When considering the Group's prospects beyond 2025, it is necessary to make assumptions about the price review process for the period 2025 – 2030 (PR24), which will take place in 2024. In making this assessment we have taken account of:

- Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions;
- The Company's financial structure, which is close to the Ofwat notional capital structure; and
- The Company'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 Company's business and we seek to obtain a balance of secure long-term funding at the best possible economic cost. Our Treasury Policy requires us to maintain sufficient liquidity to cover cash flow requirements for a rolling period of at least 15 months in order to limit the risk of restricted access to capital markets. Our Group Treasury Team actively manages our debt maturity profile to spread the timing of refinancing requirements and to enable such requirements to be met under most market conditions. The weighted average maturity of debt at the balance sheet date was 14 years.

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

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

Period of assessment

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

However, the changing nature of regulation of the Water industry and the uncertain geopolitical and macroeconomic outlook increase the uncertainty inherent in our financial projections. We have an established planning and forecasting process and the Board considers that the assessment of the Group's prospects is more reliable if based on an established process. Our latest medium-term plan extends in detail to the end of the AMP7 period in 2025, with less detailed projections looking beyond this.

A longer period of assessment introduces greater uncertainty because the variability of potential outcomes increases as the period considered extends.

Bearing in mind the long-term nature of our business; the enduring demand for our services; our established planning process; and the changing nature of the regulation of the Water industry in England and Wales, the Board has determined that seven years is an appropriate period over which to assess the Group's prospects and make its viability statement this year.

Assessment of viability

In assessing our future prospects, we have considered the potential effects of risks and uncertainties that could have a significant financial impact under severe but plausible scenarios. The risks and uncertainties considered were identified in the Group's ERM process, which is described from page 59, and from the key assumptions in the financial model.

While we have estimated the size of each of the severe but plausible scenarios described below, we have grouped scenarios with similar impact types together and performed stress testing for the scenario with the greatest impact. Where the scenario occurs at a point in time, we have assumed that it occurs at the point in the plan with the lowest headroom.

The risks and scenarios tested are described below.

Risk assessed	Severe but plausible scenario	Stress test applied
Due to the nature of our operations we could endanger the health and safety of our people, contractors and members of the public	Serious injury, ill health or death of employees, contractors or members of the public as a result of what we do	An extreme one-off event

Risk assessed	Severe but plausible scenario	Stress test applied
We do not provide a safe and secure supply of drinking water to our customers	Catastrophic breach of a large raised reservoir (>25,000 cubic metres) Service failure leads to increased operating expenditure or failure to meet performance commitment targets	An extreme one-off event Totex underperformance in each year of the forecast ODI penalty in a single year
We do not transport and treat waste water effectively, impacting our ability to return clean water to the environment	An extreme breach in a sludge lagoon at a large sewage treatment works Service failure leads to increased operating expenditure or failure to meet performance commitment targets	An extreme one-off event Totex underperformance in each year of the forecast ODI penalty in a single year
We do not meet the needs of our customers or anticipate changing societal expectations with the level of customer service we provide	Our customer performance is well below their expectations across a range of measures	ODI penalty in a single year
Key suppliers cannot meet contractual obligations causing disruption to capital delivery and/or critical operational services	Significant increase in capital programme costs Service failure leads to increased operating expenditure or failure to meet performance commitment targets	Totex underperformance in each year of the forecast ODI penalty in a single year
Our critical technology capabilities are not maintained due to cyber threats or system failures, impacting the services we deliver through our key infrastructure assets or core systems	A cyber attack results in a critical loss of personal data leading to regulatory action	An extreme one-off event
Changing societal expectations, resulting in stricter legal and environmental obligations, commitments and/or enforcements, increase the risk of non-compliance	A breach of law or regulations results in a significant one-off penalty	A financial penalty

Risk assessed	Severe but plausible scenario	Stress test applied
We fail to fund our defined benefit pension obligations sustainably	Increasing pension deficit leading to higher deficit reduction contributions	Increased pension contributions

We also applied stress tests relating to economic factors: higher and lower inflation (including deflation); and higher interest rates, and a combined scenario taking into consideration totex underperformance, ODI penalties and a financial penalty.

The amounts of the stress tests applied were:

Stress test applied	Amount modelled
An extreme one-off event	A one-off impact of £250 million at the point in the forecast with the lowest headroom
Totex underperformance	An increase in totex of £250 million in each year of the forecast
ODI penalty	A penalty of £275 million in a single year
Financial penalty	A penalty of £160 million in a single year (c 6% of turnover)
Increased pension contributions	Contributions increase by £34 million per annum
Combined scenario	An increase of totex of £250 million in each year, an ODI penalty of 1.5% in one year, and a financial penalty of £250 million in one year
Higher inflation for three years	10% spike in CPIH followed by two years at 5%
Lower inflation in each year	Decrease of 2% in CPIH
Deflation for two years	CPIH of -1%
Higher interest rates	New debt financed at 2% above the iBoxx index

We assessed the impacts of the scenarios on our financial metrics, credit metrics and debt covenants. Where the result of the stress test indicated more than a limited impact, a risk of a downgrade of credit rating or a breach of a bank covenant, we considered what mitigating actions would be available and whether they would be sufficient to mitigate the potential impact of the stress test.

The table below sets out the potential impacts of the stress tests and the mitigating actions that would be available to address the impacts.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
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 for a number of years.
Totex underperformance	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 for a number of years.
ODI penalty	The penalty would flow through revenue two years after the performance commitment was breached. 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.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
Financial penalty	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Engage with ratings agencies to discuss the short-term nature of the impacts. Manage liquidity by temporarily reducing working capital. Consider reducing dividend in the year.
Increased pension contributions	Deterioration in credit metrics that, without mitigating action, might lead to a downgrade in ratings although still at investment grade.	Manage liquidity by temporarily reducing working capital. Close out derivative financial instruments in asset positions to generate cash. Consider new sources of funding, including hybrid debt.
Combined scenario	Significant reduction in profitability and cash flow. 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 reducing dividend in the year or for a number of years.
Higher inflation in one year	Short term adverse impact to profit, 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.

Stress test applied	Potential impacts on viability without mitigating action	Mitigation available (see below)
Lower inflation in one year	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Cost reduction programme focused on reducing discretionary expenditure to support profitability. Consider reducing dividend in the year or for a number of years.
Deflation for two years	Pressure on PBIT and cash in the year following the low inflation year (that may sustain in future years). Increased gearing and deterioration in credit metrics that, without mitigating action might lead to a downgrade in ratings although still at investment grade. Pressure on gearing covenants.	Engage with ratings agencies to discuss the short-term nature of the impacts. Consider new sources of funding, including hybrid debt. Cost reduction programme. Consider reducing dividend in the year or for a number of years.
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 for a number of years.

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 or for a number of years	Our dividend policy for requires the Board to ensure that: Dividends will not impair the ability of the Company to finance the Appointed Business. Dividends will take account of service delivery for customers and the environment over time. Dividends will reward efficiency and the effective management of risks to the Appointed Business. Where payment of a dividend would impair the Group's financial resilience the Board would reduce or defer payment of dividends until financial resilience was restored.

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 within the Severn Trent Plc Annual Report and Accounts 2022/23.

This statement is subject to review by Deloitte, our external auditor. Their audit report is set out from page 137.

Assessment of viability

The Board has assessed the viability of the Company over a seven-year period to March 2030, taking into account the Company's current position and principal risks.

Based on that assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2030.

GOING CONCERN 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.

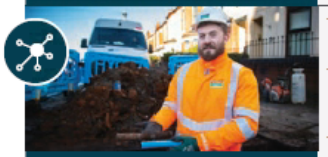
On this basis the Directors considered it appropriate to adopt the Going Concern basis in preparing the financial statements.

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 Statement ('s.172') on pages 95 to 97, which sets out our approach to s.172 and provides examples of decisions taken by the Board, including how stakeholder views and inputs have been considered in its decision making. The principles underpinning s.172 are not only considered at Board level, they are part of our culture. They are embedded in all that we do and impacts on stakeholders are considered in the business decisions we make across the Company, at all levels, and strengthened by our Board setting the right tone from the top. Pursuant to the Companies Act, this information is incorporated by cross reference in the Governance Report from page 100. You can also read more in our separately published Sustainability Report which can be found on our website. Our Engagement in Action section showcases some of the exciting opportunities we have had throughout the year to engage with our key stakeholders. We welcome any feedback from our stakeholders.

Stakeholder	How we engage at Board Level	How we engage across the Company	What matters to them	How we delivered on feedback this year	Outcomes from engagement	Link to KPIs
Our Customers In serving our customers, we want to provide strong service delivery over the long term. Our consultation with customers helped our Severn Trent Water Limited 2020-25 business plan to be fast-tracked by Ofwat and we have engaged with our customers in development of our PR24 business plan.	Customer perceptions of value for money reported to our Corporate Sustainability Committee. Our Board approved extensive customer engagement to shape our Strategy and business plan. – 'Your water, your say' event held in April 2023.	– Quarterly meetings with CCW at management level. – Frequent discussion and consultation with our online customer community. – Quarterly tracking of customer perceptions against key indicators including trust and satisfaction. – Online self-service options for customers and made it easier to check for and report problems through our 'Check My Area' app and 'Report a Problem' services. – Customers can contact us 24/7 including through two-way messaging functionality through SMS, WhatsApp, TapChat and Apple Business Chat channels.	– Customer service and performance – Leakage and supply reliability – Affordability and value for money – Assistance in times of need – Responsible investment – Environment, river quality and climate change	– Societal Strategy launched – 2022 Demand Reduction Campaign – New technology services – Good progress on our Affordability Strategy – First Get River Positive annual report on progress against our river pledges	– Hit or exceeded our targets on c.80% of our performance commitments, earning an outperformance of £53 million. – Supported 132,296 customers through our Big Difference Scheme this year. – 17,178 customers supported this year through our WaterSure scheme. – 7.7% of our customers signed up to our Priority Services Register.	– Value for money – Help to Pay When You Need It – Priority Services Register – C-MeX – D-MeX – CRI – Drinking water quality complaints – Supply interruptions – Leakage – Internal sewer flooding – External sewer flooding
Our Colleagues Our greatest asset is our experienced, diverse, and dedicated workforce. Our relationship with them is open and honest, and they are appropriately supported, developed and rewarded to encourage them to do their best in all that they do.	– A dedicated virtual employee engagement event, 'Ask Our Board', was held in May 2023. – The Chair, Non-Executive and Executive Directors attend Company Forum meetings and provide feedback at Board meetings. – Company Purpose and culture, talent development and our People Strategy are discussed at Board meetings. – The Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board. – The Board considers our employee engagement – QUEST – survey results and steps taken to address feedback.	– Employees are invited to attend the 'Ask Our Board' and 'Ask Liv' events. – In addition to Board attendance, our Company Forum brings together employee representatives at quarterly meetings, including Trade Union representatives. – Continual communication to employees on mental and physical health awareness. – Employees are invited to attend the all company roadshows held throughout the year.	– Health, Safety and Wellbeing – Diverse and inclusive workplace – Opportunities to reach full potential – Open and honest environment – Fair pay and reward	– Well-developed employee advisory groups – 2022 Leadership event – YuLife wellbeing app – Continued to narrow our gender pay gap – Improved all-employee benefits including discounted childcare and support for elderly dependants – Refreshed Strategy	– Our employee engagement survey score of 8.4 out of 10 ranked us in the top 5% of utility companies globally. – 16 LTIs compared to 19 in 2021/22, our best ever performance this year. – 5th on Social Mobility Index. – 23rd in Stonewall Workplace Equality Index. – 4th year in Bloomberg Gender Equality. Index with our highest ever score. – 14th on Equality in the Tortoise. Responsibility 100 Index. – 900 attendees at our Leadership event.	– Employee Engagement – Lost Time Incidents
Our Communities Our aim is to be a force for good in the communities we serve and, in doing so, create value for all our stakeholders.	– Employees who live and work in our communities 'meet' the Board at the Employee Forum, AGM, and site visits. – Employees who live and work in our communities could also engage with the Board through the employee engagement virtual event, 'Ask Our Board', held in May 2023. – Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings. – Environmental matters, including progress on our Get River Positive river pledges, are considered by the Board at every meeting.	– Our employability scheme inspires our people and makes a real difference to people's lives. – Regular engagement with Government officials and elected representatives on water and environment-related issues. – Our people volunteer, when safe to do so, through our Community Champions programme, working to improve our communities and environment. – Regular community workshops and drop-in sessions held across our region.	– Operational impact and disruption – Local employment – Economic contribution – Protection of the environment – Cost of living pressures	– Societal Strategy launched – Welcomed 263 new apprentices and graduates – Welcomed 5 new Hereford and Derwen College interns – Work experience opportunities – Employee volunteering days – Education sessions – New Care Leavers Scheme – Improved the biodiversity of 5,000 hectares of land, four years early	– Financial support was given to care leavers through our Big Difference Scheme. – Over £2 million awarded to 116 projects through our Community Fund this year. – 7,728 hectares of land improved during the year. – Over 340 'Kickstarters' across the business as part of our Kickstart Programme since its launch. – 71,259 hours delivered as part of our 100,000 employability hours scheme. – Over £270,000 donated to our Get River Positive Community Fund this year.	– Education programme – External sewer flooding – Public sewer flooding – Pollutions – Biodiversity

Stakeholder	How we engage at Board Level	How we engage across the Company	What matters to them	How we delivered on feedback this year	Outcomes from engagement
 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 research analysts have a strong understanding of our Strategy, performance, ambition and culture. Many of our shareholders are also customers, employees and pensioners.	– The Board approves the full and half-year results, Annual Report and Annual Performance Report. – The Board receives quarterly trading updates. – The Chair, Senior Independent Director ('SID'), Chief Executive, CFO and Non-Executive Directors attend investor meetings and feedback is reported to the Board. – The Head of Investor Relations gives an update to the Board on a regular basis and the Investor Relations Strategy is discussed by the Board. – The Chair attends the Capital Markets Day. – Regular meetings between Investor Relations and the Chair to discuss feedback from investors and strategy. – Annual Chair governance roadshow to meet with shareholders, hear views and answer questions.	– We have a comprehensive programme of investor engagement including investor site visits, so that shareholders can experience our operations and culture first hand. – Regular dialogue with shareholders to support them in their investments. – Q&A Sessions held with the Executive Committee bi-annually.	– Strategy and business model – Financial performance and returns – Reputation – ESG performance – Financial and climate-related risk management – Strong leadership – Company culture – Energy pricing risk management – Executive remuneration	– Disclosures under EU taxonomy – Delivery against our Get River Positive river pledges, Societal Strategy and Affordability Strategy	– £737 million invested this year in our capital programmes with 84% of capital prices agreed for the remainder of AMP7 – Investment into our Green Recovery Programme
 **Suppliers and Contractors** Along with our employees, our suppliers support us in delivering for our customers. Strong supplier relationships ensure sustainable, high-quality delivery for the benefit of all stakeholders.	– Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers. – Supplier representatives attend the Capital Markets Day and the Company Forum alongside Executive Directors and Non-Executive Directors. – Our Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain. – Board has oversight of our Supply Chain Charter and approval of our Modern Slavery Statement.	– 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.	– Fair engagement and payment terms – Collaboration – Responsible supply chain – Sustainable procurement – Reputation	– Net zero engagement with supply chain – AMP8 Supplier Engagement Event – Supply Chain Sustainability School	– 89 suppliers assessed through EcoVadis this year – CDP Supplier Engagement Leader 2022 – CIPS Procurement Excellence Standard Accreditation – 14.9 score by Sustainalytics (top 4% of utilities companies) – Ranked 12th in Tortoise Responsibility 100 Index – Carbon Disclosure Project Advanced Rating
 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.	– To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat during the year. – Regulatory matters are regularly considered by the Board, including business plans, the Water Resources Management Plan and Scheme of Wholesale Charges. – Regulatory stakeholders attend Board meetings, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA'), the Consumer Council for Water ('CCW') and Defra. – Regulatory consultation updates are considered by the Board.	– 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.	– Outcomes for customers, the environment and long-term resilience – Performance against regulatory targets – Trust and transparency – Governance and compliance – Environmental impact – Sustainable procurement	– Ensuring resilient supply chain – Sharing knowledge and expertise to find solutions and opportunities for innovation – Developing responsible business strategies and achieving continuous sustainable development – Meeting shared targets for growth and development	– December 2022 named by Ofwat in the top categories for both performance and expenditure for the second year running. – Highly confident of achieving EPA 4* status for the fourth consecutive year, a unique accolade in the sector. – Awarded London Stock Exchange's Green Economy mark.

OUR CUSTOMERS

We have a relentless focus on improving service delivery for customers. Our continuous engagement with them ensures that we are truly able to understand what matters to them and deliver further improvements in service.

Combining insights from our programme of engagement, the below section outlines issues of importance to our customers and signposts where you can read more about the steps we have taken to address them:

Customer priorities:

- Providing clean, safe drinking water and an affordable service, alongside supply reliability, customer education and protecting the environment.
- Environmental concerns: around seven in ten customers agree climate change is already having an impact and customers expect us to have plans in place to meet these challenges and prevent disruption to their service. Informed customers are willing to invest in resilience, climate change and protecting and improving the environment. However, in a less informed setting, customers are increasingly likely to prioritise low bills over PR24 investments.
- The increasing cost of living, with financial anxiety evident even amongst those who are not financially vulnerable. New categories of vulnerable customers are emerging, and whilst we are a leader in affordability support, we recognise there is more to do to increase awareness of these schemes and remove psychological barriers to seeking support.
- The majority of customers are satisfied with their water company and consider that the company has a good reputation. Customers want increasing honesty and transparency, and reassurance that we are focusing on, and investing sufficiently in, those areas in which we are performing less well. Customers welcome more information about how the way we are funded, investment and how customers' interests are protected by regulators.

Understanding and supporting customers' diverse needs

We greatly value customer insights and have a programme of continuous customer research to monitor and understand customer views and perceptions. We conduct customer surveys and a six-monthly social barometer survey exploring customers' societal concerns and their priorities for the future. In addition, we use TapChat, an online research panel of around 7,000 customers, to undertake regular ad hoc surveys, discussions and communications tests. As part of our research, we also commission ad hoc quantitative and qualitative research, including that specifically for price reviews. Our PR24 research comprises a mix of surveys, focus groups, deliberative workshops and in-depth interviews. This includes research with those in vulnerable circumstances and those without internet access. This research is focused on answering the following questions:

- What are our customers' needs and priorities?
- How can we ensure that our service is affordable and accessible for everyone?
- How, where and when should we invest to meet customers' and communities' long-term needs?
- What value do customers place on service improvements?
- Is our plan acceptable and affordable?

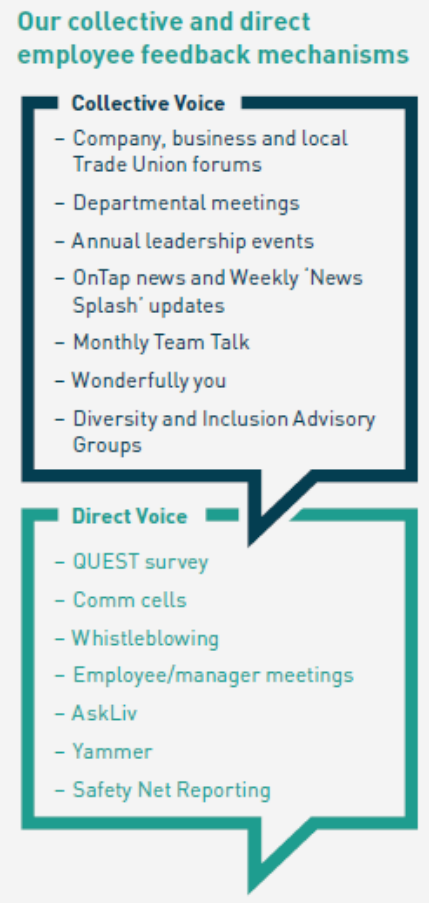
Understanding customers' views In April 2023, we hosted our first 'Your water, your say' session, allowing our customers and other stakeholders to pose questions about issues that are important to them, including priorities for the future, in a public environment.

We were delighted to have over 100 attendees, including customers, regional stakeholders, other water companies, Expert Challenge Panel members and our regulators, join us virtually for the event. You can read more about the outcomes of the session on our website.

OUR COLLEAGUES

We are immensely proud of our culture; it is something we work on every day and is demonstrated by every colleague across the business. We reinforce our culture through the initiatives and interventions that we put in place as a company.

Employee voice means different things to different people and, as such, multiple initiatives are needed to achieve effective outcomes. We have a combination of collective and direct employee feedback mechanisms that focus on two-way inclusive dialogue across the business. All of these communication and engagement mechanisms are well established, well utilised and cover the full breadth of the organisation.



Engagement with our Company Forum

Providing opportunities for our employees to stay connected to the direction of the Company and be involved in business decisions is a key part of our culture. Our Company Forum facilitates this in a structured way. According to a recent survey by Tortoise, we are one of only 38% of organisations in the FTSE100 who have this in place.

The Company Forum meets four times a year and attendees are invited from Trade Unions, all leadership levels, the Executive Committee and Board. Through this Forum, we engage with employees on all ways of working. It is jointly chaired by the Director of Customer Operations and the Joint Secretaries of our two main Trade Unions (Unison and GMB). Board Directors are invited to attend and participate at meetings and, over the last twelve months, Christine Hodgson, Sharmila Nebhrajani, Gillian Sheldon and John Coghlan, as well as Liv Garfield, have attended meetings, to listen to the discussions and to talk about their areas of responsibility and interests.

The agenda is wide-ranging and topics for discussion this year have included working time and fatigue, an overview of the occupational health contract tender and ongoing dialogue on company-wide initiatives such as our Societal Strategy, diversity and inclusion, and new talent. There are also regular updates on company performance, year end results, and all large change programmes.

The Company Forum consistently feeds back on the value it gets from Board member attendance and the Trade Union national officers highlight how different this is to the experience that they have in other organisations.

Engagement with Business Forums and Local Forums

In order to reach all parts of the business and tailor conversations relevant to those areas, we hold local forums chaired by area business leaders to discuss performance, health and safety, successes and areas of concern. To act as a bridge between the Company Forum and Local Forums, there are Operational and Customer Business Forums. They meet to discuss business updates and to resolve matters that cannot be solved at a local level.

There is also a separate Health and Safety Company Forum and Severn Trent Services has its own non-unionised employee forum. Engagement with all employees Creating, developing and growing the right communication and engagement channels for our employees is kept under continual review.

Some forms of communication, such as line manager relationships, are well established; however, we continue to run regular line manager training, especially for new managers, as we recognise the crucial role that manager behaviours, in particular visibility and trust, play in encouraging an active employee voice. Likewise, the approach and format of local team meetings is an important factor in creating an open dialogue with the team. The monthly Team Talks encourage this discussion and provide consistency and structure as part of a wider team agenda.

Yammer is well used across the business, particularly in operational areas, allowing employees to showcase work and start discussions on work-related topics. AskLiv provides a route for individuals to raise questions to the CEO and Senior Management Team that colleagues are unable to find an answer to elsewhere. The encouragement of open dialogue is complemented by top-down communications in the form of the OnTap intranet news and the Weekly 'News Splash' magazine-style round-up of key news articles.

All employee engagement events

We know that coming together and taking time to connect to our Strategy and ambitions is important to our colleagues, and drives engagement and curiosity amongst our teams. We take pride in delivering engaging collaborative leadership events year on year, bringing our leaders together to build networks and make links to our performance opportunities.

In September 2022, we held our leadership events at Tittesworth Water, with over 900 attendees from across the business. Sessions focused on PR24, the launch of our Societal Strategy and the promotion of our Company benefits offering. The event was hugely engaging, with over 95% of colleagues saying that it was a positive use of their time, and that they were confident of being able to communicate the messages to their teams. To ensure that the messages reached across the whole organisation, a cascade 'Team Talk' pack was provided for managers to use with their employees.

We also hold Long Service Awards and annual 'Awesome Awards' to celebrate individual and team achievements.

Ask HR Roadshows

During the year, our Ask HR Roadshows visited and attended multiple sites and team meetings to help our colleagues get their questions answered in a more convenient way which can often help resolve their queries quicker. The sessions allow us to listen and give employees and teams an opportunity to air any issues or concerns they have while building deeper relationships across sites.

Doing the Right Thing ('DTRT') and our 'Speak Up' approach

It is important that our colleagues have the right processes in place to raise concerns should they need to. Whistleblowing procedures are in place for all Severn Trent Water Group companies to deal with any allegations of breaches of DTRT.

We remain committed to providing an open and transparent 'Speak Up' environment to foster a culture where employees have the confidence to speak out about issues that concern them. All employees have access to independent psychological support and legal advice through our Employee Assistant Programme, and we regularly communicate and increase awareness of all whistleblowing routes, including our confidential Safecall 'Speak Up' line.

QUEST engagement survey

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

We were delighted that our employee engagement score achieved 8.4 out of 10 this year, placing us in the top 5% of utility companies globally. As important as the range of opportunities provided is how our colleagues feel about them. We continue to ask colleagues questions relating to their feelings about learning, careers and growth at Severn Trent. We are really pleased that all topics scored above benchmark, recognising our delivery and focus in these areas.

On career paths, employees scored the question, 'I see a path for me to advance my career in our organisation' as 7.8 out of 10, 1.3 above benchmark. When asked whether their job enables colleagues to develop and learn new skills, 8.4 agreed. It is truly lovely to see how our teams feel supported in their development and see pathways to develop and progress.

It is equally important to colleagues that we are able to respond to what they tell us. The below section offers an example of how we responded to feedback during the year.

QUEST in action – collaboration spaces

Collaboration space and environment were identified as key topics of focus by our employees this year. Following an in-depth assessment, we identified that the primary feedback was around collaboration space and technology.

With the return to office environments following COVID-19, many colleagues told us they felt frustrated with the lack of physical spaces and technology available for meetings and collaboration. And some, colleagues felt that improvements could be made to the technology available to facilitate continued use of online meetings.

QUEST performance

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

"It would be great to have more spaces for conversations and collaboration when working in the office."

"How can we prevent rooms being booked and not ultimately used?"

"Technology could be provided in all meetings rooms, including small single office spaces."

"I would like to see more meeting spaces available, outside of ordinary meeting rooms, for more informal discussions."

How we responded

Following publication of the QUEST results, we immediately constituted a dedicated workstream to review our working environments on our sites and were able to address the issues raised, including:

- a communication campaign to all colleagues promoting better meeting room etiquette;
- building multiple breakout areas at sites with meeting pods;
- significant investment in meeting room technology; and
- an upgraded meeting room system to automatically reject no-shows to give back availability of rooms.

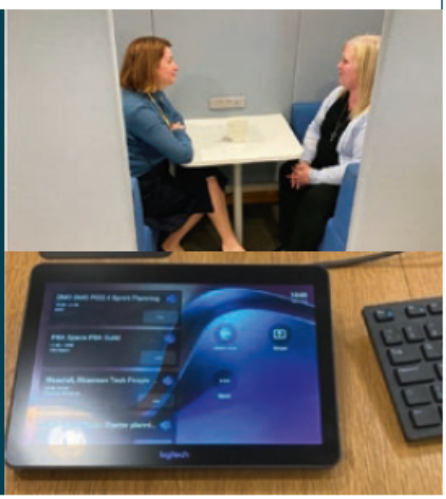
Outcomes

We were delighted that our QUEST scores this year showed a marked improvement we appreciate there is still more to be done in this space. We are pleased at the feedback we are receiving from colleagues:

"This has improved since introducing two additional breakout spaces within the office."

"Plenty of room, especially since the seating areas have been enhanced."

"There are always spaces available to have conversations or meetings."



OUR COMMUNITIES

We work hard to make our water wonderful and keep our millions of customers 'on tap' every day. But there is more to Severn Trent than that. We think it is important to give back to the communities where our customers and people live. Not because we have to, but because we think we should. Whether that means caring for the environment, supporting the next generation, or just making our region a better place to live, we want to make a positive difference in our communities.

Findings new ways of working and working in partnerships

Our partnerships, such as local authorities, regulators, charities, community groups and schools, are fundamental to how we are increasing our support to our customers.

We have written to the Chief Executive of every local authority in our region to offer help with identifying households that might need support, building on the work we have been doing with several local authorities in our area to help them allocate the funding available from central Government through the Household Support Fund, allocating some to ease water bills. Through our work with local authorities, we have also secured additional grants being paid directly to customers.

We have been working with Coventry City Council and Birmingham City Council to help transition households identified as financially struggling onto one of our financial support schemes. As part of our programme of partnership working, in September 2022 we partnered with Nottingham City Council to bring together advice and support agencies for customers including St. Ann's Advice Centre (debt advice), Green Doctor (energy efficiency experts) and Nottinghamshire Energy Partnership (delivering projects that tackle fuel poverty).

At the same time, we have been working with the Department for Work and Pensions to proactively identify customers in need and, where possible, move customers directly onto one of our support schemes. We regularly visit foodbanks, community centres and outreach centres to raise awareness of the support we provide and to engage with vulnerable customers. We are monitoring the 'Warm Hubs' initiative as another potential venue for engaging with customers and those struggling financially. This enables us to engage with hard-to-reach customers, including family and friends of those who most need help. We assist customers in the completion of applications for our financial support schemes.

We announced our Societal Strategy in November 2022, which is similarly built on long-term collaboration with local authorities, community groups and schools. In the first implementation area of East Birmingham, we have aligned our strategy with the local authority's East Birmingham Inclusive Growth Strategy. We are already working with 26 partners, mostly charities and community groups, on delivering 10,000 hours of free employability training in communities. We are also working with schools to provide work experience to 300 young people every year, rising to 500 by 2032, in social mobility cold spots. We will also work with other organisations to understand and remove the barriers that could prevent children undertaking work experience, such as affordability and transport.

Severn Trent creates 100 new Water Saving Champions

In September 2022, we recruited 100 new temporary Community Water Saving Champions across Leicestershire and Derbyshire to help make homes water efficient. Our new Champions are all making a positive difference in local communities at pop-up events and by talking to customers in their neighbourhoods, helping to advise people on how to save money by reducing water consumption, which can in turn help reduce water and energy bills. Our Champions will also provide information on our support schemes that customers can access if they are struggling to pay their bill, as well as free products that will help reduce water use.

Uniting to cut carbon by 1 million tonnes per year

In September 2022, we announced our pioneering global partnership with Aarhus Vand (Denmark) and Melbourne Water (Australia) to work together to reduce our carbon emissions by around a million tonnes every year and to lead the green transformation of the sector.

Through this world-leading collaboration, we will build upon our collective experience, expertise and innovation capabilities on key projects such as:

- transforming our Strongford sewage treatment facility into a Net Zero hub;
- developing new techniques and international standards to measure and record nitrous oxide and methane releases from waste water treatment sites;
- identifying ways to enhance waste water treatment sites with green technology while reducing emissions to net zero; and
- maximising the use of renewable, sustainable resources at treatment facilities.

Suppliers and Contractors

Our investment plans for AMP7 and AMP8 will require a resilient and highly engaged supply chain. Supplier engagement is essential to our plans and promotes a shared culture of trust to share knowledge and expertise to find the right solutions for our customers, ensure continuous sustainable development and develop responsible business strategies. Our enduring relationships with our suppliers help us to reduce the risks we face as a business, for the benefit of our wider stakeholders, particularly our customers and communities.

Supplier engagement is integral to our success

We deliver this through our partnership with the Supply Chain School, in-person Supplier Summits, supplier onboarding events, one-to-one engagement, training events and dedicated supplier communications. Through these channels, we make sure that what we, and our customers, expect is relevant and appropriate to the suppliers' activities and their environmental and social impact.

AMP8 Supply Chain Engagement Day

We have an array of hugely exciting projects and AMP8 schemes aimed at improving our network and service and, more importantly build resilience to protect and enhance the water supply for our region, both now and in the future. A key factor of success is working collaboratively and creatively with our supply chain to deliver new solutions to overcome the challenges. So we have been engaging with our capital supply chain early.

On 10 March 2023, we brought together over 80 of our suppliers, sharing with them our ambitions and priorities for AMP8 and where they can play a part in delivering our shared successes. The agenda for the day included future challenges and innovation (including energy prices, climate change and ffordability), early visibility of our AMP8 investment programme and how early engagement can help us identify new ways of working and create a strong foundation upon which new opportunities and collective success can be realised. The event was a brilliant success and received overwhelmingly positive feedback from suppliers.

Engaging on modern slavery

Collaboration is key to identifying and addressing modern slavery, so we actively engage with other organisations to gain insight and maintain best practice. We entered our second three-year partnership with Slave-Free Alliance in 2021, which has been instrumental in our approach and in the progress we have made in identifying and mitigating modern slavery risk. We continue to sit on the Steering Group of Utilities Against Slavery, formerly known as the Utilities Modern Slavery Working Group. The working group continues to grow, with over 24 utilities organisations actively participating. In 2021, we also partnered with the Supply Chain Sustainability School, which provides access to a wide range of learning resources, including dedicated modern slavery awareness training for all organisations within the Severn Trent Water Group's supply chain.

Having outperformed our ambition to ensure 60% of our high-impact suppliers were risk assessed for modern slavery, we decided to evolve our approach in view of the Ukraine conflict, cost of living crisis and labour shortages being observed within the construction sector, issues that directly increase the risk of modern slavery occurrence in our supply chain. In collaboration with our strategic partner, the Slave-Free Alliance, we enhanced our supplier selection questions in line with the utilities sector, conducted a heat mapping exercise to confirm our greatest areas of risk and engaged with contract owners to develop bespoke assessments where required.

Engaging with suppliers to take positive action

Working closely with our supply chain partners is critical to the delivery of our sustainability ambitions, and we are committed to building supplier capability through engagement, training and our partnership with the Supply Chain Sustainability School to support them.

Our 2022/23 highlights include:

- 100% of contracted suppliers signing up to our Sustainable Supply Chain Charter;
- 89 suppliers having been assessed through EcoVadis, an independent rating platform which assesses suppliers based on their environmental and social impact performance;
- being awarded CDP Supplier Engagement Leader for the second year running;
- 44% of high impact suppliers, having set a Science-Based Target for 2022/23; and
- all applicable suppliers and their subcontractors to pay the real Living Wage as a minimum.

Regulators and Government

Our relationships with the Government, our regulators, and other agencies support us in ensuring that we meet the highest customer service and environmental standards, while providing value for money services to customers.

Highlights of our engagement activities during the year

2022

April
- Mansfield Green Recovery Project Tour with MP for Bromsgrove showcasing one of our 72 Tiny Forests

June
- Tour of miners rescue centre in Wrexham supported by the Community Fund with MP for North Wales region
- Tour of Mansfield Green Recovery Project with the National Infrastructure Commission
- Tour of Church Wilne waste water treatment works and Green Recovery Programme with Ofwat Chair – hosted by Liv Garfield

September
- Site visit and overview of Green Recovery projects, including Bathing Rivers scheme and an overview of our River Rangers roles with the Environment Agency – hosted by James Jesic

November
- Showcase on local investment and Green Recovery Programme with MP for Coventry North West and MP for Rugby

2023

April
- Board hosted visit to Mansfield to showcase our work on green recovery with the Chair of the Environment Agency

May
- Mansfield Green Recovery Project Tour with the Environment Agency – hosted by Liv Garfield
- Stakeholder Roadshow with MP for Mansfield – hosted by Liv Garfield
- Green Recovery Project Site Visit and lead pipe replacement programme with Ofwat

July
- Tour of Bamford waste water treatment works and Mansfield with Ofwat
- Tour of the Severn Trent Academy and Finham Sewage Treatment Works with The Office for Environmental Protection
- Stakeholder Roadshow to showcase our work in the community, river pledges and Green Recovery Programme with the MP for Ludlow – hosted by Liv Garfield

October
- Stakeholder Roadshow to showcase our work in the community, river pledges and Green Recovery Programme with the MPs for Coventry – hosted by Liv Garfield
- Water Efficiency Policy discussion with MP for Tewkesbury

February
- River water quality discussions with MP for Derby North

Section 172 Statement

Stakeholder engagement is central to the formulation and execution of our Strategy and is critical in achieving long term sustainable success. The needs of our different stakeholders, as well as the consequences of any decision in the long term, are well considered by the Board.

It is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions based on balancing the competing priorities of stakeholders. Our stakeholder engagement processes enable our Board to understand what matters to stakeholders and consider carefully all the relevant factors to select the course of action that best leads to high standards of business conduct and success of Severn Trent in the long term. The principles underpinning s.172 are not only considered at Board level, they are part of our culture. They are embedded in all that we do as a company.

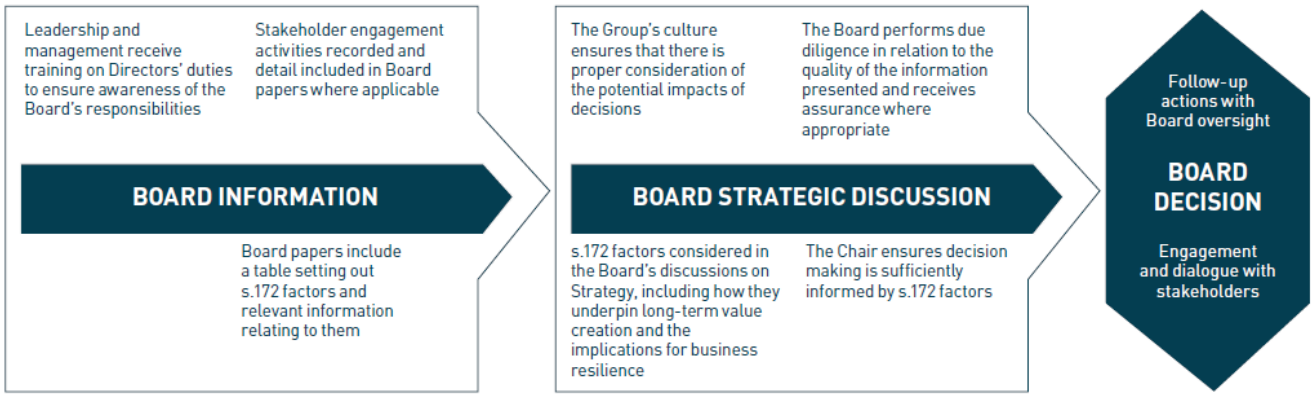
The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top. All of the Board's significant decisions are subject to a s.172 evaluation to identify the likely consequences of any decision in the long term and the impact of the decision on our stakeholders.

In performing their duties during 2022/23, the Directors have had regard to the matters set out in s.172 of the Companies Act 2006.

S.172 factor					
The likely consequences of any decision in the long term	**The interests of the Company's employees**	**The need to foster business relationships with suppliers, customers and others**	**The impact of the Company's operations on the community and the environment**	**The desirability of the Company maintaining a reputation for high standards of business conduct**	**The need to act fairly as between members of the Company**
Page 4 to 5 – Corporate Strategy Page 6 to 7 – Our Business Model Page 19 to 42 – Performance Review Page 43 to 49 –Sustainability	Page 4 to 5 – Corporate Strategy Page 19 to 42 – Performance Review Page 22 to 33 – Caring for Our People Page 31 to 35 – Diversity and Inclusion Page 81 to 83 – Employee Engagement Page 82 – Whistleblowing Page 99 – Company Culture	Page 4 to 5 – Corporate Strategy Page 40 – Responsible Payment Practices Page 19 to 42 – Performance Review Page 85 – Modern Slavery Page 43 to 49 – Sustainability Page 6 to 7 – Our Business Model Page 82 – Whistleblowing	Page 4 to 5 – Corporate Strategy Page 43 to 49 Sustainability Sustainability Report available at our website.	Page 4 to 5 – Corporate Strategy Page 8 to 9 – Market and Industry Overview Page 82 – Whistleblowing Page 132– Internal Controls and Risk management Page 43 to 49 – Sustainability	Page 4 to 5 – Corporate Strategy Page 78 to 87 – Stakeholder Engagement Page 43 to 49 – Sustainability

Principal decisions in 2022/23

The principal decisions taken by the Board in the year are detailed in the Governance Report. Our approach below sets out how the Board is supported in carefully considering all the relevant factors that lead to its selection of the best course of action to ensure the long-term success of the Company:



Engagement with stakeholders

The Board recognises that stakeholder engagement is essential to understand what matters most to our stakeholders and the likely impact of any key decisions. We have a long history of engaging with all of our stakeholders and the Board values the insight that this engagement provides. Details of how we engaged with our stakeholders during the year can be found within our Stakeholder Engagement section.

Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other s.172 considerations, have been taken into account in its decision making are set out below.

<u>Societal Strategy</u>

Context

We have a range of measures in place to help support customers who are experiencing affordability pressures. The pandemic and recent geopolitical events in Ukraine have exacerbated affordability and cost of living pressures. Inflation is now the highest it has been since 1992 and households are seeing significant price rises, notably for electricity, gas, food and petrol. As a result, many more households now find themselves in water poverty.

As a socially responsible company that genuinely cares about its customers and the communities it serves, the Company launched its Societal Strategy in November 2022, which focuses on the underlying causes of water poverty to address the drivers of long-term affordability issues and contribute to the wider levelling-up agenda given the overlap between water poverty and income poverty. The Board developed the Societal Strategy with the objective of addressing affordability in the immediate term and proposing a multi-AMP strategy to eradicate water poverty in our region by improving the life chances of people in our communities.

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

Customers:

The Board considered the Company's Societal Strategy in view of its existing commitment to keep absolute bills as low as possible for all customers whilst also delivering improved resilience, sustainability and strong service delivery, by ensuring that every pound is spent wisely and efficiently.

Potential impacts to customer bills were central to Board discussions and, as such, the Societal strategy was structured so as not to increase costs to any non-water-poor customers above the level assumed in the Company's Final Determination.

Following careful analysis, the Board determined that the Societal Strategy would provide both immediate support to customers experiencing affordability pressures and help address the underlying causes of poverty for the long term.

To inform its approach, the Board engaged a research agency to carry out the Company's largest-ever, in-depth survey of stakeholder and customer views on affordability. The research was designed to include in-depth interviews, surveys, focus groups, follow-up interviews and deliberative workshops to make sure the Company, and the Board, thoroughly understood the needs of its customers prior to finalising its plans.

Communities:

Notwithstanding the Company's Affordability Strategy announced in May 2022, the Board acknowledged that more needed to be done to address the long-term drivers that perpetuate poverty in our society. Therefore, the Board determined that the Societal Strategy should be developed to complement the Company's extensive work on affordability with an equally ambitious approach to water poverty. By pulling together the Company's socially directed programmes into a clearer framework, the Board recognised that it would make it easier for communities to access the support they need.

As part of this, the Board agreed to increase the proportion of Community Fund grants going into training and skills outreach, targeting a combined allocation of £1 million by 2030 with the ambition of helping 100,000 people, in or at risk of water poverty, through access to high-quality careers and employment-related training. Careers and employability skills were determined to be the most appropriate route as they impact three of the main drivers of poverty: unemployment, low pay, and insufficient working hours.

The Company engaged with key stakeholders, including Ofwat, CCW, shareholders, local communities, Business In The Community, Birmingham City Council and Solihull Council, MPs, and schools, to listen to and understand their views and the challenges they face.

Suppliers and Contractors:

The Board recognised that the Company could have a greater and faster impact by engaging with the supply chain, building relationships with partners across a multitude of sectors, and utilising our influence to encourage and lobby for regional and national change.

As part of this approach, the Company engaged its Supply Chain and Procurement Teams to encourage and challenge our largest suppliers to join us on this journey, asking them to match our ambitions on apprenticeships, recruitment, and work experience, as well as on real Living Wage, fairness and inclusion.

Regulators and Government:

The Board has a strong track record of engaging with its regulators. Alongside our extensive support for our customers and communities, the Board engaged with CCW and Ofwat's initiatives on affordability, including the recommendations of CCW's Independent Water Affordability Review. These stakeholders have indicated their support of the Societal Strategy, as have local Government and MPs.

Employees:

Our annual engagement survey, QUEST, tells us that our colleagues are the most engaged they have ever been. They are motivated by this programme of work, which will make a positive impact in the communities that they serve and live and work in. Our people will also have the opportunity to volunteer as mentors to support the delivery of our Societal Strategy.

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

Our Societal Strategy will provide support for the most financially vulnerable customers in our region, through supporting an additional 100,000 of our customers and equip them with the skills and experiences to help lift them out of water poverty, at no increase in costs above those assumed in our Final Determination to our non-water-poor customers.

Corporate Strategy – Performance Driven, Sustainability Led

Context

During the year, the Board considered its Corporate Strategy, with the objective of ensuring that it reflected the business that we are today, while clearly outlining the ambitions we have for the future. The Board discussed the global context the business operates within, and the challenges faced to maintain its success as a sector-leading Company.

The Board discussed the need to be a performance driven, sustainability led organisation and the desire to deliver financial and operational outperformance in balance with the long-term needs of the environment and the customers and communities the Company serves. Using this insight, we defined four key pillars that describe the strategic outcomes we seek to aim for:

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

Customers:

The Board determined that the Company's Corporate Strategy should focus on service delivery for customers, including providing safe and consistently high-quality drinking water to customers, ensuring that supply interruption and low-pressure events are well managed and ensuring that bills remain affordable and represent good value for customers. The Board also considered that the Corporate Strategy should facilitate a continued high-quality customer experience both now and over time, in consideration of long-term water scarcity and climate change, and future customer demand.

Employees:

The Board considered that the Corporate Strategy would also provide clarity to employees on its strategic priorities, which would inspire their contribution to the Company's future success and drive transformational change programmes to support improved service delivery for customers and the environment. The Corporate Strategy also provided clarity on the skills and capabilities required to deliver the Company's priorities and increased employee engagement at all levels of the organisation, through demonstrating opportunities to give back to the communities in which we serve and reinforce the Company's socially purposeful culture.

Environment and our Communities:

The Board considered the vital role of nature and the natural environment for the Severn Trent Water Group, including its ability to supply and treat water in a way that is sustainable for the long term. The Board reviewed the appropriateness of the Corporate Strategy in supporting the continued protection and improvement of our region's natural environment, and the creation of new community resources – through supporting local community projects, giving support to vulnerable and disadvantaged members of society and, crucially, increasing the availability of jobs and training opportunities.

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

Successful execution of the Company's Corporate Strategy will deliver long-term sustainable success through delivering the Company's sustainability aims, increasing profitability, value growth and enhanced reputation. In setting the Company's Corporate Strategy, the Board critically assessed business performance and the future direction of the Company, and identified areas where additional value could be generated for its stakeholders.

Chief Financial Officer Succession

Context

A key focus of the Board and Severn Trent Plc Nominations Committee is Board succession and composition, to ensure the appropriate balance of skills, independence, experience and diversity on the Board and Executive Committee. Succession planning allows the Board to undertake the necessary preparations to manage changes without disruption to the business and ensure continuity through effective handover processes.

In February 2023, the Board announced the retirement of James Bowling as Executive Director and CFO at the Severn Trent Plc Annual General Meeting on 6 July 2023. The Chair and CEO led the process to identify suitable candidates for the role and an executive search firm was engaged as part of the recruitment process. It was announced that Helen Miles, Capital and Commercial Services Director, would be appointed as an Executive Director and CFO Designate with effect from 1 April 2023.

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

Communities:

The Board recognised the importance of considering the Board Diversity Policy whilst considering candidates for appointment and aligning with the diversity of our region, specifically in respect of gender, social and ethnic backgrounds, skills and experience.

Shareholders and Investors:

A key success of the Company has been its delivery of an effective financing strategy to position Severn Trent as a leader on financing performance. The CFO successor would need to demonstrate the same commitment and acumen to ensure continued high performance and return for shareholders and investors. As a highly experienced and commercial CFO, possessing strong finance and regulatory accounting experience, the Board determined that Helen was the best candidate for the role.

Employees:

The Board recognised that the appointment of an internal candidate would demonstrate the Company's commitment to the development, upskilling and reskilling of its employees, and the priority it places on its internal succession pipeline.

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

The Board approved Helen's appointment, given her highly experienced and commercial background and detailed understanding of the water sector, with a proven track record of exceptional delivery. Helen also has an extensive knowledge of the Company and its culture, and an in-depth understanding of the regulated sector in which the Company operates.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

This section of the Strategic Report constitutes the Non-Financial and Sustainability Information Statement, produced to comply with sections 414SA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference.

Reporting Requirement	Policies and standards which govern our approach	Additional information and risk management
Stakeholders	– Our customers are at the heart of everything we do and our **Customer Policy** outlines how our people are responsible in ensuring we keep our promises to our customers and deliver great customer service. – Our **Group Data Protection Policy** supports our people in taking responsibility for protecting our employee and customer data whilst considering and implementing the commitments made within the policy when performing their work and making decisions. – Our **Group Commercial Policy** outlines what is expected of all those involved in procurement activities, enabling them to uphold our Values of acting with integrity and putting our customers first. Complying with this Policy enables employees to maintain proper standards of fairness and integrity in business relationships with colleagues and suppliers.	Stakeholder Engagement, pages 78 to 87 s.172 Statement, pages 88 to 92 Board Activities, pages 112 to 114
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.	TCFD and Net Zero Transition Plan, Severn Trent Plc Annual Report and Accounts Sustainability Report, www.severntrent.co.uk TCFD Report – Severn Trent Plc Annual Report and Accounts Stakeholder Engagement, pages 78 to 87 s.172 Statement, pages 88 to 92
Employees	– Our **Group Health, Safety and Wellbeing Policy** outlines what is expected of employees as regards health, safety and wellbeing, ensuring that no one gets hurt or made unwell by what we do. This policy extends to anyone employed by, or who carries out work on behalf of, Severn Trent Plc and its Group companies, contractors, temporary staff and agency workers. – **Group Speak Up Policy** – We truly believe that our Values are an essential and vital part of the life and culture of Severn Trent, and that's why we take seriously any reports about illegal practices or inappropriate conducts within our Company. We hold ourselves to the highest ethical standards and encourage our colleagues to Speak Up if they are worried about wrongdoing affecting our Company, customers, colleagues or suppliers. – **Our Group HR Policy** outlines our commitment to maintaining a work culture that is diverse and inclusive, that's supportive and nurturing, and which	Caring for our people, pages 22 to 33 Stakeholder Engagement, pages 78 to 87 Gender and Ethnicity pay gap, page 34 Culture, pages 99 Governance Report, from page 96 Directors' Remuneration Report, pages 126 to 130

	makes the most of everyone's growth potential. We'll also protect the human rights of all of our colleagues.	
Respect for Human Rights	**– Anti-Slavery and Human Trafficking Statement** **– Diversity within our workforce**	Anti-Slavery and Human Trafficking, page 85 Governance Report, from page 96 Corporate Sustainability Committee Report – Severn Trent Plc Annual Report and Accounts
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 antibribery and anti-fraud laws, which includes improper payments, gifts or inducements of any kind to and from persons, including officials in private or public office, customers and suppliers. This policy also covers our approach to inside information, political donations, conflicts of interest, gifts and hospitality and continuous disclosure. – Our **Group Conflicts of Interest Policy** provides guidance around managing conflicts of interests arising from obligations pursuant to the Companies Act 2006, the 2018 UK Corporate Governance Code and associated rules and guidance issued by the FCA. – Our **Group Security Policy** aims to minimise the likelihood of a threat being realised through the use of appropriate security solutions that reduce the impact of these threats through the deployment of robust response and recovery measures. – **Group Competition and Competitive Information Policy** – Competition law applies to all parts of our Company, and we take our position within the market, and our compliance with competition and antitrust laws, seriously. It is not enough just to comply with the law. In everything we do, we strive to do it with openness, fairness and honesty, which is supported by our Values and the stringent rules we have in place.	Governance Report, from page 96
Social Matters	– **Doing the Right Thing, our Code of Conduct**, helps us put our Values into practice. Our Values and Code of Conduct embody the principles by which the Group operates and provide a consistent framework for responsible business practices. – **Group Environment Policy** **– Customer Policy**	TCFD and Net Zero Transition Plan, Severn Trent Plc Annual Report and Accounts Corporate Sustainability Committee Report, Severn Trent Plc Annual Report and Accounts Directors' Report, pages 131 to 134 Sustainability Report, www.severntrent.co.uk Stakeholder Engagement, pages 78 to 87
Description of Principal Risks and Impact of Business Activity		Our Approach to Risk, from page 59 Principal Risks, from pages 63 Emerging Risks, from page 68 Our Business Model, pages 6 and 7

Description of the Business Model		Our Business Model, pages 6 and 7
Non-Financial Key Performance Indicators		Strategic Report, page 3 to 95 Performance Review pages 19 to 42

The policies mentioned above form part of Severn Trent's Group policies, which act as the strategic link between our Purpose and Values and how we manage our day-to-day business. During the year, the Board determined that the policies remain appropriate, are consistent with the Company's Values and support its long-term sustainable success.

Approval

This Strategic Report was approved by the Board.

By order of the Board.

Hannah Woodall-Pagan

Company Secretary

12 July 2023

CHAIR'S INTRODUCTION TO GOVERNANCE

The last year has seen an increasing number of challenges impacting our sector, our business and our customers. The consequences of ongoing geopolitical events, significant increases in energy costs and rising inflation and interest rates are set to continue to impact companies and communities for some time. We are positioned well to manage these impacts, and the Board and Executive Committee are confident that the Company's adaptability and agility will ensure we can respond to circumstances as they arise, and continue to deliver for our customers and communities at a time when they need us most.

As outlined in my Chair's Statement, the last 18 months have been some of the most challenging in our history and many of those challenges continue – with high inflation driving increases in energy costs for customers and companies alike, and the continued impact of geopolitical events. Despite these challenges, we have delivered robust operational and resilient financial performance for our customers and wider stakeholders. This success depends on our commitment to exceptional corporate governance standards, which underpin the confident delivery of everything we do. It drives ethical behaviours, informs sound decision making, enables the effective running of our business and, ultimately, builds trust. The Board is fully committed to open and transparent reporting, and I hope that this is evident in our Annual Report this year.

I referred to the Board's review of our Corporate Strategy in my Chair's Statement, to reflect where the business is today and outline the ambitions we have for tomorrow. In line with our robust governance framework, the Board will oversee the delivery of this Strategy and hold management to account, in order to maintain the Company's success in the period ahead.

Evolution of the Board and Executive Team

Succession planning is a key area of focus for the Board and, during the year, we announced a number of significant changes to the composition of our Board, following the retirement of Philip Remnant, former Chair of the Remuneration Committee, in November. I would like to thank Philip for his dedication and significant and impactful contributions to the Board and Committee discussions. Sharmila Nebhrajani has taken on the role of the Severn Trent Plc Remuneration Committee Chair and, as such, will introduce her first Directors' Remuneration Report to shareholders this year. I am delighted that Sarah Legg joined the Board as an Independent Non-Executive Director during the year. Sarah brings significant financial and sustainability experience to the Board and I look forward to working with her over the coming years.

During the year, the Company also announced the planned retirement of James Bowling, our Chief Financial Officer of eight years, and Bronagh Kennedy, our Group General Counsel and Company Secretary of nearly twelve years. The Board was delighted that, following rigorous internal and external search and selection processes, the appointments in relation to both these roles, and the subsequent opportunities created on the Executive Committee, were largely made from talent within our business. This helps us promote the incredible knowledge and experience that has been developed. We are confident that this will contribute to the Company's continued success over the coming years. It also provided the opportunity to recruit an excellent Partner from Pinsent Masons, Didar Dhillon, bringing broad experience and a fresh perspective to the Executive Committee. Further detail regarding the changes made to our Board and Executive Committee can be found in the Severn Trent Plc Nominations Committee Report within the 2-2022/23 Severn Trent Plc Annual Report and Accounts.

Listening and responding to our stakeholders

The Board values feedback from our stakeholders and places significant importance on maintaining close relationships with them and responding to their views. We pride ourselves on listening and reflecting, before then taking action. Decisions are never taken in isolation; rather they are fully discussed and therefore the Board welcomes input from all who can add value to those conversations. Further details of how the Board has considered the views and balanced the interests of stakeholders is set out in our Section 172 Statement. As a Board, we want our stakeholders to hold us to account and therefore need to ensure that they have appropriate access to the facts on a range of topics so they can form a balanced opinion. A good example of this is our river pledges, which were developed through listening to our customers, local communities and campaign groups – who told us how important river quality is to them. The

Board shares their passion that our region's rivers should be the healthiest they can be, and we therefore developed our river pledges aimed at protecting and revitalising rivers in our region.

I am pleased that our commitment to 'Get River Positive' has now been embraced by others, driving improvements across the sector. You can read about our progress against each of the five river pledges on pages 26 to 27 and in our dedicated Get River Positive Annual Report, which is published on our website.

We have also responded to stakeholder feedback in respect of remuneration, and the way in which it is linked to performance and particularly in areas that are most important to customers, such as the environment. In response to this, in 2022 we linked the river pledges to our remuneration structures, through introducing some of the measures into our Annual Bonus Scheme – with 8% of every employee's bonus aligned to their achievement in 2022/23. Whilst we have consistently focused on connecting remuneration to environmental outcomes, we recognise the strength of external opinion on the performance of the sector and made further changes to our Annual Bonus Scheme during the year to strengthen the focus on environmental performance – increasing the weighting within our 2023/24 Annual Bonus Scheme of river pledges to 12%, and overall environmental measures to 30%. Our Remuneration Policy is designed to incentivise exceptional, sector-leading performance for the benefit of customers, communities and the environment, and to attract, retain and motivate our Executive Directors. Three-quarters of our potential Executive pay is variable in nature, based on stretching targets that are reviewed annually by the Remuneration Committee. In this way, we ensure that our Executives are rewarded commensurate with their performance, which we believe is more beneficial to all stakeholders than removing variable pay opportunity and driving up base pay costs. Further detail can be found within the Directors' Remuneration Report.

Diversity and inclusion

The Board recognises the importance of diversity – on the Board itself, throughout the organisation, and more widely – and the need to foster an inclusive culture which encourages all colleagues to bring their whole selves to work, fulfil their potential and perform at their best.

We are encouraged by our gender and ethnic diversity representation on the Board – 56% female and 22% minority ethnic representation as at 31 March 2023 – but we are not complacent and know this needs to be maintained going forwards. We support the targets introduced by the Financial Conduct Authority and the transparency of the reporting framework that has been developed in this regard, to allow investors and other stakeholders to compare the progress being made across the FTSE and drive progress in this important area. We conducted a review of our Board Diversity Policy during the year, following which the Policy was amended to cover a broader range of diversity characteristics and facilitate open and transparent reporting.

We have developed a refreshed diversity disclosure this year, which can be found within the Severn Trent Plc Nominations Committee Report within the 2022/23 Severn Trent Plc Annual Report and Accounts, and we welcome feedback on this.

I was also personally delighted that Severn Trent was acknowledged as the first FTSE100 company to appoint women to the positions of Chair, Chief Executive and Chief Financial Officer following the announcement of Helen Miles' appointment as Chief Financial Officer Designate. Whilst appointments will only ever be made on merit, we continue to support the increase in female appointments to leadership roles across the FTSE and hope that our actions inspire the next generation of company leaders.

Board and Committee effectiveness

We spent time assessing and considering the effectiveness of the Board and its Committees earlier this year through an internally-facilitated Board effectiveness evaluation. The Board was pleased by the results of the review, which concluded that the Board, its Committees and individual Directors continue to operate effectively. A small number of improvements were identified, which will be implemented promptly. You can read more about the evaluation process and the outcomes of this year's review on pages 118 and 119.

Looking ahead to AMP8

With three years of AMP7 now behind us, the Board is spending a great deal of time formulating our business plan for AMP8. PR24 will be my first price review process at Severn Trent and I, along with my fellow Directors, have invested a significant amount of time preparing for PR24, including understanding the way in which the Company can deliver positive customer outcomes, greater environmental and social value, drive improvements through efficiency and innovation, and increase our focus on the long term. This activity is being informed through deepening our understanding of our customers and communities. Individual Directors, and the Board as a whole, have spent time engaging with our customers, attending community events and having discussions with Severn Trent's Expert Challenge Panel, ably chaired by Bernard Crump, all to ensure that our future plans continue to fulfil our Purpose of 'taking care of one of life's essentials'. Our draft business plan is well advanced and will be submitted to Ofwat in October 2023.

Alongside our PR24 submission, the Board also spent a significant amount of time considering key long-term programmes that are inextricably linked to our environment and PR24, such as our Drainage and Wastewater Management Plan, Water Resources Management Plan and the Water Industry National Environment Programme, to ensure that we have long-term plans in place that consider the impacts of population growth, drought, our environmental obligations and climate change uncertainty, so we can continue to deliver our essential services for customers now and in the long term whilst also transitioning to a net zero world.

As we look ahead to the next regulatory cycle, I want to thank everyone involved – our customers, communities, investors, regulators and suppliers. But above all, thank you to our colleagues, for their unfaltering commitment to deliver our Strategy and fulfil our Purpose and Values each and every day, and their contribution to the communities they work and live in.

I look forward to the year ahead with confidence, knowing that our focus on improving services for our customers will be delivered through the talent of our people, the financial resilience of our business, and our commitment to serving our stakeholders will ensure that we continue to be a socially responsible business providing a high quality, essential public service.

Christine Hodgson

Chair

12 July 2023

CULTURE

The Board places great importance on ensuring that the Company's culture and Values are established throughout the organisation, aligned across directorates and demonstrated consistently by everyone who works with us. As such, the Board spends a significant amount of time, both inside and outside of Board meetings, engaging with our people through a variety of mechanisms. The Board's participation in the Company Forum (our workforce engagement mechanism), review of QUEST engagement results, attendance at our engaging 'Ask Our Board' session, complemented by a range of site visits throughout the year, are all crucial to informing the Board's understanding of our culture. In addition, the Board recognises the need to foster an inclusive culture where all colleagues are able to bring their whole selves to work, fulfil their potential and perform at their best.

Our people are fundamental to our success and form a critical part of us being a trusted company. Our people tell us that they work best together, in an environment of collaboration and innovation. Our culture of empowerment and accountability, with a focus on skills, talent and career development, not only ensures we continue to deliver great performance but also that we continue to make Severn Trent a wonderful place to work. This is borne out by our excellent QUEST employee engagement score of 8.4 out of 10, putting us in the top 5% of utility companies globally.

Our Values of Having Courage, Embracing Curiosity, Taking Pride and Showing Care are brought to life in our culture and are integral to the way we behave and the way we do business. Our Values are demonstrated by our people every day as they work tirelessly to deliver our essential service. Their commitment is evident in the dedication they show in delivering for our customers and communities – 24 hours a day, 365 days a year. Our people are also supported by the systems and processes we have in place that enable us to deliver consistent operational performance. This consistency has created capacity for our talented people to do even more to make a positive difference for all of our stakeholders.

How the Board monitors and assesses culture

The Board understands the importance of setting the right tone from the top, with each Director leading by example to promote a culture of inclusivity. Great emphasis is placed by the Board on ensuring that the Company's culture is aligned to our Strategy, Purpose and Values. As such, one of the Board's key focus areas is to monitor and assess the culture across the Company.

The Board recognises the importance of ensuring that the Severn Trent culture celebrates diversity and inclusion in all its forms, and embraces individuals' contributions, no matter what their age, gender, race, ethnicity, disability, sexual orientation, social background, religion or belief. The Board was pleased that Severn Trent was recognised as a Top 3 FTSE100 company for representation of women on the Board in the FTSE Women Leaders Review 2023, in addition to being named a Top 25 employer by Stonewall.

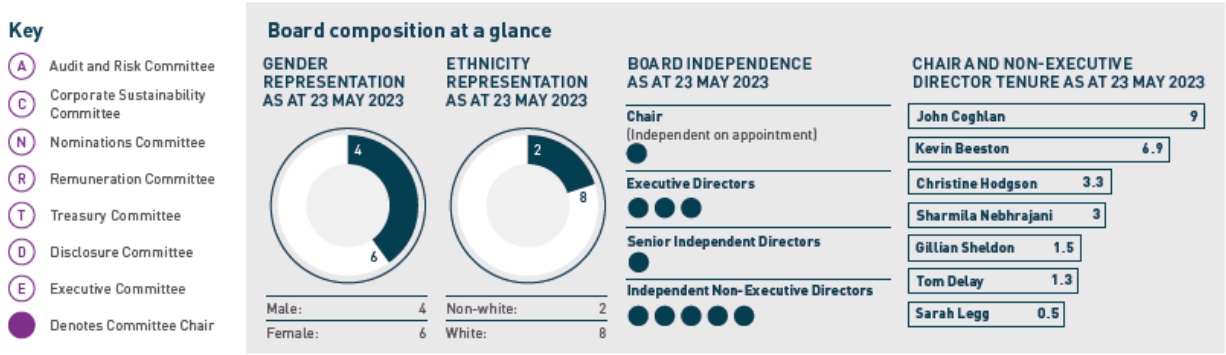
The Board monitors and assesses the culture of the Company by regularly meeting with the Executive Committee and management, reviewing the outcomes of employee surveys, engaging directly with individual employees throughout the Company, and listening to feedback from our stakeholders. We believe that our culture is a unique strength and we see the benefits of this flow through into employee engagement, retention and productivity. The Board places great importance on employee engagement and regularly reviews its approach, taking into account the provisions of the UK Corporate Governance Code 2018. All of these touchpoints with colleagues and other stakeholders provide cultural insight that the Board can act upon and factor into its

decision making. The table on the next page provides further detail on the activity undertaken during the year to assess the Company's culture.

CULTURE ASSESSMENT MECHANISM	CULTURAL INSIGHT	OUTCOME/ACTIONS
Review results of the annual QUEST survey, particularly around employee engagement levels benchmarked against peers, and how Severn Trent's Values link to its Purpose and behaviour.	Understanding strengths and opportunities as identified by employees, and that our Purpose and Values reflect the Company's culture and behaviours.	Actions taken to address the insights gained from the QUEST survey are continuously monitored by the Board through regular agenda topics structured around our people. The Board also received assurance that our culture is aligned to our Purpose and Values.
The Company Forum provides an opportunity for employee and Trade Union employee representatives to meet with Board members on a regular basis. Members of the Board and Executive Committee attend the Severn Trent Company Forum on a rotational basis, so each Director receives the opportunity to listen directly to what employees have to say and for our employees to hear about matters that the Board is reviewing and considering.	A better understanding of day-to-day operations, the practical execution of strategy and the cultural context in which employees work.	It ensures that views from a diverse cross section of the workforce – in terms of seniority, gender, ethnicity, tenure of employment and job types – are considered in Board discussions and decision making, and each meeting generates wide-ranging exchanges of opinion and insights.
The 'Ask Our Board' event ensures a direct dialogue with the workforce across the Group. The most recent event in May 2023 saw 110 colleagues join, and feedback from the Board and employees was very positive.	Provides the Board with insight into colleague sentiment and topics of importance to colleagues, including diversity and inclusion and our societal contribution.	Outputs from employee engagement sessions are used to shape future Board agenda topics and employee updates. Questions at the event in May 2023 included performance highlights over the year, the Group's Societal Strategy, River Quality and affordability initiatives.
Board members attend meetings of the four active employee advisory groups – LQBTQ+, Ethnicity, Disability and Women in STEM and Ops.	Ability to hear directly about the progress made against the diversity and inclusion action plans across the business.	Outputs from employee engagement sessions are used to shape future Board agenda topics and employee updates.
Annual review and monitoring by the Audit and Risk Committee of the effectiveness of the Group Speak Up Policy, processes and framework. Speak Up reports are considered at every Audit and Risk Committee meeting, with onward reporting to the Board.	A perspective on the nature of colleague concerns and trends in the behaviours of colleagues generally. Insight into how concerns are escalated and resolved by Severn Trent.	The Audit and Risk Committee will continue to monitor the effectiveness of the Speak Up Policy, and report to the Board the extent to which this has supported the openness of Severn Trent's culture.
Review by the Remuneration Committee of the wider workforce policies and practices, including gender and ethnicity pay gaps, CEO pay ratios and alignment of Directors' pension contributions to the workforce. Integration of sustainability measures into short- and long-term incentive targets. Remuneration is an annual agenda item at the Company Forum and outputs are reported to the Board.	Insight into the role that remuneration, and remuneration targets, have in promoting the right performance and behaviours, and the extent to which incentives and rewards are aligned with the Group's culture.	The Remuneration Committee will continue to report to the Board on colleague sentiment in relation to workforce policies and practices.
Regular reviews by the Nominations Committee of senior management talent and succession planning.	The importance of organisational culture in determining the Company's strategic priorities and reviewing senior succession plans.	The Board, Nominations Committee and Executive Committee were engaged throughout the rigorous Executive Committee recruitment and selection process.
Regular Board updates and relevant Committee updates on a broad range of risk and business integrity matters, including fraud, compliance, bribery, corruption and modern slavery, and standard supplier protocols and procedures. This is done through review of Internal Audit reports, compliance reports, risk deep dives, incident reports and policies and training.	A broad understanding of practices and behaviours, and how these align with the Purpose, Values and Strategy of the Group, including an understanding of the Group's supply chain partners and alignment to the culture of the Group.	The Board and its Committees provide appropriate scrutiny and challenge of management, and receive assurance over the Company's approach to managing risk and business integrity matters.
Completion of mandatory training modules for colleagues by all Board members on the Group's Code of Conduct, Doing the Right Thing.	A deeper understanding of Severn Trent's Values and standards to inform future employee engagement.	All members of the Board will continue to undertake training on an annual basis, to ensure their knowledge and understanding is up to date.

BOARD OF DIRECTORS

We have a strong, experienced Board, with a diverse range of professional backgrounds, skills and perspectives. The collective experience of the Directors and the diverse skills and experience they possess enable the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate, crucial to ensuring the continued long-term success of the Company. Integrity and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Severn Trent in full consideration of the impact on all stakeholders. Effective succession planning is enabling the smooth transition of the Chief Financial Officer role and will also progress the evolution of the Board over the next few years.



N C R

CHRISTINE HODGSON CBE
BSc (Hons), FCA

CHAIR

APPOINTED:
Independent Non-Executive Director on 1 January 2020, Chair on 1 April 2020.

SKILLS, COMPETENCES AND EXPERIENCE:
Christine brings extensive Board and Governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Until her appointment as Chair of the Severn Trent Board, she was the Executive Chair of Capgemini UK Plc, one of the world's largest technology and professional services groups. Christine joined Capgemini in 1997 and built her career in a variety of roles including CFO for Capgemini UK Plc and for the Global Outsourcing business, CEO of Technology Services North West Europe and the Global Head of Corporate Social Responsibility.

Christine was previously Senior Independent Director and Chair of the Remuneration Committee at Standard Chartered Plc until September 2022 and January 2023 respectively. Christine retired as an Independent Non-Executive Director of Standard Chartered Plc on 31 January 2023.

In January 2020, Christine was awarded a CBE in the Queen's New Year Honours for services to education.

Christine is a fellow of the Institute of Chartered Accountants in England and Wales.

EXTERNAL APPOINTMENTS
- Chair of Newton Group Holdings Limited
- Senior Pro-Chancellor and Chair of Loughborough University Council
- External Board Adviser to Spencer Stuart Management Consultants NV

D E

LIV GARFIELD CBE
BA (Hons)

CHIEF EXECUTIVE

APPOINTED:
Chief Executive on 11 April 2014.

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

In October 2020, Liv was awarded a CBE in the Queen's Birthday Honours for services to the water industry.

EXTERNAL APPOINTMENTS
- Non-Executive Director of Water UK
- Non-Executive Director of Brookfield Asset Management Limited
- Director of Water Plus Limited – joint venture with United Utilities
- Chair of the Council for Sustainable Business
- Chair of the West Midlands Regional Business Council
- Member of the Takeover Panel, and its Hearings Committee and Nomination Committee
- Member of the UK Investment Council
- Member of The 30% Club

D E

JAMES BOWLING
BA (Hons) Econ, ACA

CHIEF FINANCIAL OFFICER

APPOINTED:
Chief Financial Officer on 1 April 2015.

SKILLS, COMPETENCES AND EXPERIENCE:
James is a chartered accountant, who started his career with Touche Ross and brings significant financial management, M&A and business transformation expertise to the Board. Prior to joining Severn Trent, James was interim Chief Financial Officer of Shire Plc, where he had been since 2005. Prior to joining Shire, James spent nine years at Ford Motor Company in various finance roles of increasing responsibility.

James has recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales.

EXTERNAL APPOINTMENTS
- Director of Water Plus Limited – joint venture with United Utilities

D E

HELEN MILES
ACMA

CHIEF FINANCIAL OFFICER DESIGNATE

APPOINTED:
Chief Financial Officer Designate on 1 April 2023.

SKILLS, COMPETENCES AND EXPERIENCE:
Helen joined Severn Trent in November 2014 as the Chief Commercial Officer, and in 2020 became the Capital and Commercial Services Director, before being appointed as Chief Financial Officer Designate in April 2023. She brings with her a breadth of commercial experience having worked within regulated businesses across the Telecoms, Leisure and Banking sectors. As a member of the UK Board, Helen was instrumental in delivering HomeServe's future growth strategy and ensuring a sustainable, customer-focused business.

An experienced finance professional, Helen was previously Chief Financial Officer for Openreach, part of BT Group Plc, and has extensive experience of delivering major business transformation across the Group. Prior to BT Group, Helen worked in a variety of organisations including Bass Taverns, Barclays Bank, and Compass Group.

Helen has recent and relevant financial experience as a member of the Chartered Institute of Management Accountants.

EXTERNAL APPOINTMENTS
- Non-Executive Director of Breedon Group Plc

A N R T

KEVIN BEESTON
FCMA

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 1 June 2016, Senior Independent Non-Executive Director on 20 July 2016.

SKILLS, COMPETENCES AND EXPERIENCE:
Kevin has a wealth of commercial, financial and high-level management experience. Previously, Kevin spent 25 years at Serco Plc, where he held the roles of Finance Director, Chief Executive and finally Chairman until 2010. Kevin was previously Chairman of Domestic & General Limited, Partnerships in Care Limited and Equiniti Group Plc, and was a Non-Executive Director of IMI Plc and Marston Corporate Limited. Until February 2020, Kevin was Chairman of Taylor Wimpey Plc, where he had been on the Board since 2010.

Kevin has recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants and was previously Finance Director at Serco Plc.

EXTERNAL APPOINTMENTS
- Chair of Turnstone Equityco 1 Limited (trading as Integrated Dental Holdings)

PHILIP REMNANT CBE
FCA, MA

INDEPENDENT NON-EXECUTIVE DIRECTOR

Director serving for part of the year

Philip stepped down from the Board on 30 November 2022, having served as a Director since 31 March 2014.

A N T

JOHN COGHLAN
BCom, ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 23 May 2014.

SKILLS, COMPETENCES AND EXPERIENCE:
John has a wealth of experience in financial and general management. He spent eleven years at Exel Plc as Chief Financial Officer and ultimately as Deputy Chief Executive Officer until retiring in 2006. Since then, he has been a Director of publicly quoted and private companies across several sectors.

John has recent and relevant financial experience as a member of the Institute of Chartered Accountants in England and Wales.

John is the Group's designated Non-Executive Director in respect of Cyber Security.

EXTERNAL APPOINTMENTS
- Non-Executive Director of Landmark Group Holdings Limited
- Vice Chair and Senior Independent Non-Executive Director of Clarion Housing Group
- External Board Adviser to Mace Group Limited

HANNAH WOODALL-PAGAN
BSc (Hons), FCG

GROUP COMPANY SECRETARY

APPOINTED:
2 December 2022.

C N

TOM DELAY CBE
BSc (Hons), MBA, CEng MIMechE

INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 1 January 2022.

SKILLS, COMPETENCES AND EXPERIENCE:
Tom brings extensive strategy, sustainability, energy and engineering experience to the Company. He was appointed as the first Chief Executive of the Carbon Trust in 2001. Since then, he has grown the company to become a world leader, advising businesses and governments on carbon emissions reduction and the development of low-carbon technologies, markets and businesses. More recently, he has taken the company's unique capabilities further afield, extending its mission to accelerate the move to a sustainable, low-carbon future.

Tom is a chartered engineer with extensive experience of the energy sector. He worked for Shell for 16 years in a variety of commercial and operations roles before moving into management consultancy with McKinsey and Co and then as a Principal with the Global Energy Practice of AT Kearney. Tom is a member of the UK Energy Research Partnership and the advisory boards of the Centre for Climate Finance and Investment at Imperial College London and the Global CO_2 Initiative at the University of Michigan.

In 2018, Tom was awarded a CBE by the Queen for services to sustainability in business.

EXTERNAL APPOINTMENTS
- Chief Executive of the Carbon Trust

A C N T

SARAH LEGG
MA, FCMA, FCT

INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 1 November 2022.

SKILLS, COMPETENCES AND EXPERIENCE:
Sarah brings extensive corporate finance and significant audit and risk experience gained in the financial services sector to the Company. She is currently a Non-Executive Director at Lloyds Banking Group Plc, Chair of its Audit Committee and a member of its Risk and Responsible Business Committees.

Sarah has spent her entire career in financial services with HSBC in finance leadership roles. She was the Group Financial Controller, a Group General Manager, and also Chief Financial Officer for HSBC's Asia Pacific region. She also spent eight years as a Non-Executive Director on the board of Hang Seng Bank Limited, a Hong Kong listed bank. Sarah is also Chair of the Campaign Advisory Board at King's College, Cambridge University, Board Member of the Audit Committee Chairs' Independent Forum and Trustee of the Lloyds Bank Foundation for England and Wales.

Sarah has recent and relevant financial experience as a fellow of the Chartered Institute of Management Accountants and through her roles in the banking sector.

EXTERNAL APPOINTMENTS
- Non-Executive Director of Lloyds Banking Group Plc
- Trustee of Lloyds Bank Foundation for England and Wales
- Chair of the Campaign Advisory Board at King's College, Cambridge University
- Board Member of the Audit Committee Chairs' Independent Forum

R C N

SHARMILA NEBHRAJANI OBE
MA (Hons), ACA

INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 1 May 2020.

SKILLS, COMPETENCES AND EXPERIENCE:
Sharmila brings extensive Board and governance experience, gained in a variety of roles spanning the private sector, public sector and NGOs. Sharmila is Chairman of the National Institute for Health and Care Excellence ('NICE'), the organisation responsible for assessing the clinical and cost effectiveness of medical innovations in the NHS, a Non-Executive Director of Halma Plc, ITV Plc and Coutts Bank, and a Member of Council for the University of Oxford.

In her executive career, Sharmila spent 15 years at the BBC, latterly as Chief Operating Officer for BBC Future Media and Technology, and was most recently Chief Executive at Wilton Park, an executive agency of the UK Foreign and Commonwealth Office convening international dialogues for senior policy makers from around the world with a special focus on global health. Previous non-executive roles include Deputy Chair of the Human Fertilisation and Embryology Authority and Chairman of the Human Tissue Authority, and she also has served on the board of the Pension Protection Fund.

Sharmila read Medicine at the University of Oxford and has been a World Fellow at the University of Yale since 2007. She is a chartered accountant and was awarded an OBE in 2014 for services to medical research.

EXTERNAL APPOINTMENTS
- Chairman of National Institute of Health and Care Excellence
- Non-Executive Director of ITV Plc
- Non-Executive Director of Halma Plc
- Non-Executive Director of Coutts & Company
- Member of Council for University of Oxford

T A N R

GILLIAN SHELDON
BSc (Hons)

INDEPENDENT NON-EXECUTIVE DIRECTOR

APPOINTED:
Independent Non-Executive Director on 1 November 2021.

SKILLS, COMPETENCES AND EXPERIENCE:
Gillian has extensive strategy, corporate finance, risk management and M&A experience. She is currently a Senior Adviser at Credit Suisse in the Investment Banking division, where she provides advice on a broad range of complex transactions to clients across multiple industries. Gillian is also a member of the Salesforce Europe, Middle East and Africa Advisory Board, where she provides strategic guidance and supports the company's growth into international markets.

Gillian joined Credit Suisse in 1996, and went on to become Head of Telecoms, Media and Technology Investment Banking in Europe and then Vice Chairman of Investment Banking. Her previous experience includes roles at N M Rothschild & Sons and as a Trustee and Chair of the Investment Committee of BBC Children in Need. Until February 2021, she was the Senior Independent Director at Capita Plc. Gillian is also a Corporate Board member of the Royal Academy.

Gillian has recent and relevant financial experience gained through her roles in the banking and finance sectors.

EXTERNAL APPOINTMENTS
- Senior Adviser at Credit Suisse – Investment Banking Division
- Member of the Salesforce European Advisory Board
- Corporate Board Member of the Royal Academy
- Board Member of Business LDN

BOARD SKILLS

An effective Board requires the right mix of skills and experience, reflective of individuals from varied backgrounds. As demonstrated by their individual biographies our Board members together form a diverse and effective team focused on promoting the long-term success of the Company. The skills matrix below details some of the key skills and experience that our Board has identified as particularly valuable for the effective oversight of the Company and execution of our Strategy, and indicates which Directors bring those particular skills to the boardroom.

The skills matrix is reviewed at least annually to make sure it meets current business needs, today and in the future, and is aligned with our strategic priorities, to ensure the Board remains fully equipped to deliver our Strategy and Purpose and provide challenge to the experienced and knowledgeable Executive Team. This year's review was undertaken as part of the Board Effectiveness evaluation.

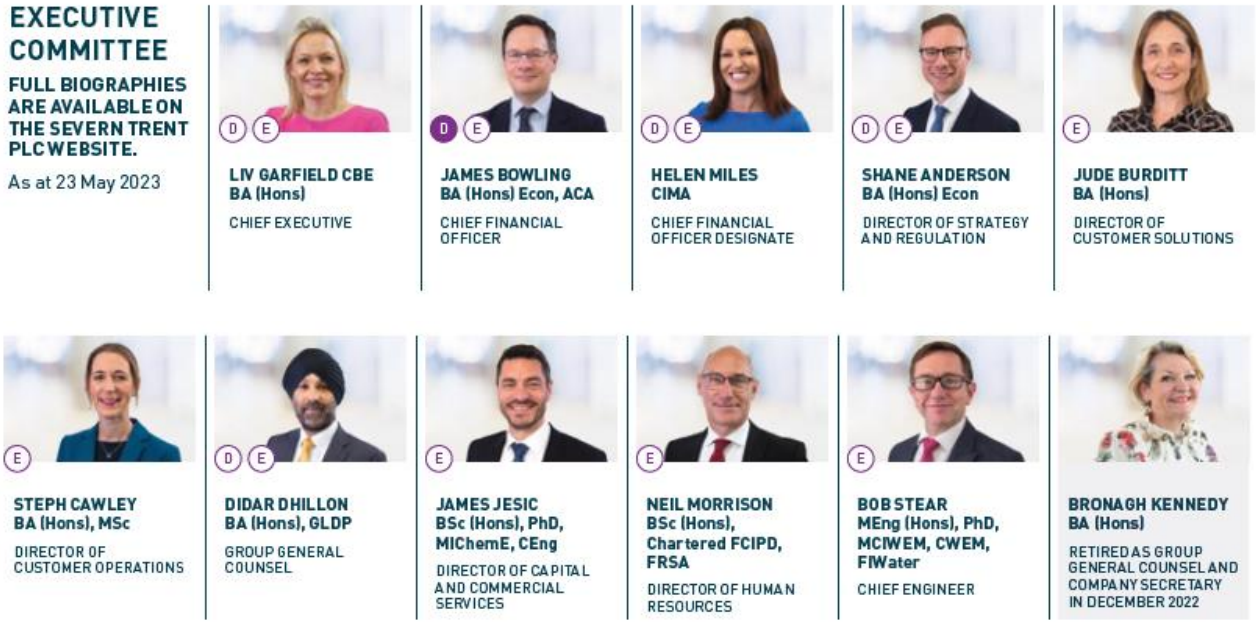
BOARD SKILLS MATRIX

STRATEGIC OUTCOMES

Strategic pillars

SKILLS – MAPPED TO STRATEGIC OUTCOMES

	Strategy	Customer	Utility sector	M&A	Corporate finance/ Treasury	Accounting	Brands	Regulation	Technology/ Innovation/Cyber	Science	Sustainability, including climate change	Commercial procurement	Construction/ Infrastructure delivery	Large capital programmes	Engineering	People management	Political affairs
KEVIN BEESTON	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓		✓	✓
JAMES BOWLING	✓		✓	✓	✓	✓		✓			✓	✓		✓		✓	
JOHN COGHLAN	✓	✓		✓	✓	✓		✓	✓			✓		✓		✓	
TOM DELAY	✓	✓					✓	✓		✓	✓	✓			✓	✓	✓
LIV GARFIELD	✓	✓	✓	✓			✓	✓			✓		✓	✓		✓	✓
CHRISTINE HODGSON	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓		✓		✓	✓
SARAH LEGG	✓	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓	
HELEN MILES	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓		✓	
SHARMILA NEBHRAJANI	✓					✓		✓	✓	✓	✓					✓	✓
GILLIAN SHELDON	✓			✓	✓	✓		✓	✓	✓						✓	



UK Corporate Governance Code Compliance Statement

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

As a listed company, Severn Trent Plc has applied the provisions of the UK Corporate Governance Code (the '2018 Code'), for the year ended 31 March 2023. As Severn Trent Water Limited is not a listed company it is not required to comply with the 2018 Code. Severn Trent Water Limited complies with the 2018 Code. In respect of the Audit and Risk, Remuneration and Nomination Committees, the Severn Trent Plc Board Committees operate on behalf of Severn Trent Water Limited. Further information in respect of the Audit and Risk and Nomination Committees can be found in the 2022/23 Severn Trent Plc Annual Report and Accounts. Severn Trent Water Limited also complies with Ofwat's Principles of board leadership, transparency and governance, to ensure the highest standards of governance. We are satisfied that current practices and the application of the 2018 Code at both holding company and regulated company levels are entirely consistent with Ofwat principles.

The Code is available on the Financial Reporting Council's (FRC) website (www.frc.org.uk). For the whole of the financial year ended 31 March 2023, Severn Trent Water Limited was compliant with the 2018 Code, with the following exceptions:

1. **Audit Committee and Remuneration Committee at Company level**
The Remuneration Committee and Audit Committee at Severn Trent Plc Group level operates on behalf of the Company; and

2. **Provisions relating to relations with shareholders**
The Company does not comply with the provisions relating to Relations with Shareholders which covers dialogue with Shareholders and Constructive use of the AGM, as it would not be appropriate to do so. However, Severn Trent Plc does fully comply with these requirements.

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.

INFORMING

REPORTING

THE BOARD DELEGATES CERTAIN MATTERS TO ITS PRINCIPAL COMMITTEES – WHICH REPORT TO THE BOARD AT EVERY MEETING

AUDIT AND RISK COMMITTEE	CORPORATE SUSTAINABILITY COMMITTEE	NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	TREASURY COMMITTEE
Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.	Provides guidance and direction to the Company's Sustainability Strategy and sustainability matters linked to policies, pledges and commitments, including River Quality, Anti-Slavery and Human Trafficking, and our Community Fund, Societal Strategy and the Triple Carbon Pledge.	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.	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.	Provides oversight of treasury activities in implementing the Group's Funding and Treasury Risk Management plans approved by the Board. The Committee also reviews and approves the Group Treasury Policy Statements and ensures that these are applied consistently.

INFORMING

REPORTING

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

Responsibility for the development and implementation of the Group's Strategy and overall commercial objectives rests with the Chief Executive, who is supported by STEC.

INFORMING

REPORTING

DISCLOSURE COMMITTEE

An Executive Committee responsible for overseeing the Group's compliance with its disclosure obligations, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

DIVISION OF RESPONSIBILITIES

As at the date of this report, our Board comprised the Chair, six Independent Non-Executive Directors and three Executive Directors. There are clear divisions between Executive and Non-Executive responsibilities, which ensure accountability and oversight. The roles of Chair and Chief Executive are separately held and their responsibilities are well defined, set out in writing in the Charter of Expectations, and regularly reviewed by the Board. The Chair and the other Non-Executive Directors meet routinely without the Executive Directors, and individual Directors meet outside formal Board meetings in order to gain first-hand experience of our operations and engage with our workforce. The Executive Directors meet weekly as part of the Executive Committee to attend to the ongoing management of the Company. Any significant operational and market matters are communicated to the Non-Executive Directors on a timely basis outside of Board meetings.

The Board is supported by the Group Company Secretary, to whom all Directors have access for advice and corporate governance services.

NON-EXECUTIVE DIRECTORS

CHAIR

CHRISTINE HODGSON

- Leads our unified Board and is responsible for its effectiveness and governance.
- Fosters a culture of inclusivity and transparency by demonstrating the Company's Values, establishing the right 'tone from the top'.
- Guides the Board in shaping strategy, ensuring alignment with the Company's Purpose.
- Sets agendas and ensures timely dissemination of information to the Board, to support sound decision making and allow for constructive discussion, challenge and debate, in consultation with the CEO, CFO and Group Company Secretary.
- Responsible for scrutinising the performance of the Executive Committee and overseeing the annual Board Effectiveness evaluation process.
- Facilitates contribution from all Directors and ensures that effective relationships exist between them.
- Ensures that the views of all stakeholders are understood and considered appropriately in Board discussion and decision making.
- Responsible for the composition and evolution of the Board, together with the Nominations Committee and SID.

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, SARAH LEGG, SHARMILA NEBHRAJANI, GILLIAN SHELDON

- Promote high standards of integrity and corporate governance.
- Uphold the cultural tone of the Company and monitor actions to support inclusion and diversity.
- Constructively challenge and assist in the development of strategy by providing independent insight and support based on relevant experience.
- Monitor the delivery of strategy by the Executive Committee within the risk and control framework set by the Board.
- Satisfy themselves that internal controls are robust and that the external audit is undertaken properly.
- Engage with internal and external stakeholders and feedback insights to the Board, including in relation to employees and the culture of the Company.
- Have a key role in succession planning for the Board, together with the Board Committees, Chair and SID.
- Serve on various Committees of the Board.

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE ('CEO')

LIV GARFIELD

- Represents Severn Trent externally to all stakeholders, including the Government, regulators, customers, suppliers and the communities we serve.
- Sets the cultural tone of the organisation and ensures that the Group operates in a way that is consistent with its Purpose and Values.
- Facilitates a strong link between the business and the Board to support effective communication.
- Develops and implements the Group's Strategy, as approved by the Board, through leadership of the Executive Committee.
- Responsible for overall delivery of all strategic objectives, ensuring that decisions made and actions taken support the Group's long-term sustainable Purpose.
- Promotes and conducts Group affairs with the highest standards of integrity, probity and corporate governance, in line with our Strategic Framework and Values. The CEO's Review can be found on pages 11 to 13.

CHIEF FINANCIAL OFFICER ('CFO')

JAMES BOWLING

- Manages the Group's financial affairs. The CFO's Review can be found on pages 66 to 72.
- Supports the CEO in the implementation and achievement of the Group's strategic objectives.
- Oversees Severn Trent's relationships with the investment community.
- Represents Severn Trent externally to all stakeholders, including the Government and regulators, customers, Pension Trustees for the Company's defined benefit pension schemes, lenders, suppliers and the communities we serve.

GROUP COMPANY SECRETARY

HANNAH WOODALL-PAGAN

- Ensures sound information flows to the Board in order for the Board to function effectively and efficiently, in support of balanced decision making.
- Advises and keeps the Board updated on Listing and Transparency Rule requirements and on best practice corporate governance developments.
- Facilitates a comprehensive induction for newly appointed Directors, tailored to their individual requirements, and oversees the Board's professional development programme.
- Ensures compliance with Board procedures and provides support to the Chair.
- Co-ordinates the effectiveness evaluation of the Board in conjunction with the Chair.
- Facilitates the Board's ongoing engagement with employees.
- Provides advice and services to the Board.

BOARD MEETINGS

The Board is committed to maintaining a comprehensive schedule of meetings and a forward agenda to ensure its time is used most effectively and efficiently, and it is supported by the Group Company Secretary to facilitate this. Flexibility in the programme is important to permit key items to be added to any agenda, so that the Board can focus on evolving and important matters at the most appropriate time. Board meeting discussions are structured using a carefully tailored agenda that is agreed in advance by the Chair, in conjunction with the CEO and Group Company Secretary.

A typical Board meeting will comprise the following elements:

– Written reports from the Chairs of our Board Committees on the proceedings of those meetings, including the key discussion points and particular matters to bring to the Board's attention.

– Following every Company Forum, a report on the topics discussed at the Forum is circulated and the Directors who attended that particular Forum add further context at the Board meeting.

– Performance reports, including: CEO Overview; CFO Review; and Operational Performance Reports.

– Deep dive reports into areas of particular strategic importance, opportunities and risks, to evaluate progress, provide insight and, where necessary, decide on appropriate action. Read more about some of the topics covered during the year opposite.

- Legal and governance updates, including:
- Approval of arrangements for delegated financial authority across the Company;
- Review of adequacy of Whistleblowing Procedures; and
- Approval of the Anti-Slavery and Human Trafficking Statement.

Time is set aside at the end of every Board meeting for the Chair to hold an Independent Non-Executive Director only meeting, where it is considered appropriate, which provides the opportunity for discussion on key agenda items and other matters without the Executive Directors and management present. On the evening before most scheduled Board meetings, all the Non-Executive Directors meet either by themselves, or together with just the CEO, or with the entire Board and the Group Company Secretary.

This time is usefully spent enabling Board members to build a rapport with each other and a relationship on a personal level, share external views and consider issues impacting the Company, resulting in better Board dynamics and decision making.

The following schematic aims to bring the Board's rich programme to life.

APRIL 2022

BOARD/COMMITTEE MEETINGS

B N R

SITE VISIT TO FINHAM TREATMENT WORKS

The Board received an overview of the Thermal Hydrolysis Process ('THP'), which uses anaerobic digestion to treat sewage sludge before it is recycled as fertiliser for agricultural land. The THP plant was installed alongside a gas-to-grid plant as part of an ambitious capital investment to drive efficiency and increase energy self-generation.

21 APRIL 2022:

DEEP DIVE – GROUP-WIDE TALENT REVIEW

MAY 2022

BOARD/COMMITTEE MEETINGS

B A C N R T

STAKEHOLDER ENGAGEMENT:

MAYOR OF THE WEST MIDLANDS

20 MAY 2022:

DEEP DIVE – COMMUNITY ENGAGEMENT AND OUR PARTNERSHIP WITH THE COMMONWEALTH GAMES

JUNE 2022

STAKEHOLDER ENGAGEMENT:

CEO, CONSUMER COUNCIL FOR WATER

6 JULY 2022:

DEEP DIVE – GROWING OUR RESILIENCE AND SHAPING OUR LONG-TERM PLANNING APPROACH

JULY 2022

BOARD/COMMITTEE MEETINGS

B A N

AUGUST 2022

OCTOBER 2022

BOARD/COMMITTEE MEETINGS

N BSD

30 SEPTEMBER 2022:

DEEP DIVE – PROGRESS ON OUR SUSTAINABILITY STRATEGY, INCLUDING OUR NET ZERO TRANSITION PLAN

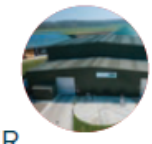
STAKEHOLDER ENGAGEMENT:

CEO, ENVIRONMENT AGENCY

SEPTEMBER 2022

BOARD/COMMITTEE MEETINGS

B A C N T



SITE VISIT TO GREEN POWER

Following a briefing on the Group's renewables and waste recycling business, and the products it produces, Corporate Sustainability Committee members embarked on a tour of the anaerobic digestion site to observe how solid food waste is converted into green gas and energy.

BOARD AND COMMITTEE MEETINGS

- B Board
- BSD Board Strategy Day
- A Audit and Risk Committee
- C Corporate Sustainability Committee
- N Nominations Committee
- R Remuneration Committee
- T Treasury Committee

21 OCTOBER 2022:

BOARD STRATEGY DAY
The Board explored opportunities to bolster the Group's resilience alongside our PR24 planning and, in the context of new long-term trends emerging across the globe, agreed a suite of positive actions designed to mitigate resilience-related risks.

NOVEMBER 2022

BOARD/COMMITTEE MEETINGS

B A C R T

18 NOVEMBER 2022:

DEEP DIVE – FLOW TO FULL TREATMENT PROGRESS UPDATE

STAKEHOLDER ENGAGEMENT:

CHIEF INSPECTOR, DRINKING WATER INSPECTORATE

24 NOVEMBER 2022:

TREASURY 'TEACH IN' SESSION

DECEMBER 2022

JANUARY 2023

BOARD/COMMITTEE MEETINGS

C T

20 APRIL 2023:

SITE VISIT – MANSFIELD GREEN RECOVERY

APRIL 2023

BOARD/COMMITTEE MEETINGS

B R

16 MARCH 2023:

DEEP DIVE – WATER INDUSTRY NATIONAL ENVIRONMENT PROGRAMME

MARCH 2023

BOARD/COMMITTEE MEETINGS

B A C N R T

STAKEHOLDER ENGAGEMENT:

CHAIR, OFWAT

BOARD EFFECTIVENESS EVALUATION:

1 FEBRUARY 2023:

DEEP DIVE– SUCCESSION PLANNING OF SENIOR MANAGEMENT TEAM

FEBRUARY 2023

BOARD/COMMITTEE MEETINGS

B R

BOARD AND COMMITTEE MEMBER ATTENDANCE 2022/23

Director	Position	Board	Audit and Risk Committee	Corporate Sustainability Committee	Nominations Committee	Remuneration Committee	Treasury Committee
Christine Hodgson	Chair	8/8	-	5/5	6/6	5/5	-
Liv Garfield	Chief Executive	8/8	-	-	-	-	-
James Bowling	Chief Financial Officer	8/8	-	-	-	-	-
Kevin Beeston	Senior Independent Non-Executive Director	8/8	5/5	-	6/6	5/5	5/5
John Coghlan	Independent Non-Executive Director	8/8	5/5	-	6/6	-	5/5
Tom Delay	Independent Non-Executive Director	8/8	-	5/5	6/6	-	-
Sarah Legg	Independent Non-Executive Director	3/3	2/2	3/3	1/1	-	3/3
Sharmila Nebhrajani	Independent Non-Executive Director	8/8	2/2	5/5	6/6	5/5	-
Philip Remnant	Independent Non-Executive Director	6/6	2/2	-	5/5	3/3	1/1
Gillian Sheldon	Independent Non-Executive Director	8/8	5/5	-	6/6	3/3	5/5

KEY TOPICS CONSIDERED BY THE BOARD IN 2022/23

The Board's 2022/23 agenda was wide-ranging, with a variety of topics drawn from the Schedule of Matters Reserved to the Board, including those related to our Strategy and culture, and overall oversight of management and operations. Set out below are examples of topics considered by the Board during the year.

APPROVAL OF THE SEVERN TRENT SOCIETAL STRATEGY

Our customers are facing a sustained increase in financial pressures – driven by rising inflation and energy costs. As a socially responsible company, that genuinely cares about its customers and the communities it serves, the Board reviewed and approved the Group's Societal Strategy, which focuses on the underlying causes of water poverty to reduce long-term affordability issues and contribute to the wider levelling-up agenda. The Board considered that the best way in the longer term to help households experiencing water poverty was to give them the tools to improve job prospects and life chances, with much of the support being delivered by the Severn Trent Academy.

Stakeholders / Considerations:

Customers – our Societal Strategy focuses on careers and employment-related skills and training to support customers and others in our communities in securing employment and helping to address a key driver of financial hardship.

Communities – helping customers and households will also help the wider community. Interventions are targeted through school work experience programmes, mentoring young offenders and establishing pop-up Academy Hubs in the areas that need them the most.

Employees – as a large regional employer, we can have a positive impact on our local communities and we know colleagues are very supportive of the work we are doing in this area. Programmes are being delivered by our Academy Team with support from Community Champion volunteers across the workforce.

Suppliers and Contractors – our supply chain is an extension of our business and, as such, we have encouraged and challenged our suppliers to join us on this journey, and many have already offered their support to the initiatives being delivered through our Societal Strategy.

Read more about how we engaged with stakeholders throughout the development of our Societal Strategy in our Section 172 Statement

NET ZERO TRANSITION PLAN UPDATES

Climate change remains a crucial focus for Severn Trent. As such, the Board receives regular updates on the progress made in delivering the Group's commitments to transition to net zero. Through these updates, the Board received assurance that the activities and investments required to meet the Group's commitments were meeting their Key Performance Indicators and timescales, and that external reporting, including the Task Force on Climate-related Financial Disclosures ('TCFD'), was comprehensive, transparent and understood by investors. The Board also considered the risks and opportunities associated with the plan, and how these could be mitigated and explored.

Stakeholders / Considerations:

Suppliers and Contractors – Scope 3 emissions arising from Severn Trent's supply chain are discussed regularly with suppliers and we encourage completion of sustainability assessments ahead of agreeing Science-Based Targets.

Sustainability and ESG – the UK water and waste water industry is responsible for c.1% of the UK's greenhouse gas emissions. As such, the Board supports the Company's leading role both within the sector and in the wider economy to drive down these emissions.

Regulators and Government – we engaged with Ofwat around incorporating net zero investment and targets into its PR24 methodology and the Board welcomed the addition of environmental performance commitments, including in relation to the reduction of emissions.

Shareholders and Investors – investors continue to place increasing focus on financial grade reporting, such as TCFD, and this is seen as a further opportunity to engage with investors on the proactive approach taken by the Company.

FINANCIAL MATTERS

- **Group Budget** – the Board reviewed the Group's performance versus the 2022/23 Group budget and agreed the 2023/24 Group budget.
- **Viability Statement** – on the recommendation of the Audit and Risk Committee, the Board reviewed and approved the Viability Statement to be reported in the Annual Report and Accounts.
- **Results and Regulatory Reporting** – on the recommendation of the Audit and Risk Committee, the Board reviewed and approved the half and full year results announcements, Annual Report and Accounts, and Annual Performance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

- **Enterprise Risk Management ('ERM')** – the Board, in conjunction with the Audit and Risk Committee, conducts regular reviews of the Group's ERM Risk Register. Enhancements continue to be made to risk management processes, including the identification, assessment, response and monitoring of all existing and emerging risks. Read more on pages 73 to 79.
- **Review of Effectiveness of Risk Management and Internal Controls** – the Board, in conjunction with the Audit and Risk Committee, assessed the effectiveness of the risk management and internal controls in place across the Group, including in relation to whistleblowing procedures, and determined that the Group's systems had operated effectively throughout the year
- **Deep Dives** – the Board received dedicated sessions on cyber risk, our compliance with statutory requirements relating to reservoirs, and health, safety and wellbeing to scrutinise the internal controls in place and review the external assurance undertaken.

RESILIENCE IN THE ROUND

Resilience is our ability to cope with and recover from disruption, and anticipate emerging trends and variability in order to maintain service delivery for our customers and the environment, both today and over time. The Board is supportive of Ofwat's core concept of 'Resilience in the Round' – comprising operational, financial and corporate resilience – recognising its importance for customers and broader stakeholders. It is vital that our services remain resilient over the long term. As such, the Board discusses a deep dive on Resilience in the Round on an annual basis, which provides an overview of future plans to grow our resilience and shape our long-term planning approach.

Topics featured within the deep dive included: climate change and the resulting impact on resource availability, carbon and environmental sustainability; extreme weather events, high-impact operational events; cyber security and the pace at which technology continues to evolve; attracting and retaining people with the skills and experience the business needs; and economic and social changes, such as population growth, urbanisation, consumer habits and perceptions, future financing and regulation.

The Board discussed the innovative approach being taken in consideration of the Company's suite of regulatory plans for our medium- and longer-term future to bolster the Group's resilience and mitigate the impact on services for customers, the environment, the economy and communities.

CULTURE AND ENGAGEMENT

The Board is responsible for assessing and monitoring the Group's culture, and regularly considers items relating to the workforce as part of its responsibilities. The Board is satisfied that the Group's culture remains aligned to the Company's Strategy, Purpose and Values, and did not identify any corrective action required to be taken by management.

During the year, the Board considered updates on the following workforce-related topics:

- **Company Forum** – Directors attend the Company Forum, which is the Board's selected workforce engagement mechanism, on a rotation basis and report back on proceedings to the rest of the Board.
- **Employee Voice** – the Board reviews the results and feedback from the annual employee engagement survey, QUEST, and monitors how the areas of employee focus are being addressed. The Board determined that appropriate interventions were made in a timely manner.
- **Succession Planning and Talent Management** – in order to deliver for its stakeholders, it is vital that the Group maintains a skilled workforce today and into the future. As such, succession planning and talent management at all levels remains a key topic for the Board, with discussion focused on building technical and leadership capability while creating diverse talent pipelines for the future.
- **Diversity and Inclusion ('D&I')** – significant progress has been made in advancing the Group's D&I ambitions, to ensure that our workforce increasingly reflects the communities we serve. The Group's four D&I Advisory Groups and initiatives such as the 10,000 Black Interns programme continue to play an important role. This is evident in the QUEST survey results on engagement and equality, both of which remain ahead of global benchmarks.
- **Employee Relations** – the Board maintains a strong and open relationship with employees throughout the Group, through a combination of dedicated engagement events such as 'Ask Our Board', site visits and informal meetings. These are all key components of the Group's approach to workforce engagement.
- **Workforce Policies and Practices** – the Board formally reviews the Group's workforce policies and practices to ensure these remain consistent with the Company's Purpose and Values and support the Group's long-term sustainable success.

GOVERNANCE

- **Governance Strategy** – the Board considered the proposed Governance Strategy, which sets out our governance approach in the context of the Group's Purpose and Values, prior to its publication for consultation. The Governance Strategy can be found on the Severn Trent Plc website.
- **Board Succession Planning** – on the recommendation of the Nominations Committee, the Board oversaw the arrangements for Board succession planning and, in consideration of maintaining a diverse, experienced and appropriately skilled Board, approved the appointment of Sarah Legg as an Independent Non-Executive Director and Helen Miles as an Executive Director and the Chief Financial Officer Designate. Read more on pages 123 to 124.
- **Board Effectiveness Evaluation** – the Board reviewed the progress made against the action plan for 2022/23 and, having considered the feedback from the 2023 evaluation, set the action plan for 2023/24.

LONG-TERM PLANNING

A key focus for the Board this year has been reviewing the Group's Strategy to reflect where the business is today and outline its ambitions for the future, in consideration of the changing environment within which the Company operates. Central to the Group's Strategy is a desire to be performance driven and sustainability led – positioning the Group to deliver consistently outstanding operational and financial performance in a manner that has a positive sustainable impact for all stakeholders. The Board determined that this is best achieved through balancing the long-term interests of all stakeholders. Read more about our Strategy on pages 2 to 3.

The Board also spent a significant amount of time considering key long-term programmes that are inextricably linked to our environment, such as our Drainage and Wastewater Management Plan ('DWMP'), Water Resources Management Plan ('WRMP'), the Water Industry National Environment Programme ('WINEP') and our PR24 submission, including our Long-Term Delivery Strategy. Through these interrelated plans, the Board has ensured that we have appropriate, and aligned, plans in place to consider the impacts of population growth, drought, environmental obligations and climate change uncertainty so that we can continue to deliver our essential services for customers now and in the future whilst also transitioning to a net zero world.

- **DWMP** – the Board reviewed the draft and final DWMP proposals detailing the Company's plans to extend, improve and maintain a robust and resilient drainage and waste water system over the next 25 years, in consideration of challenges posed by factors such as population growth, drought, environmental obligations and climate change uncertainty.
- **WRMP** – the Board reviewed the draft WRMP proposals detailing the Company's plans in relation to our water system today and in the future, in consideration of challenges posed by factors such as population growth, drought, environmental obligations and climate change uncertainty. The final WRMP is due to be published in Autumn 2023.
- **WINEP** – the Board reviewed and considered the impact of our proposed environmental programme for PR24, which is aimed at driving positive change in environmental performance across both water and waste. The Company continues to make significant investment in this important area and, as such, the Board agreed a programme that is approximately three and a half times bigger than that submitted for AMP7, comprising proposed improvements, investigations and monitoring to deliver against a range of statutory drivers.
- **PR24** – the Board continues to shape the business plan for the next AMP, due to be submitted to Ofwat in October 2023, and PR24 continues to be tabled as a standing agenda item at all Board meetings. The Board considers, reviews and discusses detailed updates at each meeting and provides management with the challenge and scrutiny required to develop our proposals. Engagement with stakeholders is an essential input to progressing the plan, and individual Board members attended customer research groups to listen to, and understand, customers' views first hand. Similarly, individual Board members, and the Board as a whole, have taken part in informed discussions with Ofwat.

BOARD LEADERSHIP AND COMPANY PURPOSE

The Board's role is to be effective in securing the long-term success of Severn Trent by ensuring the delivery of our Strategy and that its overarching objectives remain aligned with the Company's Purpose and Values. Maintaining the highest standards of governance is integral to this, together with ensuring that the Board takes decisions that create sustainable long-term value for the mutual benefit of our shareholders, customers, employees and the communities we serve.

An effective Board

The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. This enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between the Directors. Trust and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the long-term success of Severn Trent in full consideration of the impact upon all stakeholders.

There is a clear division of responsibilities between the roles of Chair and Chief Executive. To allow these responsibilities to be discharged effectively, the Chair and Chief Executive maintain regular dialogue outside the boardroom, to ensure an effective flow of information. The Non-Executive Directors have direct access to senior management at all times. Informal as well as formal contact with the wider business is encouraged to develop a deeper understanding of Severn Trent's operations and this engagement is welcomed. This broadens the Non-Executive Directors' sources of information and enables them to consider the wider impact of any Board decisions on stakeholders more broadly. The effectiveness of the Board is reviewed at least annually and conducted according to the guidance set out in the 2018 Code and Financial Reporting Council ('FRC') Guidance on Board Effectiveness.

Board independence

The independence of the Board is a matter of utmost importance given the vital role Non-Executive Directors play in scrutinising the performance of management and holding individual Executive Directors to account against agreed performance objectives. The Chair regularly holds meetings with Non-Executive Directors without the Executive Directors or any management present, and Non-Executive Directors can obtain independent professional advice, at the Company's expense, in the performance of their duties. All Directors have access to the advice and services of the Group Company Secretary, whose appointment and removal is a matter reserved for the Board.

The independence of our Non-Executive Directors is formally reviewed annually by the Severn Trent Plc Nominations Committee, and as part of the Board Effectiveness evaluation. Particular focus is applied to Directors who have served over six years on the Board and John Coghlan, has been subject to a particularly stringent independence assessment. The Severn Trent Plc 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.

All of the Non-Executive Directors who served during 2022/23 were considered by the Board to be independent for the purposes of the 2018 Code and the Chair was considered to be independent upon her appointment.

Conflicts of interest

Severn Trent Plc has a Conflicts of Interest Policy in place for all Group companies. Our Board and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months, with any conflicts

being recorded in the Conflicts of Interest Register. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical steps that are to be taken to avoid conflict situations.

When reviewing conflict authorisations, the Board considers any other appointments held by the Director as well as the findings of the Board Effectiveness evaluation. Board members hold external directorships and other outside business interests and we recognise the significant benefits that greater boardroom exposure provides for our Directors. However, we closely monitor the nature and number of external directorships our Directors hold in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Severn Trent, and to ensure that all of our Board members remain compliant with applicable shareholder advisory groups' individual guidance on 'overboarding'. These requirements specify a limit on the number of directorships both Executive and Non-Executive Directors are permitted to hold and no Directors exceed these guidelines. Our Non-Executive Directors commit sufficient time to discharging their responsibilities as Directors of Severn Trent in line with the requirements set out in our Charter of Expectations.

Before committing to an additional appointment, Directors confirm the existence of any potential or actual conflicts; that the role will not breach the Company's overboarding limit; and provide the necessary assurance that the appointment will not adversely impact their ability to continue to fulfil their role as a Director. Directors are required to obtain formal approval from the Board ahead of undertaking any new external appointments and approval was sought during the year in relation to external appointments for both Executive and Non-Executive Directors. In each case, the Board determined that there would be no impact on the time commitment required for each Director, nor on the independence and objectivity required to discharge the agreed responsibilities of each role. The resultant position is believed to be consistent with applicable shareholder advisory groups' guidelines on overboarding.

The Conflicts of Interest Policy continues to be applied practically throughout the year, such as considering the potential conflict presented by Directors having roles on other Severn Trent Water Group companies.

Schedule of Matters Reserved to the Board

To ensure the Board maintains oversight of the areas material to the delivery of the Company's Strategy and Purpose, the Board undertakes an annual review of the Matters Reserved to the Board. The latest review took place in March 2023 and the Board agreed that the Schedule contained areas appropriate to require Board involvement, including in relation to strategy, structure and capital, financial reporting, controls and communication with stakeholders. The Board also reviewed its skills matrix to determine whether any additional skills or development opportunities were needed in order for the Board to discharge its duties effectively. The Schedule of Matters Reserved to the Board is available on the Severn Trent Plc website.

Strategy

Appropriately evaluated strategic decisions are crucial to help us to deliver our Strategy and achieve our Purpose of 'taking care of one of life's essentials'. Responsibility to all of our stakeholders for the approval and delivery of the Company's Strategy and for creating and overseeing the framework to support its delivery sits with the Board. During the year, the Board considered and approved the Company's new Corporate Strategy, further details of which can be found within the Strategic Report. As well as standing strategic items at every Board meeting, the

Board also holds a dedicated Strategy Day with the Executive Committee to help consider the strategic direction of the Company for the short, medium and long term.

Responsibility for the development and implementation of the Company'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 financial statements for the year ended 31 March 2023. The performance review of the Company can be found within the Strategic Report. This provides detailed information relating to the Severn Trent Water Group, its Business Model and Strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023.

Stakeholder engagement

Stakeholder engagement is central to our Strategy and, as such, a detailed disclosure setting out stakeholder engagement activity conducted during the year is included in our Strategic Report. The Board ensures that the Company engages effectively with its stakeholders and encourages a two-way dialogue in order that the decisions made by the Board take into account the views of, and potential impacts on, stakeholders. Our dedicated Stakeholder Engagement section and Section 172 Statement respectively set out how the Board has considered and contemplated the interests of stakeholders. A detailed overview of the Board's engagement with our workforce is set out on.

COMPOSITION, SUCCESSION AND EVALUATION

As at the date of this report, our Board comprised the Chair (who was independent on appointment), six Independent Non-Executive Directors and three Executive Directors. The details of their career backgrounds, relevant skills, Committee membership, tenure and external appointments can be found within their individual biographies.

Board composition

The Chair, Senior Independent Director and Non-Executive Directors are appointed for a three-year term. 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 Severn Trent Plc 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 Severn Trent Plc Nominations Committee (although decisions on appointments are a matter reserved for the Board).

The Board and the Severn Trent Plc Nominations Committee have spent a significant amount of time considering Board composition during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide effective challenge and promote diversity.

Directors' skills and experiences

An effective Board requires the right mix of skills and experience and, as can be seen from the individual biographies and the Board skills matrix, our Board members contribute a diverse range of backgrounds, skill sets and experiences that, combined together, produce an effective team, focused on promoting the long-term success of the Company.

The skills matrix is reviewed at least annually to ensure that the right balance of skills and experience are in place to enable the effective oversight of the Company and execution of our Strategy.

Diversity

A diverse organisation benefits from differences in skills, regional and industry experience, background, ethnicity, gender, sexual orientation, religion, belief and age, as well as culture and personality. The Board is pleased that Severn Trent is recognised as a leader in this area and remains focused on promoting broader diversity and creating an inclusive culture across the organisation and including on the Board itself. More details about the Board Diversity Policy and how the Company has performed against its Board Diversity Targets in relation to membership of the Board and Executive Committee can be found in the Severn Trent Plc Nominations Committee Report within the 2022/23 Severn Trent Plc Annual Report and Accounts.

Development, training and resources

The environment in which we operate is continually changing. It is therefore important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments and keep their knowledge and skills up to date, so the composition of the Board continues to operate effectively and support delivery of our long-term Strategy.

Our Board Effectiveness evaluation process includes training discussions with the Group Company Secretary and, as required, we invite professional advisers and subject matter experts to provide in-depth updates. These updates are not solely reserved for legislative developments but aim to cover a range of strategic issues including, but not limited to, the economic and political environment, and environmental, sustainability, technological and social considerations. Our Group Company Secretary also provides regular updates to the Board and its Committees on regulatory and corporate governance matters.

The aim of the training sessions is to refresh and expand the Board's knowledge and skills. In doing so, the Directors can contribute to discussions on technical and regulatory matters more effectively. The sessions also serve as an opportunity for the Board to discuss strategy and risks with management below Executive Committee level and gain further direct insight into our businesses and management capability.

During the year, the Board took part in a number of training and deep dive sessions including in relation to PR24, river quality, innovation, resilience in the round and talent management. Directors also have access to our online resource library, which is continually reviewed and updated. The library includes a Corporate Governance Manual, tailored training and development content, a Results Centre and Investor Relations section, and briefings on regulatory topics. It also contains a further reading section which covers updates and guidance on changes to legislation and corporate governance best practice.

Board succession

Along with ensuring an appropriate mix of skills and experiences on the Board as a whole for the effective oversight of the Company's Strategy and operations, the composition of the Board is also informed by the need for orderly succession across key Board and Committee roles.

The Severn Trent Plc Nominations Committee and Board have applied particular focus to this important area over the last 18 months and further detail can be found in the Severn Trent Plc Nominations Committee Report within the 2022/23 Severn Trent Plc Annual Report and Accounts.

Induction

We develop a detailed, tailored induction for each new Non-Executive Director. This includes one-to-one meetings with the Chair and each of the existing Non-Executive Directors. One-to-one meetings are also arranged with the CEO, CFO and the Group Company Secretary, along with other members of the Executive Committee and Senior Management Team. New Directors also meet members of the operational teams and visit our key sites and capital projects to ensure they gain a detailed understanding of the water and waste water businesses, and have a chance to experience our unique culture first hand. We provide briefings on the key duties of being a Director of a regulated water company and proposed appointees meet with Ofwat ahead of their formal appointment. We enhance the Board's induction programme in light of feedback from new Directors and the Board Effectiveness evaluation, for example, the introduction of the Board buddy scheme.

SARAH LEGG'S INDUCTION

MEMBER OF:

– Severn Trent Plc Audit and Risk Committee

– Severn Trent Plc Corporate Sustainability Committee

– Severn Trent Plc Nominations Committee

– Severn Trent Plc Treasury Committee

The Board welcomed Sarah Legg during the year, and her extensive induction programme covered a range of areas across the business. Along with a detailed overview of the water sector and the regulatory requirements we operate under, Sarah attended a number of sessions covering topics including governance, stakeholder engagement and the environment. The sessions were a mix of virtual and physical meetings, including visits to a range of operational sites.

Additional areas of focus for Sarah's induction were matters pertinent to her role on the Board Committees. For her role on the Severn Trent Plc Audit and Risk Committee, this included receiving an overview of the current risks faced by the Severn Trent Group, regulatory finance model, risk management framework, Internal Audit programme and internal control processes, and an overview of the Group's AMP7 funding strategy in relation to her role on the Treasury Committee. In relation to her membership of the Corporate Sustainability Committee, Sarah undertook a series of deep dives in relation to the Group's Sustainability Strategy and net zero commitments. A high-level overview of the induction process is set out below.

Induction process

UNDERSTANDING THROUGH

INTRODUCTORY MEETINGS

Sessions held in the first few days and weeks to ensure that new Directors are able to gain **a real understanding of our Strategy and Purpose, the regulatory regime and our core business activities**.

COMPLEMENTED WITH

SPECIFIC DEEP DIVE SESSIONS

Deep dive sessions enable **Directors to explore in detail the areas of focus for the Group over the short, medium and long term, and deepen their understanding of the Group**.

KNOWLEDGE REINFORCED BY

SITE VISITS

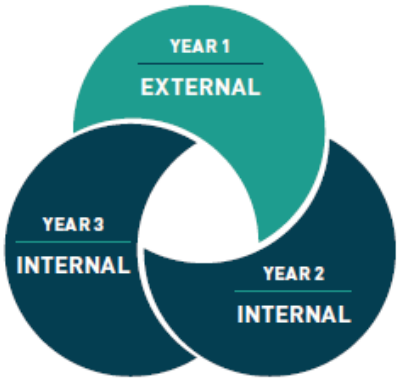
Site visits allow Directors to observe the Group's **operations in action and meet colleagues** to gain further insight into our culture and enhance their understanding of the Group's operations.

EVALUATION

BOARD EVALUATION REVIEW CYCLE

During the year, the Board reviewed the nature of its evaluation process and agreed to adopt a three-year assessment cycle moving forward, to build on momentum in prior years, whilst also ensuring a rigorous and balanced approach to implementing incremental improvements.

The cycle is set out below and 2023/24 will be the first year of a new three-year cycle, and therefore will involve an externally-facilitated evaluation exercise. The Nominations Committee has commenced the process to select a facilitator to conduct the 2023/24 evaluation.



YEAR 1 – 2023/24

Externally Led Comprehensive Evaluation: A detailed, independent assessment of the Board, Committees and individual Directors.

YEAR 2 – 2024/25

Internally Led Intermediate Level Evaluation: With a focus on Board dynamics, Board composition and succession.

YEAR 3 – 2025/26

Internally Led Lighter Touch Evaluation: With a focus on stakeholder engagement and Board contribution to strategy and organisational culture.

Our annual Board evaluation provides the Board, and its Committees, with an opportunity to consider and reflect on the quality and effectiveness of its decision making, the range and level of discussion, and for each member to consider their own contribution and performance.

This year, the review was facilitated internally by the Group Company Secretary, who is well placed as an independent sounding board to the process. Meetings took place during February and March 2023, and key themes were shared with the Board and Severn Trent Plc Nominations Committee along with a 2023 action plan.

An externally-facilitated evaluation was conducted by Independent Board Evaluation in 2020/21 and the next externally-facilitated evaluation will be scheduled for 2023/24 in accordance with the 2018 Code provision that the Company should undertake an externally facilitated Board Effectiveness evaluation at least every three years.

INTERNAL EVALUATION PROCESS FOR 2022/23

A description of the process followed for this year's review is detailed below.

STAGE 1 **EVALUATION PROCESS PLANNING** DECEMBER 2022 – JANUARY 2023	The Group Company Secretary undertook a detailed review of the 2021/22 Board Effectiveness evaluation process in order to develop the approach for 2022/23, incorporating recommendations from the 2018 Code, Parker Review, FRC Guidance on Board Effectiveness and Ofwat's Board leadership, transparency and governance principles. A focused questionnaire was designed to gather individual Directors' perceptions of the effectiveness of the Board and its operations, including in relation to accountability, oversight, strategy, value creation, culture, ethics, behaviours, stakeholder engagement and information flows to the Board and its Committees.
STAGE 2 **QUESTIONNAIRE RESPONSES AND ONE-TO-ONE MEETINGS** FEBRUARY – MARCH 2023	The questionnaires were issued and each Director was also asked to complete an updated entry for the Board skills matrix, taking into consideration skills that had been strengthened through training and development over the previous year. Directors were also asked to highlight any additional skills that they felt may be beneficial for the Board to have amongst its members in order to discharge its duties effectively. Board members participated in comprehensive one-to-one meetings with the Chair and Group Company Secretary, with additional input from the Senior Independent Director, to allow reflection on their personal responses to the questionnaire and discussion of matters relevant to boardroom culture, process and development. Separate discussions were held to consider the effectiveness of the CEO, CFO and Group Company Secretary, led by the Chair. The Chair's performance evaluation was led by the Senior Independent Director.
STAGE 3 **EVALUATION AND REPORTING** MARCH 2023	The Group Company Secretary collated the individual responses, including analysis of themes and proposed actions. A detailed report, setting out the findings of the evaluation, was provided to the Chair for consideration. The Group Company Secretary and Chair met to discuss the findings, with the resulting report being tabled to the Nominations Committee and Board in March 2023.
STAGE 4 **CONSIDER RESULTS AND AGREE ACTIONS** MARCH 2023	The findings of the evaluation exercise were fully considered when making recommendations in respect of the appointment and reappointment of individual Directors, and included an assessment of their independence, time commitment and individual performance. The respective proposed 2023 AGM Resolutions were considered and agreed by the Board. The proposed actions arising from the evaluation were thoroughly discussed and agreed for implementation and monitoring.
STAGE 5 **MONITOR PROGRESS** APRIL 2023 ONWARDS	The Board will continue to oversee the progress made in relation to the agreed actions to ensure their timely completion. The Nominations Committee will also continue to play a key role in monitoring the actions relating to Board succession, composition, recruitment and induction.

EVALUATION 2022/23 FINDINGS

RECOMMENDATION	INITIAL PROGRESS
SUCCESSION PLANNING AND BOARD COMPOSITION	
Ensure process to enable the smooth succession of Non-Executive Directors, including the Senior Independent Director, commences well in advance of scheduled retirements.	Succession planning continues to be a key focus of the Board and a standing item on the agenda for Nominations Committee meetings. Robust succession plans are in place for all roles.
BOARD AGENDA	
Notwithstanding the well-structured agendas which comprise an optimal mix of strategic and operational items, consideration should be given to: – Scheduling key strategic and complex regulatory topics earlier on the Board agenda to ensure sufficient time for discussion and debate; and – Allocating more time on the Board agenda to discuss strategic developments and opportunities, as well as innovation initiatives, both within and outside of the utilities sector.	The Board forward agenda has been reviewed to ensure that: – All matters are appropriately scheduled for discussion at future Board meetings; and – Sufficient time is devoted to the discussion of strategic and innovative topics.
BOARD REPORTS	
Notwithstanding the high quality of Board reporting, there was an opportunity to enhance executive summaries and articulate key takeaways within Board reports to facilitate focus of Board discussions.	Feedback on Board reporting has been incorporated into the Group's suite of report writing training.

EVALUATION RECOMMENDATIONS FROM 2021/22

The internally-facilitated board effectiveness process also provided an update on the recommendations identified in the 2021/22 review. The report concluded that good progress had been made in relation to the recommendations from the 2021/22 evaluation. Further details are set out in the table below.

RECOMMENDATION	ACTION TAKEN
BOARD AGENDA	
Notwithstanding the well-structured agendas which comprise an optimal mix of strategic and operational items, more opportunity could be afforded to allow the Board to discuss bolder strategic moves and opportunities, future likely trends and developments outside of the utilities sector, and potential areas of differentiation.	The Board developed and agreed a set of Board objectives for 2022/23, which were reviewed at its meetings in March and April 2022. The Board forward agenda was also reviewed to ensure that all matters were appropriately scheduled for discussion at future Board meetings.
In addition to the informative oral reports provided to the Board by the Chair on her meetings with shareholders, consideration should be given to include dedicated time on the agenda for all Directors to provide feedback on engagement with stakeholders.	The Board agenda allows time for Directors to provide individual feedback on their engagement activity with all stakeholders.
ENGAGEMENT OUTSIDE MEETINGS	
Non-Executive Directors should continue to be invited to additional site visits outside the Board meeting rhythm to further build relationships with each other and gain an even deeper understanding of the business.	Alongside the regular programme of Board meetings being held at operational sites, a number of additional site visits were scheduled, covering the full range of the Group's operations. See page 110 for further details.
'Teach in' sessions for non-Treasury Committee members should be established to provide other Non-Executive Directors with additional knowledge and experience of this technically complex area.	A programme of 'teach in' sessions was developed, including Treasury-related topics and other technical matters.
BOARD COMMITTEES	
Nominations Committee – consideration should be given as to whether the Committee's remit should be expanded to cover wider talent development, below Executive Committee level.	The Committee's remit was considered during the review of its Terms of Reference undertaken in March 2023 and it was determined that these remained appropriate and reflective of the requirements outlined in the 2018 Code. The Board participated in a Group-wide succession planning and talent management session during the year. Read more in the Nominations Committee Report on pages 121 to 126.
Remuneration Committee – consideration should be given as to whether there should be an additional Non-Executive Director on the Committee.	As part of its ongoing succession planning activity, the Board continues to consider the composition of all Committees, including that of the Remuneration Committee.

Chair's performance

The Senior Independent Director, Kevin Beeston, carried out a review of the performance of the Chair, which included meeting with the Non-Executive Directors without the Chair being present. The consolidated feedback, which was wholly positive in nature, was discussed with the Chair and subsequently reported to the Severn Trent Plc Nominations Committee and Board. The review confirmed that the Chair continued to demonstrate strong leadership and commitment, highlighting her expert management of the Board succession process during the year. It was concluded that the Chair promoted a culture of inclusivity, openness and debate, ensuring that views from others were sought before expressing her own perspective. As such, meetings were constructive and focused, and Directors received accurate, timely and clear information in advance.

Board members confirmed that the Chair devoted sufficient time to the role, including in relation to building good relationships with key stakeholders, and in all respects met the requirements of the 2018 Code.

John Coghlan's independence

John Coghlan will have served on the Board for nine years in May 2023. The Board is satisfied that John continues to demonstrate independent character, judgment and objectivity. Continual monitoring of his independence and performance will be undertaken over his remaining tenure.

The Board, taking into account the provisions set out in the 2018 Code, considered that John remained independent notwithstanding the fact he would be serving for a period of more than nine years and concluded that there were no relationships or circumstances likely to impair his judgment. This was based on a number of factors, including:

- John's strong record in making objective decisions and holding management to account, and remaining willing and able to do so;
- His clear independence demonstrated in terms of his participation at meetings with management and his interactions with stakeholders including the External Auditor;
- His arm's-length approach to dealing with Executive Directors and continued challenge of management where appropriate;
- The fact that none of John's external directorship appointments conflicted or potentially conflicted with those of the Company; and
- The broader composition of the Board, including the fact that no other Non-Executive Director had a tenure in excess of nine years.

Effectiveness of Board Committees

The Board places significant reliance both on its Committees and the Severn Trent Plc Committees by delegating a broad range of responsibilities and issues to them. It therefore remains crucial that effective links are maintained between the Committees and the Board, not least as it is impracticable for all Independent Non-Executive Directors to be members of all the Committees. Mechanisms are in place to facilitate these links, including ensuring that there are no gaps or unnecessary duplications between the remit of each Committee and overlapping membership between Board Committees where necessary. Each Committee has its own Terms of Reference, which are reviewed annually, and the Board receives a written summary of each of the Committee's meetings along with oral updates at the Board, where appropriate.

The effectiveness of the Board Committees is therefore an important part of the evaluation and, along with each respective Committee, the Board also monitors any Committee-related recommendations that arise from the review.

Overall, Board members are fully satisfied that the governance and controls in place are working well and give the Board the visibility it needs to carry out its oversight duties. Each Committee remains effective in providing the Board with the support it has requested.

External appointments

It is imperative that Directors have sufficient time to meet their responsibilities of providing constructive challenge and strategic guidance, and holding management to account. Approvals were sought from the Board during the year for Directors' additional roles and due consideration was given to any potential conflicts of interest and ability to devote sufficient time to Severn Trent Plc before consent was granted.

A further review of each Director's time commitment was undertaken as part of the evaluation, with full consideration given to the number of external positions held by the Executive and Non-Executive Directors, including the time commitment required for each. The Severn Trent Plc Nominations Committee, in considering the Continuing Office of Directors, did not identify any instances of overboarding and confirms that all individual Directors have sufficient time to commit to their appointment as Directors of Severn Trent Water Limited.

Directors' Remuneration Report

The Executive Directors of Severn Trent Water Limited mirror those of Severn Trent Plc and, consequently, it is not possible to separate the remuneration received solely for their services to Severn Trent Water Limited. Therefore, the Remuneration Report that follows is a summary of the Remuneration Report found in the 2022/23 Severn Trent Plc Annual Report and Accounts which is available on the Severn Trent Plc website.

The Severn Trent Plc Remuneration Committee (the 'Committee') sets the Remuneration Policy (the 'Policy') for Executive Directors and other senior executive managers, taking into account the Company's strategic objectives over the short and long term and the external market. At the 2021 AGM held on 8 July 2021 we received overwhelming shareholder support for the 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.

The Committee addresses the need to balance risk and reward. The Committee monitors the variable pay arrangements to take account of risk levels, ensuring an emphasis on long-term and sustainable performance. The Committee believes that the incentive schemes are appropriately managed, and that the choice of performance measures and targets does not encourage undue risk taking by the Executives, so that the long-term performance of the business is not compromised by the pursuit of short-term value. The schemes incorporate a range of internal and external performance metrics, measuring both operational and financial performance over differing and overlapping performance periods, providing a rounded assessment of overall Company performance. More detail on how the Committee has satisfied itself, over the course of the year, that a fair and consistent approach is applied to both the remuneration of the Executive Directors and the wider workforce can be found on pages 141 to 163 of the 2022/23 Severn Trent Plc Annual Report and Accounts.

Directors' remuneration and annual bonus scheme
Remuneration for Executive Directors comprises the following elements:

- base salary and benefits;
- pension arrangements;
- annual bonus; and
- long term incentive plan.

As outlined in the 2022/23 Severn Trent Plc Annual Report and Accounts, the Non-Executive Chair, Christine Hodgson, and independent Non-Executive Directors, do not participate in the Company's incentive arrangements, i.e. annual bonus or share plans.

Base salaries and benefits
Base salaries for individual Directors are reviewed annually by the Committee and normally take effect from 1 July. Salaries are set with reference to individual performance, experience and contribution, together with developments in the relevant employment market (having regard to similar roles in publicly quoted companies of a comparable size (currently FTSE51-150 excluding financial services) and practice in other water companies), company performance, affordability, wider economic environment and internal relativities.

In addition to base salary, Executive Directors receive a benefits package which contractually includes a green travel allowance (formerly car allowance, changed to recognise the use of public transport and introduction of our electric vehicle car scheme), membership of a defined contribution pension scheme or cash allowance in lieu, family level private medical insurance, life assurance, personal accident insurance, health screening and incapacity benefits scheme. Executive Directors

may also take advantage of the Severn Trent flexible benefit scheme, which is open to all employees.

Annual Bonus 2022/23

The annual bonus is designed to encourage improved financial and operational performance, and to align the interests of Directors with shareholders through the partial deferral of payment in shares. When implementing the 2022/23 all-employee annual bonus scheme it was determined that it would continue to use the elements and weightings agreed with shareholders, with the target bonus of 60% of salary remaining unchanged.

Bonuses are based on customer, financial and operational performance. Half of the bonus is paid in cash and half in shares which vest after three years (with the value of any dividends to be rolled up and paid on vesting).

Malus and clawback mechanisms also apply to allow the recoupment within three years of the payment of the cash bonus or the grant of deferred shares in the event of financial misstatement, error in the calculation or gross misconduct.

Annual bonus performance is measured over a single financial year. An annual bonus was awarded of 46.2% of salary for both the Chief Executive Officer and the Chief Financial Officer. Annual bonus payments to Executive Directors are not pensionable. However, in recognition of strength of public opinion, customers did not fund Executive Director bonuses, and instead they were charged to and paid by Severn Trent Plc. The Directors bonuses are based on Group numbers, there is no bonus payable on any Severn Trent Water only numbers.

The table below shows a summary of the metrics and targets which were used to determine the annual bonus awards, together with the actual performance achieved:

Measure	***Weighting % Total award***	**Threshold (0% payable)**	**Target (50% payable)**	**Stretch (100% payable)**	**Actual Performance**	**Outcome % Total award**
Group PBIT	*49%*	£497.1m	£522.0m	£547.0m	£508.8m	11.5%
Customer ODIs (i)	*35%*	£45.0m	£55.0m	£65.0m	£35.5m	12.0%
Health and Safety (ii)	*8%*	0.18	0.14	0.10	0.11	7.0%
River Health (iii)	*8%*	Various				8.0%

(i) Our ODIs are grouped into categories. The outcome achieved reflects in-year performance across all three ODI categories, and the outturn represents significant outperformance in one of the three categories. Total reported ODIs of £53m also include £17.5m of end of AMP ODIs for work and milestones already delivered.
(ii) Measured as number of lost time incidents divided by number of hours worked by multiplied by 100,000.
(iii) Measured by specific River Health deliverables, see below for more detail.

The below chart is a breakdown of the River Health element of the bonus, shown in the chart above

River Health element	***Weighting % Total award***	**Threshold (0% payable)**	**Target (50% payable)**	**Stretch (100% payable)**	**Actual Performance**	**Outcome % Total award**
Reduction in Combined Sewer Overflows ('CSO') activations	*4%*	24.4	23.7	23.0	18.4	4.0%

Reduction in Reasons for Not Achieving Good Status ('RNAGS')	*4%*	50	70	90	90	4.0%

The 4% relating to RNAGS is underpinned by a binary bathing river quality milestones measure. This was achieved in full.

Further comment on our overall performance during the financial year can be found in the Chief Executive's review.

Base Salary

The CEO and former CFO's salary will increase by 3.0% from 1 July 2023, further detail can be found on page 149 of the 2022/23 Severn Trent Plc Annual Report and Accounts.

Annual Bonus 2023/24

Over the last year the focus on environmental performance of water companies has intensified, particularly in relation to how it links to Executive pay outcomes. Whilst the Committee is confident that we already have strong links between environmental performance and pay, with 20% of the existing annual bonus linked to environmental measures, we believe it is appropriate to go further and make the link between environmental performance and remuneration even stronger and more direct.

In April 2023, the Committee approved an increase to the weighting of the river health element from 8% to 12% and the creation of a specific section of the annual bonus for the 4* Environmental Performance Assessment ('EPA') rating equating to 5% of the total. This means that, from 2023/24, 30% of the annual bonus will be linked to measures relating specifically to environmental measures and river health.

The Committee shared these proposals with 30 of our largest shareholders, which are aligned with the Policy and will apply to our bonus structure from the 2023/24 financial year onwards.

The annual bonus performance measures and weightings for the 2023/24 financial year will therefore be as follows:

- Group Profit Before Interest & Tax – 40%
- Customer and Environment ODIs – 35%
    - Improve the environment we live in (13%)
    - Minimise disruption to customers (11%)
    - Prevent failure in our network and our sites (11%)
- River Health – 12%
- EPA rating – 5%
- Health and Safety (Lost Time Incidents) – 8%

The maximum bonus opportunity will remain at of 120% of salary in 2023/24.

The Committee considers the forward-looking performance targets to be commercially sensitive and has, therefore, determined not to disclose them in advance. Details of the targets used will be disclosed in next year's Remuneration Report.

Long Term Incentive Plan

Executive Directors may also participate in the Severn Trent Plc Long Term Incentive Plan ('LTIP') which is designed to encourage strong and sustained improvements in financial performance, in

line with the Company's strategy, and long-term shareholder returns. Under this plan, conditional awards of performance shares are made to Directors up to an annual maximum limit and vest after three years. The value of dividends paid on the shares comprising the award will be rolled up and paid on vesting.

Malus and clawback mechanisms apply to allow the recoupment of incentive awards within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross negligence, fraud or gross misconduct.

LTIP vesting

The standard element of the 2020 LTIP award measures the Company's performance against RoRE set by Ofwat's Final Determination ('FD'). Over the three-year performance period of the 2020 LTIP, the Company achieved a RoRE of 1.95x against the target of 1.39x the base RoRE return.

This results in full vesting of the standard element of the 2020 LTIP award, which is equivalent to 75% of maximum for the total 2020 LTIP award for the CEO, and 66.7% of maximum for the CFO. A two-year post vesting holding period will also apply. The Committee has reviewed the vesting of the award to consider potential windfall gains and concluded that, subject to final share price on vesting, there has not been any windfall gain. For more details on how the Committee assessed this, please see page 148 of the 2022/23 Severn Trent Plc Annual Report and Accounts.

Vesting under the UQ element of the 2019 LTIP award was only known at the end of July 2022 when comparable statistics for the other WaSCs were published. This meant that the LTIP single figure value reported for 2021/22 did not include the UQ element of the 2019 LTIP award. We now know that Severn Trent achieved UQ performance, and therefore the UQ element of the 2019 LTIP award is included in the 2022/23 single figure for the CEO and CFO.

Further details can be found in the 2022/23 Severn Trent Plc Annual Report and Accounts.

2021, 2022 and 2023 LTIP Awards

Awards granted from 2021 include a second performance measure related to sustainability, specifically our net zero carbon ambition, incorporating our Sustainability Framework within the LTIP. RoRE remains the primary measure with a weighting of 80% whilst the sustainability measure has a weighting of 20% and focus on our public commitment to net-zero carbon emissions by 2030 as part of our Triple Carbon Pledge.

Further details can be found on pages 144 and 151 in the 2022/23 Severn Trent Plc Annual Report and Accounts.

The grant levels for the 2023 LTIP awards remain unchanged at 200% of base salary for the Chief Executive Officer and 150% of base salary for the Chief Financial Officer.

Assessment of performance in the round

In overseeing remuneration outcomes, the Committee ensures that performance is assessed in the round through a number of lenses, to incorporate a variety of stakeholder perspectives. This assessment examines whether formulaic incentive outcomes are appropriate in the context of overall business performance for customers, the environment and wider stakeholders. It also considers other factors, including regulatory investigations, environmental compliance beyond the measures contained in the incentive schemes, health and safety performance, treatment of the wider workforce and societal matters. such as support for our local communities.

We have demonstrated again this year that we are one of the sector's leading performers:

- We are confident in achieving EPA 4* in the Environment Agency's annual assessment for the fourth consecutive year.

- 79% of our ODI measures are green, including those that measure leakage, pollutions and water quality complaints.

- In November 2022 we launched our Societal Strategy, with the objective of helping up to 100,000 people in our region, giving them improved chances in life and tackling the underlying causes of poverty.

- There were two significant weather-related events in 2022/23, with the hot weather over the summer and the freeze-thaw event in December. Because of the learnings from events in 2018 and the proactive measures we put in place, we delivered a marked improvement in our performance.

Further detail on the Committee's assessment of performance in the round can be found on page 148 of the 2022/23 Severn Trent Plc Annual Report and Accounts.

Following the Committee's assessment of these factors in the performance in the round, no discretion has been exercised to override the formulaic outturn of either the 2022/23 annual bonus or the standard element of the 2020 LTIP award.

The Committee believes that the outcomes of the annual bonus and LTIP are both appropriate and reflective of the Company's broader performance over their respective performance periods, and that the Policy has operated as intended. Annual bonus performance is measured over a single financial year. An annual bonus was awarded of 46.2% of salary for both the Chief Executive Officer and the Chief Financial Officer. Annual bonus payments to Executive Directors are not pensionable. However, in recognition of strength of public opinion, customers did not fund Executive Director bonuses, and instead they were charged to and paid by our Ultimate Parent Company, Severn Trent Plc.

Shareholding guidelines

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 (1,309% for the CEO and 828% 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. The Executive Directors have also increased their shareholdings further through personal share purchases. Further details can be found in the 2022/23 Severn Trent Plc Annual Report and Accounts.

Directors' report

The Directors' Report for the year ended 31 March 2023 comprises pages 131 to 134 of this report, together with the sections of the Annual Report incorporated by reference. The Governance Report set out on pages 96 to 130 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 95, as the Board considers them to be of strategic importance.

Specifically, these are:

- the Performance Review on pages 19 to 42, which provides detailed information relating to the Company, its business model and strategy, operation of its businesses, future developments and the results and financial position for the year ended 31 March 2023;
- future business developments (throughout the Strategic Report);
- details of the Company's policy on addressing the Principal Risks and uncertainties facing the Company, which are set out in the Strategic Report on pages 59 to 77;
- information on the Severn Trent Water Group's greenhouse gas ('GHG') emissions for the year ended 31 March 2023 on pages 44 to 48;
- how we have engaged with our people and stakeholders on pages 78 to 87;
- business relationships (throughout the Strategic Report); and
- the Section 172 Statement on pages 88 to 92.

Principal activity

The principal activity of the Company 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 Company as at 31 March 2023 are shown in note 18 to the financial statements.

Dividends

Information relating to the payment of dividends can be found in note 13 to the financial statements.

Areas of operation

During the course of 2022/23, the Company 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 101 to 104. Details of Directors' service contracts are set out in the Directors' Remuneration Report from page 126. 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 against certain liabilities that may be incurred as a result of their positions with the Severn Trent Group. The indemnities were in force throughout the tenure of each Director during the last financial year and are currently in force.

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

Employees

The average number of employees within the Company is shown in note 7 to the 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 pages 31 to 35.

Employee engagement

Due to our commitment to transparent and best practice reporting, we have included the sections on our people on pages 28 to 40 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 28 to 40 and 81 to 83 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.

Business relationships

Pages 78 and 87 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.

Internal controls

Further details of our internal control framework can be found in the Severn Trent Plc Audit and Risk Committee Report within the Severn Trent Plc Annual Report and Accounts.

Treasury management

Details on our Treasury Policy and management are set out in the Chief Financial Officer's Review on pages 50 to 58.

Post balance sheet events

Details of post balance sheet events are set out in note 39 to the financial statements.

Capital structure
Details of the Company's issued share capital and of the movements during the year are shown in note 28 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.

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 Water 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.

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.

Contributions for political and charitable purposes
Donations to charitable organisations during the year amounted to £5,603,000 (2021/22: £5,055,786). 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 Water nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Supplier payment policy
Individual operating companies within the Severn Trent Water 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 Company 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 Company policy to ensure that suppliers know the terms on which payment will take place when business is agreed.

For the payment practices reporting period ended 31 March 2023, the average time to pay for Severn Trent Water Limited was 31 days.

Relevant audit information
The Directors confirm that:

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

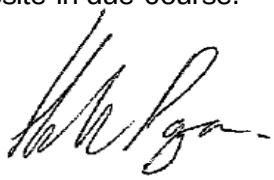
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External Auditor
Having carried out a review of its effectiveness during the year, details of which can be found in the Severn Trent Plc Audit and Risk Committee Report within the 2022/23 Severn Trent Plc Annual Report and Accounts, the Severn Trent Plc Audit and Risk Committee has recommended to the Board the reappointment of Deloitte LLP. Deloitte LLP indicated its willingness to continue as Auditor. The Severn Trent Plc Audit and Risk Committee will also be responsible for determining the audit fee on behalf of the Board.

Carbon footprint
We have committed to achieving net zero operational carbon emissions by 2030, building on our long track record of making year-on-year reductions in our emissions. We also committed to generating or procuring 100% renewable energy and moving our fleet to 100% electric vehicles by 2030, where available.

The Board considers environmental matters to be of strategic importance and therefore relevant information contained in our Net Zero Transition Plan and TCFD disclosure within our Severn Trent Plc Annual Report and Accounts 2022/23 and page 43 to 49 is incorporated into the Directors' Report by cross reference.
Our TCFD disclosure includes our annual report on GHG emissions along with details of our energy consumption across the Severn Trent Water Group and how we manage energy use.

Annual Performance Report of Severn Trent Water Limited
The Annual Performance Reports for Severn Trent Water Limited will be made available on its website in due course.



Hannah Woodall-Pagan
Company Secretary
12 July 2023

Directors' responsibility statement

The Directors are required to prepare the Group financial statements in accordance with United Kingdom adopted International Financial Reporting Standards ('IFRSs'), and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'.

Under company law, the Directors must not approve the Annual Report and financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

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

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

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

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

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

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

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

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

This responsibility statement was approved by the Board of Directors on 23 May 2023 and is signed on its behalf by order of the Board:

Christine Hodgson
Chair
12 July 2023

Helen Miles
Chief Financial Officer
12 July 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN TRENT WATER LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Severn Trent Water Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group and company statements of comprehensive income;
- the group and company statements of changes in equity;
- the group and company balance sheets;
- the group cash flow statement; and
- the related notes 1 to 42 of the group and 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 of 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 audit of the group financial statements is £17.5m (2022: £13.8m). This materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.8%) of profit before interest and tax.
Scoping	Our scoping has resulted in 97% (2022: 96%) of the group's net operating assets, 100% (2022: over 95%) of revenue and and 99% (2022: 91%) of profit before interest and tax, being subject to audit testing.
Significant changes in our approach	The materiality benchmark has been updated in the current year from profit before tax adjusted for gains/(losses) from financial instruments and exceptional items, used in the prior year. The change in the benchmark is reflective of the size and scale of the business.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- reviewing the group's borrowing arrangements, in particular the assessment of level of committed undrawn facilities including the £1.3 billion revolving credit and bilateral facilities and the sufficiency of headroom available in the group's forecasts (cash and covenants);
- assessing the assumptions used in the cash flow forecasts for consistency with Board approved budgets and future plans for AMP (Asset Management Plan) 7 and performing a sensitivity analysis relating to these assumptions;
- testing the arithmetic accuracy of the model used to prepare the cash flow forecasts and assessing the sophistication of the model used to prepare the forecasts;
- assessing the impact of risks and uncertainties on the business model and medium-term risks;
- assessing the consistency of management's going concern forecasts with those of Severn Trent Plc; and
- assessing the appropriateness of management's going concern disclosures in light of the above assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of the provision of household trade receivables in Severn Trent Water Limited

Key audit matter description	Severn Trent Water supplies water to residential customers in the UK and the provision represents the portion of household customers who do not, or cannot, pay their bills. Management makes estimates regarding the expected future loss rate for current receivables when calculating the appropriate level of bad debt provision. As at 31 March 2023, the provision recorded was £127.6m (2022: £128.3m) which incorporates management's estimate of the future impact of external economic factors on customers' ability to pay their outstanding bills to Severn Trent Water Limited. Provisions are made against Severn Trent Water Limited's trade receivables balance based on the historical cash collection of debt invoiced seven to nine years ago, which is considered by management to be representative of collection risk on whole population of household debtors. This historical collection performance is then adjusted for actual current cash collection. The final step is to adjust the provision for future economic conditions, for which management has considered the correlation between forecast cash collection and gross disposable household income (GDHI). The key audit matter is focussed on the appropriateness of the assumption that the experience of debt invoiced seven to nine years ago is a reasonable expectation for the determination of lifetime expected credit losses under IFRS 9 Financial Instruments, and whether the assumptions used in determining the impact of forecast decreases in GDHI on the expected credit loss are appropriate. Due to the high degree of estimation uncertainty associated with the recoverability of household trade receivables, we have determined that there was a potential for fraud through possible manipulation of this balance. The bad debt provision is discussed in note 2o) and note 20 to the financial statements. Management has included this as a key source of estimation uncertainty in note 4b) to the financial statements.
How the scope of our audit responded to the key audit matter	Our procedures to address the key audit matter included the following: • obtaining an understanding of relevant controls over the determination of the bad debt provision, including over the supporting data and assumptions; • testing the completeness and accuracy of the data included within the bad debt provision calculation;

	• testing the allocation of cash received in the current year to debt aged between seven and nine years; • use of data analytics to reconcile the debtor ageing for each debt category used in the bad debt provision model using source data from the billing system; • evaluating the reasonableness of economic data (both forecast and historical) used within the calculation, and performing a sensitivity analysis; • 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; and • assessing the appropriateness of the disclosures provided relating to the key assumptions, and the range of sensitivities disclosed.
Key observations	We are satisfied that the assumptions applied in assessing the expected credit losses, are reasonable and that Severn Trent Water Limited's bad debt provision has been appropriately calculated using relevant data, in accordance with IFRS 9.

5.2. Classification of capital programme expenditure in Severn Trent Water Limited

Key audit matter description	Severn Trent Water has a substantial capital programme which was agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. 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 £713.3 million (2022: £565.0 million) in capital expenditure projects out of the total group additions of £868.1 million (2022: £689.3 million) disclosed in note 16. Severn Trent Water Limited spent a further £223.2 million (2022: £194.1 million) on infrastructure maintenance expenditure out of the total group expenditure of £233.2 million (2022: £198.2 million) disclosed in note 6. 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 policy and implementation guidance to understand any changes in the current year and to determine compliance with the relevant accounting standards; • testing the relevant controls related to classification of capital programme expenditure;

	• obtaining an understanding of, and testing, relevant controls over the application of the policy regarding expenditure incurred on projects within the capital programme during the year; and • for a sample of projects, assessing whether the capitalisation policy has been applied to the costs incurred by reviewing the business cases, making direct enquiries of project managers, and inspecting invoices.
Key observations	Management's capitalisation policy and implementation guidance is consistent with the prior financial year. We are satisfied that management has applied its capitalisation policy and implementation guidance appropriately in determining the expenditure to be capitalised.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined the materiality of the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£17.5 million (2022: £13.8 million)	£16.0 million (2022: £12.9 million)
Basis for determining materiality	The current year materiality has been established with regards to a number of metrics and equates to 3.6% (2022: 2.8%) of profit before interest and tax.	The current year materiality has been established with regards to a number of metrics and equates to 3.1% (2022: 6.0%) of profit before interest and tax.
Rationale for the benchmark applied	We consider profit before interest and tax to be the most relevant benchmark to measure the performance of the group and parent company. The increase in materiality in 2023 represents a change from the 2022 benchmark to a measure which is reflective of the size and scale of the business.	

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% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	The factors we considered in setting performance materiality at 70% of group and parent company materiality included: • The overall quality of the control environment and that we were able to rely on controls in certain of the group's businesses.	

	• The small number and low value of uncorrected misstatements identified in previous audits.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee, all audit differences in excess of £0.9 million (2022: £0.7 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The parent company and Severn Trent Utilities Finance Plc were subject to full statutory audits using component materiality of £16.0 million (2022: £12.9 million) and £15.4 million (2022: £12.4 million), respectively and together account for 97% (2022: 96%) of the group's net operating assets and 100% (2022: over 95%) of revenue and 99% (2022: 91%) of profit before interest and tax, being subject to audit testing. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

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 the parent company and Severn Trent Utilities Finance plc component where we have performed full scope audits.

With the involvement of our Information Technology specialists, we obtained an understanding of, and relied on, relevant General Information Technology Controls within the group's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

We also tested and relied on the relevant controls in respect of household and non-household revenue and classification of capital programme expenditure which are supported by the group's financial accounting software platform. We tested the relevant controls on a sample basis by either observing or reperforming each step of the control and obtaining the relevant supporting evidence.

7.3. Our consideration of climate-related risks

The group has assessed the risk and opportunities relevant to climate change and has included the risk as a principal risk as set out on page 67, consistent with previous years. This included assessing the potential impact of the material risks and opportunities and its Net Zero Transition Plan on both the current balance sheet position and its accounting policies.

We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

With the involvement of our Environmental, Social and Governance ('ESG') specialists, we:

- evaluated the financial statement disclosures to assess whether climate risk assumptions underpinning specific account balances were appropriately disclosed; and
- read the climate change-related statements (as disclosed in the Strategic Report) and considered whether there are any material inconsistencies with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 20 February 2023;
- results of our enquiries of management, internal audit, the directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, treasury and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of the provision of trade receivables in Severn Trent Water Limited; and
- classification of capital programme expenditure in Severn Trent Water Limited.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the provision of trade receivables in Severn Trent Water Limited and the classification of capital programme expenditure in Severn Trent Water Limited as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee, in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, and other regulatory authorities;

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12.Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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

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 77;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 69 to 77;
- the directors' statement on fair, balanced and understandable set out on page 135;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 63 to 68; and
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 61 to 62.

As disclosed on page 104, the directors do not consider provision 26 of the UK Corporate Governance Code to be applicable to the company, and therefore the Corporate Governance Statement does not have a section describing the work of the Audit and Risk committee.

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.

We have nothing to report in respect of this matter.

15.Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

12 July 2023

Severn Trent Water Limited
Group Income Statement

For the year ended 31 March 2023

	Note	**2023 £m**	2022 £m
Turnover	5	**1,965.9**	1,808.9
Operating costs before charge for bad and doubtful debts	6	**(1,460.1)**	(1,293.3)
Charge for bad and doubtful debts		**(23.1)**	(24.8)
Total operating costs		**(1,483.2)**	(1,318.1)
Profit before interest and tax		**482.7**	490.8
Finance income	9	**84.9**	55.7
Finance costs	10	**(440.2)**	(314.7)
Net finance costs		**(355.3)**	(259.0)
Net gains on financial instruments	11	**61.6**	52.8
Profit on ordinary activities before taxation		**189.0**	284.6
Current tax	12	**0.5**	7.1
Deferred tax excluding exceptional deferred tax	12	**(33.8)**	(67.8)
Exceptional deferred tax	12	**–**	(289.2)
Taxation on profit on ordinary activities		**(33.3)**	(349.9)
Profit/(loss) for the year		**155.7**	(65.3)

Severn Trent Water Limited
Group and Company Statement of Comprehensive Income

For the year ended 31 March 2023

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Profit/(loss) for the year	**155.7**	(65.3)	**126.2**	(76.4)
Other comprehensive (loss)/income				
Items that will not be reclassified to the income statement:				
Net actuarial (losses)/gains	**(241.2)**	188.4	**(241.2)**	188.2
Deferred tax on net actuarial losses/gains	**60.3**	(47.1)	**60.3**	(47.1)
Deferred tax arising on rate change	**–**	7.1	**–**	7.8
	(180.9)	148.4	**(180.9)**	148.9
Items that may be reclassified to the income statement:				
(Losses)/gains on cash flow hedges	**(4.8)**	51.9	**(4.8)**	51.9
Deferred tax on losses/gains on cash flow hedges	**1.2**	(12.3)	**1.2**	(12.3)
Amounts on cash flow hedges transferred to the income statement	**4.9**	7.1	**4.9**	7.1
Deferred tax on transfer to the income statement	**(1.2)**	(1.8)	**(1.2)**	(1.8)
	0.1	44.9	**0.1**	44.9
Other comprehensive (loss)/income for the year	**(180.8)**	193.3	**(180.8)**	193.8
Total comprehensive (loss)/income for the year	**(25.1)**	128.0	**(54.6)**	117.4

Severn Trent Water Limited
Group Statement of Changes in Equity

For the year ended 31 March 2023

		Equity attributable to owners of the Group						
		Share capital	Share premium	Hedging reserve	Retained earnings	Total	Non-controlling interests	Total equity
	Note	£m	£m	£m	£m	£m	£m	£m
At 1 April 2021		1.0	–	(71.6)	2,778.1	2,707.5	10.6	2,718.1
Loss for the year		–	–	–	(65.3)	(65.3)	–	(65.3)
Net actuarial gains	26	–	–	–	188.4	188.4	–	188.4
Deferred tax on net actuarial gains	12	–	–	–	(47.1)	(47.1)	–	(47.1)
Gains on cash flow hedges		–	–	51.9	–	51.9	–	51.9
Deferred tax on gains on cash flow hedges	12	–	–	(12.3)	–	(12.3)	–	(12.3)
Amounts on cash flow hedges transferred to the income statement	11	–	–	7.1	–	7.1	–	7.1
Deferred tax on transfer to the income statement	12	–	–	(1.8)	–	(1.8)	–	(1.8)
Deferred tax arising on rate change	12	–	–	–	7.1	7.1	–	7.1
Total comprehensive income for the year		–	–	44.9	83.1	128.0	–	128.0
Proceeds from shares issued		0.3	249.7	–	–	250.0	–	250.0
Share options and LTIPs	35	–	–	–	8.0	8.0	–	8.0
Deferred tax on share based payments	12	–	–	–	4.7	4.7	–	4.7
Distributions in the year	13	–	–	–	(355.1)	(355.1)	–	(355.1)
At 31 March 2022		1.3	249.7	(26.7)	2,518.8	2,743.1	10.6	2,753.7
Profit for the year		–	–	–	155.7	155.7	–	155.7
Net actuarial losses	26	–	–	–	(241.2)	(241.2)	–	(241.2)
Deferred tax net actuarial losses	12	–	–	–	60.3	60.3	–	60.3
Losses on cash flow hedges		–	–	(4.8)	–	(4.8)	–	(4.8)
Deferred tax on loss on cash flow hedges	12	–	–	1.2	–	1.2	–	1.2
Amounts on cash flow hedges transferred to the income statement	11	–	–	4.9	–	4.9	–	4.9
Deferred tax on transfer to the income statement	12	–	–	(1.2)	–	(1.2)	–	(1.2)
Total comprehensive loss for the year		–	–	0.1	(25.2)	(25.1)	–	(25.1)
Share options and LTIPs	35	–	–	–	9.2	9.2	–	9.2
Deferred tax on share based payments	12	–	–	–	0.2	0.2	–	0.2
Reserves transfer	30	–	–	26.2	(26.2)	–	–	–
Dividends paid	13	–	–	–	(428.0)	(428.0)	–	(428.0)
At 31 March 2023		**1.3**	**249.7**	**(0.4)**	**2,048.8**	**2,299.4**	**10.6**	**2,310.0**

Severn Trent Water Limited
Company Statement of Changes in Equity

For the year ended 31 March 2023

		Equity attributable to owners of the Company				
		Share capital	Share premium	Hedging reserve	Retained earnings	Total equity
	Note	£m	£m	£m	£m	£m
At 1 April 2021		1.0	–	(71.6)	2,793.9	2,723.3
Loss for the year		–	–	–	(76.4)	(76.4)
Net actuarial gains	26	–	–	–	188.2	188.2
Deferred tax on net actuarial gains	12	–	–	–	(47.1)	(47.1)
Gains on cash flow hedges		–	–	51.9	–	51.9
Deferred tax on gains on cash flow hedges	12	–	–	(12.3)	–	(12.3)
Amounts on cash flow hedges transferred to the income statement	11	–	–	7.1	–	7.1
Deferred tax on transfer to the income statement	12	–	–	(1.8)	–	(1.8)
Deferred tax arising on rate change	12	–	–	–	7.8	7.8
Total comprehensive income for the year		–	–	44.9	72.5	117.4
Proceeds from shares issued		0.3	249.7	–	–	250.0
Share options and LTIPs	35	–	–	–	8.0	8.0
Deferred tax on share based payments	12	–	–	–	4.7	4.7
Distributions in the year	13	–	–	–	(420.0)	(420.0)
At 31 March 2022		1.3	249.7	(26.7)	2,459.1	2,683.4
Profit for the year		–	–	–	126.2	126.2
Net actuarial losses	26	–	–	–	(241.2)	(241.2)
Deferred tax on net actuarial losses	12	–	–	–	60.3	60.3
Losses on cash flow hedges		–	–	(4.8)	–	(4.8)
Deferred tax on gains on cash flow hedges	12	–	–	1.2	–	1.2
Amounts on cash flow hedges transferred to the income statement	11	–	–	4.9	–	4.9
Deferred tax on transfer to the income statement	12	–	–	(1.2)	–	(1.2)
Total comprehensive loss for the year		–	–	0.1	(54.7)	(54.6)
Share options and LTIPs	35	–	–	–	9.2	9.2
Deferred tax on share based payments	12	–	–	–	0.2	0.2
Reserves transfer	30	–	–	26.2	(26.2)	–
Dividends paid	13	–	–	–	(428.0)	(428.0)
At 31 March 2023		**1.3**	**249.7**	**(0.4)**	**1,959.6**	**2,210.2**

Severn Trent Water Limited
Balance Sheet
For the year ended 31 March 2023

		Group		Company	
		2023	2022	**2023**	2022
	Note	**£m**	£m	£m	£m
Non-current assets					
Goodwill	14	**63.5**	63.5	**1.1**	1.1
Other intangible assets	15	**155.1**	145.3	**150.8**	141.1
Property, plant and equipment	16	**10,278.2**	9,780.2	**10,129.1**	9,629.3
Right-of-use assets	17	**120.0**	119.8	**501.4**	518.6
Investments	18	**1,603.8**	1,564.0	**1,997.7**	1,957.8
Derivative financial instruments	19	**82.3**	31.2	**82.3**	31.2
Trade and other receivables	20	**159.9**	228.3	**254.9**	324.1
Retirement benefit surplus	26	**–**	–	**–**	81.4
		12,462.8	11,932.3	**13,117.3**	12,684.6
Current assets					
Inventory		**11.7**	9.0	**11.7**	9.0
Trade and other receivables	20	**712.8**	576.7	**714.6**	578.4
Current tax receivable		**4.2**	–	**13.1**	2.7
Derivative financial instruments	19	**0.5**	27.6	**0.5**	27.6
Cash and cash equivalents		**9.4**	77.8	**7.1**	75.6
		738.6	691.1	**747.0**	693.3
Current liabilities					
Borrowings	22	**(312.7)**	(264.1)	**(331.7)**	(280.5)
Trade and other payables	24	**(750.3)**	(648.6)	**(744.8)**	(640.9)
Current tax payable		**–**	(4.1)	**–**	–
Provisions for liabilities	27	**(47.2)**	(33.3)	**(47.2)**	(33.3)
		(1,110.2)	(950.1)	**(1,123.7)**	(954.7)
Net current liabilities		**(371.6)**	(259.0)	**(376.7)**	(261.4)
Total assets less current liabilities		**12,091.2**	11,673.3	**12,740.6**	12,423.2
Non-current liabilities					
Borrowings	22	**(6,759.8)**	(6,134.0)	**(7,716.7)**	(7,097.3)
Derivative financial instruments	23	**(10.9)**	(40.7)	**(10.9)**	(40.7)
Trade and other payables	24	**(1,458.6)**	(1,320.6)	**(1,458.6)**	(1,320.5)
Deferred tax	25	**(1,247.2)**	(1,273.9)	**(1,241.8)**	(1,268.5)
Retirement benefit obligation	26	**(278.6)**	(137.6)	**(76.3)**	–
Provisions for liabilities	27	**(26.1)**	(12.8)	**(26.1)**	(12.8)
		(9,781.2)	(8,919.6)	**(10,530.4)**	(9,739.8)
Net assets		**2,310.0**	2,753.7	**2,210.2**	2,683.4
Equity					
Called up share capital	28	**1.3**	1.3	**1.3**	1.3
Share premium account	29	**249.7**	249.7	**249.7**	249.7
Hedging reserve	30	**(0.4)**	(26.7)	**(0.4)**	(26.7)
Retained earnings		**2,048.8**	2,518.8	**1,959.6**	2,459.1
Equity attributable to owners of the company		**2,299.4**	2,743.1	**2,210.2**	2,683.4
Non-controlling interests		**10.6**	10.6	**–**	–
Total equity		**2,310.0**	2,753.7	**2,210.2**	2,683.4

The profit for the year for Severn Trent Water Limited Company is £126.2 million (2022: loss of £76.4 million).

Signed on behalf of the Board who approved the accounts on 12 July 2023.

Christine Hodgson
Chair

Helen Miles
Chief Financial Officer

Severn Trent Water Limited
Group Cash Flow Statement

For the year ended 31 March 2023

Company Number 02366686

	Note	2023 £m	2022 £m
Cash generated from operations	36	**748.3**	856.2
Tax received	36	**6.1**	62.5
Tax paid	36	**(13.9)**	(1.2)
Net cash generated from operating activities		**740.5**	917.5
Cash flow from investing activities			
Purchases of property, plant and equipment		**(669.4)**	(596.3)
Purchases of intangible assets and goodwill		**(39.7)**	(36.0)
Proceeds on disposal of property, plant and equipment		**11.8**	11.3
Intercompany loans repaid from/(issued to) ultimate parent[1]		**71.7**	(174.0)
Interest received		**7.5**	2.7
Net cash from investing activities		**(618.1)**	(792.3)
Cash flow from financing activities			
Interest paid		**(205.4)**	(178.2)
Interest element of lease payments		**(3.5)**	(3.8)
Principal elements of lease payments		**(11.4)**	(9.4)
Dividends paid to shareholders of the parent		**(428.0)**	(150.0)
Payments for swap terminations		**(11.1)**	–
Proceeds from swap terminations		**–**	5.6
Repayments of borrowings		**(880.5)**	(485.3)
New loans raised		**1,351.4**	501.0
Issue of shares		**–**	250.0
Issue of Intercompany loans raised with ultimate parent		**–**	3.5
Net cash flow from financing activities		**(188.5)**	(66.6)
Net movement in cash and cash equivalents		**(66.1)**	58.6
Cash disposed with Hafren Dyfrdwy		**–**	(0.6)
Net cash at the beginning of the year		**70.1**	12.1
Net cash and cash equivalents at end of the year		**4.0**	70.1
Cash and cash equivalents		**9.4**	2.8
Bank overdrafts		**(5.4)**	(7.7)
Short term deposits		**–**	75.0
Net cash and cash equivalents at end of the year		**4.0**	70.1

[1] Intercompany loans issued to ultimate parent have been presented as investing cash flows in 2022/23 as these amounts relate to loans made to other parties as defined as investing by IAS 7. These were presented as financing cash flows in prior periods. Comparatives have been restated increasing investing cash outflows by £174.0m and decreasing financing cash outflows by the same amount.

1 General information

The Severn Trent Water Group includes Severn Trent Water Limited and its subsidiary companies.

Severn Trent Water Limited is a company incorporated and domiciled in the United Kingdom. The address of its registered office is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ.

2 Accounting policies

a) Basis of preparation

The financial statements have been prepared on the going concern basis (see Strategic report on page 77) under the historical cost convention, except for the revaluation of financial instruments including derivatives (refer to accounting policy notes), and accounting for the transfer of assets from customers (refer to accounting policy note i).

i) Group 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) Company financial statements

The 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 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 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 and also where required, equivalent disclosures are given in the group accounts of Severn Trent Plc. The group accounts of Severn Trent Plc are available to the public and can be obtained as set out in note 42.

As permitted by Section 408 of the Companies Act 2006, no profit and 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.

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 Water Limited and its subsidiaries. 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.

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.

The Directors believe that the whole of the company's activities constitute one single segment and no other segment analysis has been reported in these financial statements.

On 31 March 2022 the Company transferred its ownership of the entire share capital of Hafren Dyfrdwy Cyfyngedig to its immediate parent, Severn Trent Draycote Limited through completion of a dividend in specie.

c) Revenue recognition

Revenue includes turnover and interest income.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and intercompany sales, in the ordinary course of business for goods and services provided.

Turnover is not recognised until the service has been provided to the customer.

Water and waste water revenue is recognised when the service is provided and includes an estimate of the amount of 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.

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, if of a similar type, in aggregate 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.

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 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. Adjustments in respect of prior years are recognised at rates that have been enacted or substantively enacted by the balance sheet date.

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 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 a 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. 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 is tested for impairment in accordance with the policy set out in note 2 k) 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 and 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 - 20

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 k) 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.

2 Accounting policies (continued)

g) Other intangible and non-current assets (continued)

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 cost can be measured reliably.

Research expenditure is expensed when it is incurred.

h) 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.

i) Property, plant and equipment

Property, plant and equipment is held at cost (or at deemed cost for infrastructure assets on transition to IFRS/FRS 101) less accumulated depreciation. 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 and 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.

2 Accounting policies (continued)

i) Property, plant and equipment (continued)

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) 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 waste water 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 income statement in the period that they become receivable.

k) 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.

Impairments are recognised in the income statement.

l) Investments

Investments in subsidiaries in the Company's financial statements are stated at cost less, where appropriate, provisions for impairment. Investments in subsidiaries are reviewed for impairment in line with note 2 k) when indicators of impairment have been identified.

Other investments are initially recognised and subsequently measured at fair value. Changes in fair value are recognised in profit or loss.

m) Inventory

Inventory and work in progress is stated at the lower of cost and net realisable value.
Net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in selling and distribution.

n) 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 loans receivable 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.

2 Accounting policies (continued)

n) Loans receivable (continued)

A loss allowance is recognised for expected credit losses ('ECL') on its loans receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

A lifetime ECL is recognised 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 loss allowance is measured 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 risk of default over the remaining life of the asset at the reporting date is compared with the risk of default for the same period at initial recognition. In making this assessment, 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, it is presumed 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 there is reasonable and supportable information that demonstrates otherwise.

Definition of default

It is considered that a default has taken place where information developed internally indicates that the borrower is unlikely to pay its creditors, including the Group or the Company, in full. Irrespective of the above analysis, it is considered that default has occurred when a financial asset is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

o) 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 simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables is applied. For trade receivables that are assessed not to be impaired individually, expected credit losses are estimated based on the historical experience of trade receivable write-offs and reasonable, supportable forward-looking information which is available without undue cost or effort.

p) Retirement benefits

(i) Defined benefit schemes

The difference between the value of defined benefit pension scheme assets and defined benefit pension scheme liabilities is recorded on the balance sheet as a retirement benefit asset or obligation.

Defined benefit pension scheme assets are measured at fair value using bid price for assets with quoted prices. For scheme assets with no quoted price, the fair value is derived by using quotations from independent third parties or by using applicable valuation techniques at the end of each reporting period. Defined benefit pension scheme liabilities are measured at the balance sheet date by an independent actuary using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, 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 re-measurements, 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 for the Severn Trent schemes to participating Group companies of the ultimate parent. As the net defined benefit cost for these schemes is recognised by the sponsoring employer, Severn Trent Water Limited, the full net defined benefit cost is disclosed in the Severn Trent Water Group

financial statements. For the Company financial statements, contributions made by other Severn Trent Group companies are disclosed within actuarial gains and losses in the statement of comprehensive income.

2 Accounting policies (continued)

p) Retirement benefits (continued)

(ii) Defined contribution scheme

Contributions to defined contribution pension schemes are charged to the income statement in the period in which they fall due.

q) 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 ultimate parent company'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.

r) Borrowings

The accounting policy for borrowings that are the hedged item in a fair value hedge is set out in note 2 s) and the accounting policy for lease liabilities is set out in note 2 h).

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.

s) Derivative financial instruments

Derivative financial instruments are stated at fair value, including accrued interest. Fair value is determined using the methodology described in note 32 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, inflation swaps and interest rate swaps to hedge 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;
- the 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)

s) 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.

t) 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.

The grant of awards of shares of the ultimate parent Company is treated as a capital contribution and credited to reserves. When awards vest, payments made to the ultimate parent Company for the issue of shares are charged against the capital contributions previously received in respect of the same awards. Any payments in excess of capital contributions are treated as distributions.

u) 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.

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 or Company's financial position.

4 Critical accounting judgments and sources of estimation uncertainty

In the process of applying the Group and Company accounting policies, the Group and Company are required to make certain judgments, estimates and assumptions that they believe 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

The Company's business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the Group has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Total infrastructure

renewal expenditure during the year was £233.2 million (2022: £198.2 million). Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised and amounted to £868.1 million (2022: £725.3 million).

4 Critical accounting judgments and sources of estimation uncertainty (continued)

a) Critical accounting judgments (continued)

ii) Income from connections to the water and waste water networks

The Group receives income from developers and domestic customers from 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 £99.3 million (2022: £62.6 million), infrastructure charges amounting to £21.4 million (2022: £25.0 million) and other charges relating to the provision of infrastructure amounting to £20.2 million (2022: £17.0 million).

The Group considers that the purpose of these transactions is to facilitate the ongoing provision of water and waste water services to the properties in question and they are inextricably linked to that ongoing service. There is a transferable right to receive an ongoing water and waste water service that passes from customer to customer when the property is bought and sold during the life of the property and, without the ongoing water and waste water service, the transactions have no value. Therefore, in line with our accounting policies the amounts received are held on the balance sheet and released to turnover in the income statement over the life of the related assets.

iii) Climate Change

The Group continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Group operates is continually changing, and the expected impact on the Group from climate change is set out within the 'Our approach to climate change' section of the Strategic Report on page [ ].
We have considered the impact of the climate change related risks to which the Group is exposed in the preparation of these financial statements. The risks are long-term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

b) Sources of estimation uncertainty

i) Depreciation and carrying amounts of property, plant and equipment

Calculating the depreciation charge and hence the carrying value for property, plant and equipment requires estimates to be made of the useful lives of the assets. The estimates are based on engineering data and the Group's experience of similar assets. Details are set out in note 2 i). The average useful life of property, plant and equipment by asset category is detailed as follows:

	Average useful economic life (years)
Land and buildings	43.0
Infrastructure assets	136.5
Fixed plant and equipment	24.6
Moveable plant	11.8

4 Critical accounting judgments and sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty (continued)

i) Depreciation and carrying amounts of property, plant and equipment (continued)

The impact on the annual depreciation expense of a 10% increase and decrease in useful economic life ('UEL') of property, plant and equipment by asset category is detailed as follows:

	10% increase in UEL £m	10% decrease in UEL £m
Land and buildings	(8.8)	10.7
Infrastructure assets	(4.0)	4.9
Fixed plant and equipment	(19.6)	23.9
Moveable plant	(0.6)	0.8

ii) Retirement benefit obligations

Determining the amount of the Group's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long-term interest rates, inflation and longevity of current and future pensioners, and, where market prices are not available, the values of the assets held. 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 26 to the financial statements.

iii) Expected credit losses on trade receivables

Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable forecasts of the future impact of external economic factors on the Group's collection of trade receivables. A number of economic factors such as high inflation, rising interest rates, and reduction of Government support for domestic energy bills might impact household disposable income and therefore the expected credit losses on trade receivables.

The gross carrying amounts and expected credit loss allowances for trade receivables and accrued income were as follows:

Group

	2023 £m	2022 £m
Gross carrying amount	**667.6**	575.9
Provision for bad and doubtful debts	**(127.6)**	(128.3)
Net carrying amount	**540.0**	447.6

Company

	2023 £m	2022 £m
Gross carrying amount	**667.6**	575.9
Provision for bad and doubtful debts	**(127.6)**	(128.3)
Net carrying amount	**540.0**	447.6

4 Critical accounting judgments and sources of estimation uncertainty (continued)

b) Sources of estimation uncertainty (continued)

iii) Expected credit losses on trade receivables (continued)

Movements in the expected credit loss allowance are as follows:

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
At 1 April	**128.3**	136.2	**128.3**	130.8
Charge for bad and doubtful debts	**23.1**	24.8	**23.1**	23.7
Amounts written off during the year	**(23.8)**	(26.2)	**(23.8)**	(26.2)
Disposal of Hafren Dyfrdwy	**–**	(6.5)	**–**	–
At 31 March	**127.6**	128.3	**127.6**	128.3

The average expected credit loss for the outstanding trade receivables and accrued income was 2.25% at 31 March 2023. An increase/decrease of 10bps in the expected credit loss would result in an increase/decrease to the charge and provision for bad and doubtful debts by £10.3 million.

5 Revenue from contracts with customers – Group

	Group	
	2023 £m	2022 £m
Water and waste water services	**1,914.6**	**1,759.0**
Renewable Energy	**48.2**	**44.4**
Other services	**3.1**	**5.5**
Turnover	**1,965.9**	**1,808.9**
Finance income	**8.1**	**2.9**
	1,974.0	**1,811.8**

Revenue from water and waste water services provided to customers with meters is recognised when the service is provided and is measured based on actual meter readings and estimated consumption for the period between the last meter reading and the year end. For customers who are not metered, the performance obligation is to stand ready to provide water and waste water services throughout the period. Such customers are charged on an annual basis, coterminous with the financial year, and revenue is recognised on a straight-line basis over the financial year.

Deferred income arising from connections to the Group's water and waste water networks represents a contract liability and is recognised in line with the Group's accounting policy set out in note 2 and the judgment described in note 4. Changes in the Group's contract liabilities from deferred income were as follows:

	2023 £m	2022 £m
At 1 April	**1,332.7**	1,259.1
Contributions and grants received	**45.1**	42.7
Assets transferred at no cost	**99.3**	62.6
Amounts released to income statement	**(16.1)**	(17.4)
Disposal of Hafren Dyfrdwy	**–**	(14.3)
At 31 March	**1,461.0**	1,332.7

Revenue amounting to £16.1 million (2022: £17.4 million) that was included in the opening balance of the contract liability was recognised in the income statement during the year. No revenue was recognised in the year from performance obligations

relating to connections to the Group's water and waste water networks that were satisfied or partially satisfied in previous years (2022: nil).

5 Revenue from contracts with customers – Group (continued)

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:

	2023	2022
	£m	£m
In the next year	**15.9**	15.2
Between one and five years	**63.6**	60.8
After more than five years	**1,381.5**	1,256.7
	1,461.0	1,332.7

Payments received from customers in advance of the service period represents a contract liability. Changes in the Group's contract liabilities from payments received in advance were as follows:

	2023	2022
	£m	£m
Contract liability at 1 April	**144.8**	132.5
Revenue recognised	**(1,394.9)**	(1,291.1)
Cash received	**1,396.6**	1,303.4
Contract liability at 31 March	**146.5**	144.8

6 Net operating costs - Group

	2023 £m	2022 £m
Wages and salaries	**284.0**	277.6
Social security costs	**32.2**	29.0
Pension costs	**20.2**	26.9
Share based payments	**9.2**	8.0
Total employee costs	**345.6**	341.5
Power	**198.4**	113.9
Raw materials and consumables	**97.3**	67.2
Rates	**79.8**	83.3
Charge for bad and doubtful debts	**23.1**	24.8
Service charges	**41.0**	36.5
Depreciation of property, plant and equipment	**360.6**	349.9
Depreciation of right-of-use assets	**2.2**	2.1
Amortisation of intangible assets	**29.9**	33.4
Hired and contracted services	**231.1**	203.8
Hire of plant and machinery	**7.8**	8.1
Profit on disposal of tangible fixed assets	**(2.3)**	(7.6)
Exchange (gains)/losses	**(0.1)**	0.3
Infrastructure maintenance expenditure	**233.2**	198.2
Ofwat licence fees	**5.3**	4.9
Other operating costs	**42.9**	50.0
Other operating income	**(3.7)**	(3.8)
	1,692.1	1,506.5
Own work capitalised	**(208.9)**	(188.4)
	1,483.2	1,318.1

6 Net operating costs – Group (continued)

During the year the following fees were charged by the auditor:

	Group and Company	
	2023 £m	2022 £m
Fees payables to the Company's auditor for:		
- the audit of the Company's annual accounts	**0.3**	0.3
Total audit fees	**0.3**	0.3
Fees payables 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 financing documents.

7 Employee numbers – Group and Company

Average number of employees (including Executive Directors) during the year:

	Group		Company	
	2023	2022	**2023**	2022
	Number	Number	**Number**	Number
	6,998	6,803	**6,998**	6,666

8 Directors' interests and remuneration – Group and Company

a) Directors' interests

All of the Directors as at the end of the year are also Directors of Severn Trent Plc, the ultimate parent undertaking, and their interests in the share capital of that Company are disclosed in the Severn Trent Plc Annual Report and Accounts for the year ended 31 March 2023. Share options were granted and exercised in accordance with the Severn Trent Sharesave Scheme as appropriate.

The Executive Directors have further interests in Severn Trent Plc ordinary shares of $97^{17}/_{19}$ p each by virtue of having received contingent awards of shares under the Severn Trent Long Term Incentive Plan (LTIP), deferred shares under the Severn Trent Annual Bonus Scheme.

The individual interests, which represent the maximum aggregate number of shares to which each individual could become entitled, are disclosed in the Annual Report and Accounts of Severn Trent Plc for the year ended 31 March 2023.

b) Directors' remuneration

The following table shows the remuneration due to directors for their services to the Company during the year:

	2023	2022
	£m	£m
Short-term employee benefits	**2.8**	3.4
Share based payment	**2.8**	3.3
	5.6	6.7

Short-term employee benefits in 2023 include executive directors' bonuses that were paid by Severn Trent Plc amounting to £574,000.

The emoluments of the non-executive directors are paid by Severn Trent Plc.

There were no retirement benefits accruing to directors (2022: nil) under a defined benefit scheme and one director (2022: one director) under a defined contribution scheme.

Two directors (2022: two directors) exercised share options or received LTIP awards which vested during the year.

8 Directors' interests and remuneration – Group and Company (continued)

c) Highest paid director

	2023	2022
	£m	£m
Aggregate emoluments (excluding pension contributions)	**3.2**	3.9

The highest paid director at 31 March 2023 and 31 March 2022 was not a member of the defined benefit pension scheme.

9 Finance income – Group

	2023 £m	2022 £m
Interest income earned on:		
Bank deposits	**3.0**	0.1
Amounts due from group undertakings	**3.7**	1.3
Other finance income	**1.4**	1.5
Total interest receivable	**8.1**	2.9
Interest income on defined benefit scheme assets	**76.8**	52.8
	84.9	55.7

10 Finance costs – Group

	2023 £m	2022 £m
Interest expense charged on:		
Bank loans and overdrafts	**33.5**	16.4
Other loans	**322.5**	234.7
Lease liabilities	**3.5**	3.8
Amounts payable to group undertakings	**–**	0.2
Total borrowing costs	**359.5**	255.1
Other finance expenses	**–**	0.3
Interest cost on defined benefit scheme liabilities	**80.7**	59.3
	440.2	314.7

Borrowing costs of £54.7 million (2022: £34.2 million) incurred funding eligible capital projects have been capitalised at an interest rate of 5.91% (2022: 4.34%). Tax relief of £10.3 million (2022: £6.4 million) was claimed on these costs which has created tax losses carried forward, offset by a related deferred tax charge of £13.6 million (2022: £8.4 million).

11 Net gains on financial instruments - Group

	2023 £m	2022 £m
Loss on swaps used as hedging instruments in fair value hedges	**(1.3)**	(1.0)
(Loss)/gain arising on debt in fair value hedges	**(0.3)**	1.6
Exchange loss on other loans	**(7.4)**	(6.6)
Loss on cash flow hedges transferred from equity	**(4.9)**	(7.1)
Hedge ineffectiveness on cash flow hedges	**(1.3)**	(0.6)
Gain arising on swaps where hedge accounting is not applied	**35.7**	51.4
Amortisation of fair value adjustment on debt	**1.2**	1.2
Gain on revaluation of investment	**39.9**	13.9
	61.6	52.8

The net gain on financial assets and liabilities mandatorily measured at fair value through profit or loss was £34.4 million (2022: £50.4 million). There were no financial assets or liabilities designated as at fair value through the profit or loss (2022: nil).

The Group's hedge accounting arrangements are described in note 34.

12 Taxation

a) Analysis of tax charge in the year

	2023 £m	2022 £m
Current tax		
Current year at 19% (2022: 19%)	**(2.6)**	(3.2)
Prior years	**2.1**	(3.9)
Total current tax credit	**(0.5)**	(7.1)
Deferred tax		
Origination and reversal of temporary		
Current year	**35.2**	65.5
Prior years	**(1.4)**	2.3
Deferred tax before exceptional deferred tax	**33.8**	67.8
Exceptional charge on rate change	**–**	289.2
Total deferred tax	**33.8**	357.0
	33.3	349.9

b) Factors affecting the tax charge in the year

The Group tax charge for the current year is lower (2022: higher) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Profit before taxation	**189.0**	284.6
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	**35.9**	54.1
Tax effect of depreciation on non-qualifying assets	**1.7**	1.5
Permanent impact of super deduction	**(4.8)**	(5.3)
Other permanent differences	**(8.7)**	(3.6)
Current year impact of rate change	**8.5**	15.6
Exceptional deferred tax charge arising from rate change	**–**	289.2
Adjustments in respect of prior years	**0.7**	(1.6)
Total tax charge	**33.3**	349.9

12 Taxation (continued)

b) Factors affecting the tax charge in the year (continued)

The Group current tax charge is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Profit before taxation	**189.0**	284.6
Tax at standard rate of corporation tax in the UK 19% (2022: 19%)	**35.9**	54.1
Tax effect of depreciation on non-qualifying assets	**1.7**	1.5
Permanent impact of super deduction	**(4.8)**	(5.3)
Other permanent differences	**(8.7)**	(3.6)
Tax effect of accelerated capital allowances	**(37.7)**	(41.2)
Other timing differences	**11.0**	(8.7)
Adjustments in respect of prior years	**2.1**	(3.9)
Total current tax credit	**(0.5)**	(7.1)

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 gave an in-year capital allowance of 130% on the cost of plant and machinery qualifying for the relief between 1 April 2021 and 31 March 2023 and an acceleration of capital allowances on the cost of assets qualifying for special rate allowances. The introduction of these changes mean the Group was eligible to claim more capital allowances in the last two years to the extent that the Group will not be liable to pay corporation tax for those two years.

Certain of the Group's property, plant and equipment assets are not eligible for capital allowances under current legislation. Therefore there is no tax deduction that corresponds to the depreciation charged on these assets and deferred tax is not recognised in respect of this permanent difference.

The 30% allowance in excess of the cost of assets qualifying for the super deduction will never be charged as depreciation in the financial statements and therefore this represents a permanent difference between profits recognised in the income statement and taxable profits.

Other permanent differences comprise mainly the revaluation gain on investments, which is not taxable, and other income or expenditure that is not deductible for tax purposes or income that is not taxable.

Other temporary differences comprise items other than depreciation of property, plant and equipment where the amount is included in the tax computation in a different period from when it is recognised in the income statement. Deferred tax is provided on these items.

The amounts included for tax assets in the financial statements include estimates and judgments relating to uncertain tax positions. If the computations subsequently submitted to HMRC include different amounts then these differences are reflected as an adjustment in respect of prior years in the subsequent financial statements.

Deferred tax is provided at 25%, the rate that is expected to apply when the asset or liability is expected to be settled. Further details are provided in note 25.

c) Tax (credited)/charged directly to other comprehensive income or equity

In addition to the amount charged to the income statement, the following amounts of tax have been (credited)/charged directly to other comprehensive income or equity:

	2023 £m	2022 £m
Deferred tax		
Actuarial losses/gains	**(60.3)**	47.1
Cash flow hedges	**(1.2)**	12.3
Share based payments	**(0.2)**	(4.7)
Rate change	**–**	(7.1)
Transfers to the income statement	**1.2**	1.8
Total deferred tax (credited)/charged to other comprehensive income or equity	**(60.5)**	49.4

13 Dividends – Group and Company

On 31 March 2022 the Company declared and paid two dividends in specie comprising:

- The entire issued share capital of Hafren Dyfrdwy Cyfngedig
- An intra-group loan receivable from Hafren Dyfrdwy Cyfngedig

Total distributions in the year are below:

	Group		**Company**	
	2023 Number	2022 Number	**2023 Number**	2022 Number
Cash dividend	**428.0**	150.0	**428.0**	150.0
Dividend in specie	**–**	205.1	**–**	270.0
Total distributions in the year	**428.0**	355.1	**428.0**	420.0

The dividend in specie was recorded in the Company financial statements at the book value of the investments distributed.

The dividend in specie in the Group financial statements was recorded at the carrying value of the net assets of Hafren Dyfrdwy Cyfngedig that was derecognised.

Amounts recognised as distributions to equity holders in the year:

	2023		2022	
	Pence per share	**£m**	Pence per share	£m
Interim dividend for the year ended 31 March	**34.2**	**428.0**	12.0	150.0

14 Goodwill - Group

Goodwill impairment tests

Goodwill relates to the whole of the Group's operations and cannot be allocated at a lower level.

A summary of the carrying amount of goodwill is presented below.

	2023	2022
	£m	£m
Regulated Water and Waste Water	**63.5**	63.5

The Group also has an intangible asset with indefinite useful life amounting to £4.3 million (2022: £4.3 million).

On 1 July 2018 the Instruments of Appointment of Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig (formerly Dee Valley Water Limited) were amended to align the areas for which the appointments were made with the national border between England and Wales. As a result, as at 31 March 2022 the business that the goodwill related to was partly in Severn Trent Water and partly Hafren Dyfrdwy. Upon disposal of Hafren Dyfrdwy from the Group, it was assessed that there was no systematic basis for allocating the goodwill between the two entities. Consequently, this has been treated as wholly attributable to Severn Trent Water and has been assessed for impairment as such.

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 Group 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 Group is based on the most recent financial projections available for the business, which cover the five year period to 31 March 2028.

The key assumptions underlying these projections are the cash flows in the projections and the following:

	%
Discount rate	6.5
RPI long-term inflation	3.0
CPI long-term inflation	2.0
Growth rate in the period beyond the detailed projections	1.5

The discount rate, used in the discounted cash flow calculation, was an estimate for the weighted average cost of capital at the year end date based on the nominal post-tax WACC detailed in the Ofwat PR19 final determination and updated for subsequent changes in market conditions. The rate disclosed above is the equivalent pre-tax nominal rate, the post-tax rate used was 6.2%.

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.

14 Goodwill – Group (continued)

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 Group exceeded its carrying value by £2,551.3 million. An increase in the discount rate to 7.1% or a reduction in the growth rate in the period beyond the detailed projections to 0.7% would reduce the recoverable amount to the carrying amount of the Group.

15 Other intangible assets

Group

	Computer software		Capitalised development costs and patents	Other intangible assets	Total
	Internally generated	Purchased			
	£m	£m	£m	£m	£m
Cost					
At 1 April 2021	294.8	162.8	12.0	4.3	473.9
Additions	21.4	14.6	–	–	36.0
Disposals	–	–	(12.0)	–	(12.0)
Transfers from property, plant and equipment	11.3	3.0	1.3	–	15.6
Disposal of Hafren Dyfrdwy Cyfngedig	(9.6)	–	–	–	(9.6)
At 1 April 2022	317.9	180.4	1.3	4.3	503.9
Additions	21.8	12.2	–	5.7	39.7
At 31 March 2023	**339.7**	**192.6**	**1.3**	**10.0**	**543.6**
Amortisation					
At 1 April 2021	(211.3)	(117.5)	(12.0)	–	(340.8)
Amortisation for the year	(24.7)	(8.7)	–	–	(33.4)
Disposals	–	–	12.0	–	12.0
Disposal of Hafren Dyfrdwy Cyfngedig	3.6	–	–	–	3.6
At 1 April 2022	(232.4)	(126.2)	–	–	(358.6)
Amortisation for the year	(23.6)	(6.2)	(0.1)	–	(29.9)
At 31 March 2023	**(256.0)**	**(132.4)**	**(0.1)**	**–**	**(388.5)**
Net book value					
At 31 March 2023	**83.7**	**60.2**	**1.2**	**10.0**	**155.1**
At 31 March 2022	85.5	54.2	1.3	4.3	145.3

Other intangible assets include the instrument of appointment acquired with Dee Valley Water and rights obtained under contracts for biological assets. The instrument of appointment has an indefinite useful life and as such the carrying value has been included in the impairment assessment performed for the Regulated Water and Waste Water CGU described in note 14.

15 Other intangible assets – Group and Company (continued)

Company

	Computer software				
	Internally generated	Purchased	Capitalised development costs and patents	Other intangible assets	Total
	£m	£m	£m		£m
Cost					
At 1 April 2021	285.2	162.8	12.0	–	460.0
Additions	21.4	14.6	–	–	36.0
Disposals	–	–	(12.0)	–	(12.0)
Transfers from property, plant and equipment	11.3	3.0	1.3	–	15.6
At 1 April 2022	317.9	180.4	1.3	–	499.6
Additions	21.8	12.2	–	5.6	39.6
At 31 March 2023	**339.7**	**192.6**	**1.3**	**5.6**	**539.2**
Amortisation					
At 1 April 2021	(208.7)	(117.4)	(12.0)	–	(338.1)
Amortisation for the year	(23.7)	(8.7)	–	–	(32.4)
Disposals	–	–	12.0	–	12.0
At 1 April 2022	(232.4)	(126.1)	–	–	(358.5)
Amortisation for the year	(23.6)	(6.2)	(0.1)	–	(29.9)
At 31 March 2023	**(256.0)**	**(132.3)**	**(0.1)**	**–**	**(388.4)**
Net book value					
At 31 March 2023	**83.7**	**60.3**	**1.2**	**5.6**	**150.8**
At 31 March 2022	85.5	54.3	1.3	–	141.1

Other intangible assets include rights obtained under contracts for biological assets.

16 Property, plant and equipment

Group

	Land and buildings	Infrastructure assets	Fixed plant and equipment	Moveable plant	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2021	3,911.9	5,773.1	4,741.7	71.5	1,081.7	15,579.9
Additions	57.5	129.9	129.8	0.4	371.7	689.3
Transfers on commissioning	131.5	87.6	310.9	12.1	(542.1)	–
Disposals	(3.7)	–	(8.9)	(4.9)	(3.1)	(20.6)
Disposal of Hafren Dyfrdwy Cyfngedig	(43.5)	(129.2)	(94.1)	–	(32.6)	(299.4)
Transfers to intangible assets	–	–	–	–	(15.6)	(15.6)
At 1 April 2022	4,053.7	5,861.4	5,079.4	79.1	860.0	15,933.6
Additions	30.9	161.1	69.5	0.8	605.8	868.1
Transfers on commissioning	74.5	1.2	179.6	1.1	(256.4)	–
Disposals	(10.8)	(0.3)	(30.5)	(2.0)	(9.1)	(52.7)
At 31 March 2023	**4,148.3**	**6,023.4**	**5,298.0**	**79.0**	**1,200.3**	**16,749.0**
Depreciation						
At 1 April 2021	(1,531.1)	(1,434.5)	(2,872.4)	(38.0)	–	(5,876.0)
Charge for the year	(96.6)	(40.8)	(205.4)	(7.1)	–	(349.9)
Disposals	3.5	–	8.1	4.6	–	16.2
Disposal of Hafren Dyfrdwy Cyfngedig	2.6	13.2	40.5	–	–	56.3
At 1 April 2022	(1,621.6)	(1,462.1)	(3,029.2)	(40.5)	–	(6,153.4)
Charge for the year	(96.3)	(44.3)	(213.3)	(6.7)	–	(360.6)
Disposals	10.8	0.2	30.3	1.9	–	43.2
At 31 March 2023	**(1,707.1)**	**(1,506.2)**	**(3,212.2)**	**(45.3)**	**–**	**(6,470.8)**
Net book value						
At 31 March 2023	**2,441.2**	**4,517.2**	**2,085.8**	**33.7**	**1,200.3**	**10,278.2**
At 31 March 2022	2,432.1	4,399.3	2,050.2	38.6	860.0	9,780.2

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £99.3 million (2022: £62.6 million).

16 Property, plant and equipment (continued)

Company

	Land and buildings	Infrastructure assets	Fixed plant and equipment	Moveable plant	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 2021	3,663.0	5,645.2	4,656.4	71.4	1,033.9	15,069.9
Additions	56.5	129.5	128.6	0.4	360.7	675.7
Transfers on commissioning	114.5	86.7	302.6	12.1	(515.9)	–
Disposals	(3.7)	–	(8.2)	(4.8)	(3.1)	(19.8)
Transfers to intangible assets	–	–	–	–	(15.6)	(15.6)
At 1 April 2022	3,830.3	5,861.4	5,079.4	79.1	860.0	15,710.2
Additions	30.0	161.1	65.4	0.8	605.8	863.1
Transfers on commissioning	74.5	1.2	179.6	1.1	(256.4)	–
Disposals	(10.8)	(0.3)	(30.5)	(2.0)	(9.1)	(52.7)
At 31 March 2023	**3,924.0**	**6,023.4**	**5,293.9**	**79.0**	**1,200.3**	**16,520.6**
Depreciation						
At 1 April 2021	(1,461.0)	(1,422.3)	(2,836.5)	(38.0)	–	(5,757.8)
Charge for the year	(91.6)	(39.8)	(200.8)	(7.1)	–	(339.3)
Disposals	3.5	–	8.1	4.6	–	16.2
At 1 April 2022	(1,549.1)	(1,462.1)	(3,029.2)	(40.5)	–	(6,080.9)
Charge for the year	(92.6)	(43.3)	(211.2)	(6.7)	–	(353.8)
Disposals	10.8	0.2	30.3	1.9	–	43.2
At 31 March 2023	**(1,630.9)**	**(1,505.2)**	**(3,210.1)**	**(45.3)**	**–**	**(6,391.5)**
Net book value						
At 31 March 2023	**2,293.1**	**4,518.2**	**2,083.8**	**33.7**	**1,200.3**	**10,129.1**
At 31 March 2022	2,281.2	4,399.3	2,050.2	38.6	860.0	9,629.3

Additions include assets transferred from developers at no cost, which have been recognised at their fair value of £99.3 million (2022: £62.6 million).

The net book value of land and buildings is analysed as follows:

Group

	2023	2022
	£m	£m
Freehold	**2,440.9**	2,431.8
Short leasehold	**0.3**	0.3
	2,441.2	2,432.1

Company

	2023	2022
	£m	£m
Freehold	**2,292.8**	2,280.9
Short leasehold	**0.3**	0.3
	2,293.1	2,281.2

17 Leases

a) The Group's leasing activities

The Group and Company 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 h).

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 for the year ended 31 March 2023:

	Group	
	2023	2022
	£m	£m
Depreciation charge of right-of-use assets:		
Land and buildings	**0.2**	0.5
Infrastructure assets	**1.2**	1.1
Fixed plant and equipment	**0.2**	0.2
Moveable plant	**0.6**	0.3
Total depreciation of right-of-use assets	**2.2**	2.1
Interest expense included in finance cost	**3.5**	3.8

c) Balance sheet

The balance sheet includes the following amounts relating to leases:

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Right-of-use assets:				
Land and buildings	**4.8**	4.8	**151.9**	155.7
Infrastructure assets	**110.3**	111.5	**344.6**	359.4
Fixed plant and equipment	**3.4**	3.4	**3.1**	3.1
Moveable plant	**1.5**	0.1	**1.8**	0.4
	120.0	119.8	**501.4**	518.6

Additions to right-of-use assets for the Group were £2.3 million (2022: £2.7 million) and for the Company were £2.3 million (2022: £2.7 million).

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Lease liabilities:				
Current	**7.3**	5.8	**26.3**	22.1
Non-current	**95.9**	103.0	**496.4**	524.4
	103.2	108.8	**522.7**	546.5

17 Leases (continued)

c) Balance sheet (continued)

Obligations under lease liabilities are as follows:

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Within 1 year	**11.0**	9.4	**44.1**	40.7
1 - 2 years	**11.5**	10.0	**44.7**	41.2
2 - 5 years	**37.8**	33.7	**137.2**	127.5
After more than 5 years	**71.6**	86.5	**434.9**	514.8
Gross obligations under finance leases	**131.9**	139.6	**660.9**	724.2
Less: future finance charges	**(28.7)**	(30.8)	**(138.2)**	(177.7)
Present value of lease obligations	**103.2**	108.8	**522.7**	546.5

Net obligations under leases were as follows:

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Within 1 year	**7.3**	5.8	**26.3**	22.1
1 - 2 years	**8.0**	6.4	**27.5**	23.5
2 - 5 years	**28.5**	24.8	**90.4**	79.2
After more than 5 years	**59.4**	71.8	**378.5**	421.7
Included in non-current liabilities	**95.9**	103.0	**496.4**	524.4
	103.2	108.8	**522.7**	546.5

d) Cash flow

The Group's total cash outflow for leases in the year was £14.9 million (2022: £13.2 million) which consists of £3.5 million (2022: £3.8 million) payment of interest and £11.4 million (2022: £9.4 million) repayment of principal elements.

18 Investments

	Group		Company	
	Other investments £m	Subsidiaries £m	Other investments £m	Total £m
At 1 April 2022	1,564.0	393.8	1,564.0	1,957.8
Gain on revaluation	39.8	0.1	39.8	39.9
At 31 March 2023	**1,603.8**	**393.9**	**1,603.8**	**1,997.7**

The Company has the following subsidiary undertakings:

Subsidiary undertaking	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
Aqua Deva Limited	England and Wales	Dormant company	100% ordinary
Chester Water Limited	England and Wales	Holding company	100% ordinary
Dee Valley Group Limited	England and Wales	Holding company	100% ordinary
Dee Valley Limited	England and Wales	Holding company	100% ordinary
Dee Valley Services Limited	England and Wales	Dormant company	100% ordinary
Dee Valley Water (Holdings) Limited	England and Wales	Holding company	100% ordinary
East Worcester Water Limited	England and Wales	Finance company	100% ordinary and 100% non-voting
Energy Supplies UK Limited	England and Wales	Dormant company	100% ordinary
North Wales Gas Limited	England and Wales	Dormant company	100% ordinary
Northern Gas Supplies Limited	England and Wales	Dormant company	100% ordinary
Severn Trent General Partnership Limited	Scotland	Finance company	100% ordinary
Severn Trent LCP Limited	England and Wales	Finance company	100% ordinary
Severn Trent Leasing Limited	England and Wales	Leasing company	100% ordinary
Severn Trent Reservoirs Limited	England and Wales	Finance company	100% ordinary
Severn Trent Utilities Finance Plc	England and Wales	Finance company	100% ordinary
Severn Trent WWIF Limited	England and Wales	Trading company	100% ordinary
Wrexham Water Limited	England and Wales	Dormant company	100% ordinary

The Company has the following investment:

Associated undertaking	Country of operation and incorporation	Principal activity	Percentage and class of share capital held
Severn Trent Trimpley Limited	England and Wales	Non-trading company	49% ordinary

The Company also has an indirect investment in Severn Trent Limited Partnership and Severn Trent 2017 Limited Partnership. Both partnerships are registered in Scotland, as a result of Severn Trent General Partnership Limited being the general partner in each partnership.

In the opinion of the Directors the fair values of the Company's investments are not less than the amount at which they are stated in the balance sheet.

Unless stated below, the registered office of the aforementioned entities is Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ, United Kingdom.

The registered office of Dee Valley Limited is Packsaddle, Wrexham Road, Rhostyllen, Wrexham, LL14 4EH.

The registered office of Severn Trent General Partnership Limited is 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ.

19 Categories of financial assets - Group

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Cross currency swaps - not hedge accounted		**20.5**	13.7
Interest rate swaps - not hedge accounted		**–**	2.9
Investments		**1,603.8**	1,564.0
Inflation swaps - not hedge accounted		**7.3**	–
		1,631.6	1,580.6
Derivatives designated as hedging instruments			
Cross currency swaps - fair value hedges		**14.0**	14.6
Interest rate swaps - cash flow hedges		**40.5**	–
Energy hedges - cash flow hedges		**0.5**	27.6
		55.0	42.2
Total financial assets at fair value		**1,686.6**	1,622.8
Financial assets at amortised cost			
Trade receivables	20	**254.2**	199.5
Accrued income	20	**285.8**	248.1
Other amounts receivable	20	**64.9**	41.3
Amounts due from parent company	20	**154.5**	226.0
Amounts due from group undertakings	20	**86.0**	71.9
Short-term deposits		**–**	75.0
Cash at bank and in hand		**9.4**	2.8
Total financial assets at amortised cost		**854.8**	864.6
Total financial assets		**2,541.4**	2,487.4
Disclosed in the balance sheet within:			
Non-current assets			
Derivative financial assets		**82.3**	31.2
Trade and other receivables		**154.5**	227.1
Investments		**1,603.8**	1,564.0
		1,840.6	1,822.3
Current assets			
Derivative financial assets		**0.5**	27.6
Trade and other receivables		**690.9**	559.7
Cash and cash equivalents		**9.4**	77.8
		700.8	665.1
		2,541.4	2,487.4

20 Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Current assets				
Net trade receivables	**254.2**	199.5	**254.2**	199.5
Other amounts receivable	**64.9**	41.3	**64.9**	41.3
Prepayments	**21.9**	17.0	**21.9**	17.0
Net accrued income	**285.8**	248.1	**285.8**	248.1
Receivables due from group undertakings	**85.8**	70.6	**86.8**	71.6
Receivables due from group undertakings under finance leases	**–**	–	**0.8**	0.7
Receivables due from group undertakings under loan agreements	**0.2**	0.2	**0.2**	0.2
	712.8	576.7	**714.6**	578.4
Non-current assets				
Prepayments	**5.4**	1.2	**5.4**	1.2
Receivables due from group undertakings	**–**	1.1	**–**	1.1
Receivables due from group undertakings under finance leases	**–**	–	**95.0**	95.8
Receivables due from parent company under loan agreements	**154.5**	226.0	**154.5**	226.0
	159.9	228.3	**254.9**	324.1
	872.7	805.0	**969.5**	902.5

The carrying values of trade and other receivables are reasonable approximations of their fair values.

a) Credit risk

i) Trade receivables and accrued income

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Therefore there is no concentration of credit risk with respect to its trade receivables and the credit quality of its customer base reflects the wealth and prosperity of all of the domestic households within the Severn Trent Water region.

In the current and prior year, Water Plus, a joint venture between Severn Trent and United Utilities, was the largest retailer for business customers in the Severn Trent Water region. 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 and accrued income.

A collective provision is recorded for expected credit losses against assets for which no specific provision has been made. Expected credit losses for trade receivables are based on the historical credit losses experienced over the last nine years and reasonable supportable information on the future impact of external economic factors on the Group's collection of trade receivables.

Debts are written off when there is no realistic expectation of further collection and enforcement activity has ceased. There were no amounts outstanding on receivables written off and still subject to enforcement activity (2022: nil).

b) Expected credit loss allowance – trade receivables and accrued income

The expected credit loss at 31 March 2023 and 2022 was as set out below. The expected loss rate disclosed is calculated as the loss allowance as a proportion of the gross carrying amount.

20 Trade and other receivables - Group and Company (continued)

b) Expected credit loss allowance – trade receivables and accrued income (continued)

Group and Company

2023	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
	%	**£m**	**£m**	**£m**
Not past due	4	362.5	(12.8)	349.7
Up to 1 year past due	23	94.1	(21.3)	72.8
1 - 2 years past due	32	62.8	(20.4)	42.4
2 - 3 years past due	37	44.3	(16.5)	27.8
3 - 4 years past due	39	27.8	(10.9)	16.9
4 - 5 years past due	52	24.8	(13.0)	11.8
5 - 6 years past due	55	17.9	(9.9)	8.0
6 - 7 years past due	54	12.3	(6.6)	5.7
7 - 8 years past due	64	8.0	(5.1)	2.9
8 - 9 years past due	70	5.6	(3.9)	1.7
More than 9 years past due	96	7.5	(7.2)	0.3
		667.6	**(127.6)**	**540.0**

2022	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
	%	£m	£m	£m
Not past due	4	295.5	(11.4)	284.1
Up to 1 year past due	25	86.2	(21.6)	64.6
1 – 2 years past due	39	60.7	(23.6)	37.1
2 – 3 years past due	42	37.2	(15.5)	21.7
3 – 4 years past due	54	30.5	(16.6)	13.9
4 – 5 years past due	50	24.5	(12.3)	12.2
5 – 6 years past due	53	15.2	(8.1)	7.1
6 – 7 years past due	64	10.6	(6.8)	3.8
7 – 8 years past due	71	6.9	(4.9)	2.0
8 – 9 years past due	67	3.3	(2.2)	1.1
More than 9 years past due	100	5.3	(5.3)	–
		575.9	(128.3)	447.6

Movements on the expected credit loss allowance were as follows:

	Group		**Company**	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 1 April	**128.3**	136.2	**128.3**	130.8
Charge for bad and doubtful debts	**23.1**	24.8	**23.1**	23.7
Amounts written off during the year	**(23.8)**	(26.2)	**(23.8)**	(26.2)
Disposal of Hafren Dyfrdwy	**–**	(6.5)	**–**	–
At 31 March	**127.6**	128.3	**127.6**	128.3

21 Finance lease receivables - Company

Minimum lease payments receivable are as follows:

	2023 £m	2022 £m
Within 1 year	**5.7**	5.7
1 - 2 years	**5.7**	5.7
2 - 5 years	**17.0**	17.0
After more than 5 years	**198.9**	210.2
Gross obligations under finance leases	**227.3**	238.6
Less: unearned interest receivable	**(131.5)**	(142.1)
	95.8	96.5

The present value of minimum lease payments receivable are as follows:

	2023 £m	2022 £m
Within 1 year	**0.8**	0.7
1 - 2 years	**0.8**	0.8
2 - 5 years	**2.7**	2.6
After more than 5 years	**91.5**	92.4
Included in non-current liabilities	**95.0**	95.8
	95.8	96.5

The Company considers that the credit risk in relation to these receivables is immaterial and therefore no provision for expected credit losses has been recognised (2022: nil).

The Company has granted finance leases of between 44 and 57 years in respect of concrete settling tanks. The interest terms were set at the inception of the leases. Leases bear interest at a weighted average interest rate of 5.1% (2022: 5.1%).

22 Borrowings

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Current liabilities				
Bank overdraft	**5.4**	7.7	**5.4**	7.7
Other loans	**300.0**	250.6	**300.0**	0.8
Loans due to parent and fellow subsidiary undertakings	**–**	–	**–**	249.9
Lease liabilities	**7.3**	5.8	**7.3**	5.8
Lease liabilities payable to other group companies	**–**	–	**19.0**	16.3
	312.7	264.1	**331.7**	280.5
Non-current liabilities				
Bank loans	**689.4**	755.7	**689.4**	755.7
Other loans	**5,974.5**	5,275.3	**848.0**	934.6
Loans due to fellow subsidiary undertakings	**–**	–	**5,682.9**	4,882.6
Lease liabilities	**95.9**	103.0	**95.9**	103.0
Lease liabilities payable to other group companies	**–**	–	**400.5**	421.4
	6,759.8	6,134.0	**7,716.7**	7,097.3
	7,072.5	6,398.1	**8,048.4**	7,377.8

See note 33 for details of interest rates payable and maturity of borrowings.

23 Categories of financial liabilities - Group

	Note	2023 £m	2022 £m
Fair value through profit and loss			
Interest rate swaps - not hedge accounted		**10.0**	37.0
Inflation swaps - not hedge accounted		**–**	3.7
		10.0	40.7
Derivatives designated as hedging instruments			
Cross currency swaps - fair value hedges		**0.9**	–
		0.9	–
Total derivative financial liabilities		**10.9**	40.7
Other financial liabilities			
Borrowings	22	**7,072.5**	6,398.1
Trade payables	24	**113.6**	76.8
Other payables	24	**7.9**	7.1
Amounts due to parent and fellow subsidiary undertakings	24	**86.2**	57.3
Total other financial liabilities		**7,280.2**	6,539.3
Total financial liabilities		**7,291.1**	6,580.0
Disclosed in the balance sheet within:			
Non-current liabilities			
Derivative financial liabilities		**10.9**	40.7
Borrowings		**6,759.8**	6,134.0
Other payables		**–**	0.1
		6,770.7	6,174.8
Current liabilities			
Borrowings		**312.7**	264.1
Trade payables		**113.6**	76.8
Other payables		**7.9**	7.0
Amounts due to parent and fellow subsidiary undertakings		**86.2**	57.3
		520.4	405.2
		7,291.1	6,580.0

24 Trade and other payables

	Group		Company	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Current liabilities				
Trade payables	**113.6**	76.8	**113.6**	76.8
Social security and other taxes	**7.1**	6.6	**7.1**	6.6
Other payables	**7.9**	7.0	**8.2**	7.5
Accruals and receipts in advance	**519.6**	485.7	**464.5**	436.3
Deferred income	**15.9**	15.2	**15.9**	15.2
Amounts due to parent and fellow subsidiary undertakings	**86.2**	57.3	**135.5**	98.5
	750.3	648.6	**744.8**	640.9
Non-current liabilities				
Other payables	**–**	0.1	**–**	**–**
Accruals and receipts in advance	**13.5**	3.0	**13.5**	3.0
Deferred income	**1,445.1**	1,317.5	**1,445.1**	1,317.5
	1,458.6	1,320.6	**1,458.6**	1,320.5
	2,208.9	1,969.2	**2,203.4**	1,961.4

The accruals balance above includes £146.5m of contract liabilities (2022: £144.8m). Movements in this balance are set out in note 5 of the financial statements.

The Directors consider that the carrying value of trade payables is not materially different from their fair values.

25 Deferred tax

Group

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Group is set out below:

	Accelerated tax depreciation	Retirement benefit obligations	Fair value of financial instruments	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2021	959.0	(24.0)	(38.0)	(3.5)	893.5
Charge/(credit) to income	359.5	2.8	0.9	(6.2)	357.0
Charge/(credit) to equity	–	41.9	12.6	(5.1)	49.4
Disposal of Hafren Dyfrdwy	(22.0)	(4.4)	–	0.4	(26.0)
At 1 April 2022	1,296.5	16.3	(24.5)	(14.4)	1,273.9
Charge/(credit) to income	47.7	16.0	14.3	(44.2)	33.8
Credit to equity	–	(60.3)	–	(0.2)	(60.5)
At 31 March 2023	**1,344.2**	**(28.0)**	**(10.2)**	**(58.8)**	**1,247.2**

Company

An analysis of the movements in the major deferred tax liabilities and assets recognised by the Company is set out below:

	Accelerated tax depreciation	Retirement benefit obligations	Fair value of financial instruments	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2021	943.2	(27.3)	(38.0)	(7.3)	870.6
Charge/(credit) to income	353.3	2.4	0.9	(7.4)	349.2
Charge/(credit) to equity	–	41.2	12.6	(5.1)	48.7
At 1 April 2022	1,296.5	16.3	(24.5)	(19.8)	1,268.5
Charge/(credit) to income	47.7	16.0	14.3	(44.2)	33.8
Credit to equity	–	(60.3)	–	(0.2)	(60.5)
At 31 March 2023	**1,344.2**	**(28.0)**	**(10.2)**	**(64.2)**	**1,241.8**

Most of the Group and Company's deferred tax liabilities are expected to be recovered over more than one year. 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:

Group

	2023 £m	2022 £m
Deferred tax asset	**(97.0)**	(38.9)
Deferred tax liability	**1,344.2**	1,312.8
	1,247.2	1,273.9

Company

	2023 £m	2022 £m
Deferred tax asset	**(102.4)**	(44.3)
Deferred tax liability	**1,344.2**	1,312.8
	1,241.8	1,268.5

Deferred tax is provided at the rate that is expected to apply when the asset or liability is expected to be settled. On 3 March 2021, the UK Government announced an increase in the rate of corporation tax from 19% to 25%, effective 1 April 2023. Deferred tax assets and liabilities were therefore remeasured at 1 April 2021 at the new rate of 25%. This resulted in an exceptional deferred tax charge in the income statement for 2022 of £289.2 million and a credit to reserves amounting to £7.1 million (Company: charge of £282.7 million to the income statement and credit of £7.8 million to the reserves).

26 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 ('STPS') and the Severn Trent Mirror Image Pension Scheme ('STMIPS') closed to future accrual on 31 March 2015. The defined benefit pension schemes (the 'Schemes') cover increases in accrued benefits arising from inflation and pension increases. Their assets are held in separate funds administered by trustees. The trustees are required to act in the best interests of the schemes' beneficiaries. A formal actuarial valuation of each Scheme is carried out on behalf of the trustees at triennial intervals by an independent professionally qualified actuary. Under the defined benefit pension schemes, members are entitled to retirement benefits calculated by reference to their pensionable service and pensionable salary history, with inflationary pension increases applying in line with the Scheme rules.

The defined benefit pension schemes and the dates of their last completed formal actuarial valuations as at the accounting date are as follows:

	Date of last formal actuarial valuation
Severn Trent Pension Scheme (STPS)*	31 March 2022
Severn Trent Mirror Image Pension Scheme (STMIPS)	31 March 2022

* The STPS is by far the largest of the Group's UK defined benefit schemes, comprising over 90% of the Group's overall defined benefit obligations.

The defined benefit scheme assets have been updated to reflect their market value at 31 March 2023. Actuarial gains and losses on the scheme assets and defined benefit obligations have been reported in the statement of comprehensive income. Service cost, and the costs of administrating the scheme, are recognised in operating costs and interest cost is recognised in net finance costs.

On 29 June 2021, the Group completed the bulk annuity buy-in for STMIPS. Severn Trent Water Limited is the only employer in this scheme. 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) Amounts included in the balance sheet arising from obligations under defined benefit pension schemes

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Fair value of assets	**1,744.5**	2,595.3	**1,946.8**	2,814.3
Present value of the defined benefit obligations	**(2,023.1)**	(2,732.9)	**(2,023.1)**	(2,732.9)
	(278.6)	(137.6)	**(76.3)**	81.4
Presented on the balance sheet as:				
Retirement benefit obligation – funded schemes in surplus	**–**	–	**–**	81.4
Retirement benefit obligation – funded schemes in deficit	**(278.6)**	(137.6)	**(76.3)**	–
Net retirement benefit (obligation)/surplus	**(278.6)**	(137.6)	**(76.3)**	81.4

26 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

ii) Amounts included in the balance sheet arising from obligations under defined benefit pension schemes (continued)

The Schemes' assets were as follows:

	Group		Company	
	2023	2022	**2023**	2022
STPS and STMIPS	**£m**	£m	**£m**	£m
Fair value of scheme assets				
Equities	**188.4**	478.1	**188.4**	478.1
Annuity policies	**87.7**	104.6	**87.7**	104.6
Corporate bonds	**237.0**	953.0	**237.0**	953.0
Liability driven investment funds (LDI)	**259.2**	627.6	**259.2**	627.6
Property	**239.6**	296.8	**239.6**	296.8
Contributions due from Scottish Limited Partnerships[1]	**–**	–	**202.3**	219.0
Cash	**732.6**	135.2	**732.6**	135.2
	1,744.5	2,595.3	**1,946.8**	2,814.3

[1] The Scottish Limited Partnerships are subsidiaries of Severn Trent Water and therefore any movements are eliminated upon consolidation.

Most of the assets have quoted prices in active markets, but there are equities, annuity policies, corporate bonds and LDI investments which are unquoted amounting to £419.0 million.

Movements in the fair value of the schemes' assets were as follows:

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	£m	£m
Fair value at 1 April	**2,595.3**	2,600.4	**2,814.3**	2,768.4
Interest income on scheme assets	**76.8**	52.8	**76.8**	51.5
Contributions paid by the group/company	**99.8**	61.4	**72.3**	35.6
Return on plan assets (excluding amounts included in finance income)	**(899.5)**	68.9	**(899.5)**	68.2
Scheme administration costs	**(4.0)**	(3.8)	**(4.0)**	(3.6)
Benefits paid	**(123.9)**	(120.3)	**(123.9)**	(117.3)
Unwind of discount on contribution due from SLPs	**–**	–	**10.8**	11.5
Disposal of Hafren Dyfrdwy	**–**	(64.1)	**–**	–
Fair value at 31 March	**1,744.5**	2,595.3	**1,946.8**	2,814.3

	Group		Company	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Present value at 1 April	**(2,732.9)**	(2,959.8)	**(2,732.9)**	(2,911.8)
Current service cost	–	(0.2)	**–**	–
Past service credit	**8.3**	–	**8.3**	–
Interest cost	**(80.7)**	(59.3)	**(80.7)**	(58.4)
Actuarial (losses)/gains arising from changes in demographic assumptions	**(16.4)**	5.6	**(16.4)**	5.8
Actuarial gains arising from changes in financial assumptions	**730.7**	192.6	**730.7**	191.4
Actuarial losses arising from experience adjustments	**(56.0)**	(78.7)	**(56.0)**	(77.2)
Benefits paid	**123.9**	120.3	**123.9**	117.3
Disposal of Hafren Dyfrdwy	**–**	46.6	**–**	–
Present value at 31 March	**(2,023.1)**	(2,732.9)	**(2,023.1)**	(2,732.9)

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.

26 Retirement benefit schemes (continued)

iii) Amounts recognised in the income statement in respect of these defined benefit schemes

	Group	
	2023	2022
	£m	£m
Amounts credited/(charged) to operating costs		
Current service cost	–	(0.2)
Past service credit	**8.3**	–
Scheme administration costs	**(4.0)**	(3.8)
	4.3	(4.0)
Amounts charged to finance costs		
Interest cost	**(80.7)**	(59.3)
Amounts credited to finance income		
Interest income on scheme assets	**76.8**	52.8
Total amount charged to the income statement	**0.4**	(10.5)

The actual return on scheme assets was a loss of £822.7 million (2022: gain of £121.7 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 Schemes have a balanced approach to investment in equity securities, debt instruments and real estate. Due to the long-term nature of the scheme liabilities, we consider it appropriate to invest a portion of the Scheme assets in equity securities and in real estate to leverage the return generated by the fund.

Inflation risk

The benefits payable to members of the schemes are linked to inflation measured by the RPI or CPI, subject to caps. The Group's contributions to the Schemes are based on assumptions about the future level of inflation. If inflation is higher than the levels assumed in the actuarial calculations then the Group may need to make additional contributions to the Schemes in order to fund the payment of accrued benefits.

The Schemes use LDI’s 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.

26 Retirement benefit schemes (continued)

a) Defined benefit pension 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.

		2023	2022
		% pa	% pa
Price inflation – RPI		**3.3**	3.6
Price inflation – CPI	**Pre 2030:**	**2.3**	2.6
	Post 2030:	**3.2**	3.5
Discount rate		**4.8**	2.8
Pension increases in payment		**3.3**	3.6
Pension increases in deferment		**3.3**	3.6

The assumption for RPI price inflation is derived from the difference between the yields on longer-term fixed rate gilts and on index-linked gilts.

In setting our discount rate, we construct a yield curve. Short dated yields are taken from market rates for AA corporate bonds. Long-dated yields for the curve are based on the average yield available on all long-dated AA corporate bonds. We project the expected cash flows of the schemes and adopt a single equivalent cash flow weighted discount rate taking account of the constructed yield curve.

The mortality assumptions are based on those used in the latest triennial funding valuations. The mortality assumptions adopted at the year end for accounting purposes and the life expectancies at age 60 implied by the assumptions are as follows for the STPS:

		2023		2022
	Men	**Women**	Men	Women
Mortality table used	**S3PMA**	**S3PFA_M**	S3PMA_L	S3PFA_M
Mortality table compared with standard table	**98%**	**91%**	112%	95%
Mortality projections	**CMI 2021**	**CMI 2021**	CMI 2021	CMI 2021
Long-term rate of future improvement per annum	**1.0%**	**1.0%**	1.0%	1.0%
Weighting factor given to data for 2021	**40%**	**40%**	20%	20%
Remaining life expectancy for members currently aged 60 (years)	**25.8**	**28.6**	26.5	28.5
Remaining life expectancy at age 60 for members currently aged 40 (years)	**26.9**	**29.8**	27.6	29.7

The calculation of the scheme obligations is sensitive to the actuarial assumptions and in particular to the assumptions relating to discount rate, price inflation (capped, where relevant) and mortality. The following table summarises the estimated impact on the Group's obligations from changes to key actuarial assumptions whilst holding all other assumptions constant:

Assumption	**Change in assumption**	**Impact on disclosed obligations**
Discount rate[1]	Increase/decrease by 0.1% pa	Decrease/increase by £26 million
Price inflation[2]	Increase/decrease by 0.1% pa	Increase/decrease by £21 million
Mortality[3]	Increase in life expectancy by 1 year	Increase by £72 million

1 A change in discount rate is likely to occur as a result of changes in bond yield 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.
3 The change in assumption is based on triennial valuations and reflect the fact that life expectancy rates are expected to increase.

In reality, interrelationships exist between the assumptions, particularly between the discount rate and price inflation. The above analysis does not take into account the effect of these interrelationships. Also, in practice any movement in obligations arising from assumption changes are likely to be accompanied by movements in asset values – and so the impact on the accounting deficit may be lower than the impact on the obligations shown above.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the balance sheet.

26 Retirement benefit schemes (continued)

a) Defined benefit pension schemes (continued)

(vi) Effect on future cash flows

Contribution rates are set in consultation with the Trustees for each Scheme and each participating employer.

The average duration of the benefit obligation at the end of the year is 13 years for STPS and 10 years for STMIPS (2022: 16 years).

The most recently completed formal triennial actuarial valuations and funding agreements were carried out as at 31 March 2022 for the STPS and STMIPS. As a result of the STPS actuarial valuation, annual deficit reduction contributions of £34.2 million were agreed, with the March 2023 payment having been increased in line with the annual increase in CPI to November 2022. Thereafter, future contributions for the STPS will also increase in line with CPI inflation until March 2027. The first two contributions in March 2023 and March 2024 are payable directly into the STPS and it is expected that payments in future years will be payable to a limited liability partnership that the Group and Trustee are in the process of setting up.

Payments of £8.2 million per annum through an asset backed funding arrangement will also continue to 31 March 2032 for the STPS. Further inflation linked payments of £15.0 million per annum are being made through an additional asset backed funding arrangement, with payments having started in the financial year ending 31 March 2018 and continuing to 31 March 2031. These contributions will cease earlier should a subsequent valuation of the STPS show that they are no longer needed. There are no deficit reduction contributions payable by the Group for STMIPS.

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 £20.2 million (2022: £26.9 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme. As at 31 March 2023, no contributions (2022: nil) in respect of the current reporting period were owed to the schemes.

27 Provisions

Group

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2022	16.1	19.2	10.8	46.1
Charged to income statement	5.4	–	2.7	8.1
Other net additions	–	34.2	–	34.2
Utilisation of provision	(9.4)	(5.7)	–	(15.1)
At 31 March 2023	**12.1**	**47.7**	**13.5**	**73.3**

	2023 £m	2022 £m
Included in		
Current liabilities	**47.2**	33.3
Non-current liabilities	**26.1**	12.8
	73.3	46.1

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, some of which are capital projects, 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.

27 Provisions (continued)

Company

	Insurance £m	Regulatory £m	Other £m	Total £m
At 1 April 2022	16.1	19.2	10.8	46.1
Charged to income statement	5.4	–	2.7	8.1
Other net additions	–	34.2	–	34.2
Utilisation of provision	(9.4)	(5.7)	–	(15.1)
At 31 March 2023	**12.1**	**47.7**	**13.5**	**73.3**

	2023 £m	2022 £m
Included in		
Current liabilities	**47.2**	33.3
Non-current liabilities	**26.1**	12.8
	73.3	46.1

28 Share capital – Group and Company

	2023 £m	2022 £m
Total issued and fully paid share capital		
1,250,100,000 ordinary shares of 0.1p (2022: 1,250,100,000)	**1.3**	1.3

29 Share Premium – Group and Company

	2023 £m	2022 £m
As at 1 April and 31 March	**249.7**	249.7

30 Hedging reserve – Group and Company

	Hedging reserve £m
At 1 April 2021	(71.6)
Total comprehensive income for the year	44.9
At 1 April 2022	(26.7)
Total comprehensive income for the year	0.1
Reserves transfer	26.2
At 31 March 2023	**(0.4)**

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.

31 Capital management – Group

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. Further details of the dividend policy and its application we set out in the Company's Annual Performance Report, which is available at stwater.co.uk.

The Group's capital at 31 March was:

	2023 £m	2022 £m
Net cash and cash equivalents	**4.0**	70.1
Bank loans	**(689.4)**	(755.7)
Other loans	**(6,274.5)**	(5,525.9)
Loans due from parent company	**154.5**	226.2
Lease liabilities	**(103.2)**	(108.8)
Cross currency swaps	**33.6**	28.3
Net debt	**(6,875.0)**	(6,065.8)
Equity attributable to owners of the Company	**(2,299.4)**	(2,743.1)
Total capital	**(9,174.4)**	(8,808.9)

32 Fair values of financial instruments – Group

a) Fair value measurements

The valuation techniques that the Group applies in determining the fair values of its financial instruments on a recurring basis are described below. The techniques are classified under the hierarchy defined in IFRS 13 which categorises valuation techniques into Levels 1 - 3 based on the degree to which the fair value is observable. The Group's valuation techniques are Level 2 unless otherwise stated below:

	2023	2022	
	£m	£m	**Valuation techniques and key inputs**
Cross currency swaps			Discounted cash flow
Assets	**34.5**	28.3	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties. The currency cash flows are translated at spot rate.
Liabilities	**(0.9)**	–	
Interest rate swaps			Discounted cash flow
Assets	**40.5**	2.9	Future cash flows are estimated based on forward interest rates from observable yield curves at the period end and contract interest rates discounted at a rate that reflects the credit risk of counterparties.
Liabilities	**(10.0)**	(37.0)	
Energy swaps			Discounted cash flow
Assets	**0.5**	27.6	Future cash flows are estimated based on forward electricity prices from observable indices at the period end and contract prices discounted at a rate that reflects the credit risk of counterparties.
Inflation swap			Discounted cash flow
Assets	**7.3**	–	Future cash flows on the RPI leg of the instrument are estimated based on observable forward inflation indices.
Liabilities	**–**	(3.7)	Future cash flows on the CPI leg of the instrument are estimated based on the future expected differential between RPI and CPI (‘the wedge’).
			Both legs are discounted using observable swap rates at the period end, at a rate that reflects the credit risk of counterparties. This is considered to be a Level 3 valuation technique.
Investment			Net asset value
Asset	**1,603.8**	1,564.0	The fair value of the investment is considered to be the Group’s share of its net assets. 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	**Investment £m**
At 1 April 2021	(32.1)	1,550.1
Gains recognised in profit or loss	28.4	13.9
At 31 March 2022	(3.7)	1,564.0
Gains recognised in profit or loss	11.0	39.8
At 31 March 2023	**7.3**	**1,603.8**

These Level 3 instruments are valued using unobservable inputs. In valuing the inflation swaps, we have identified the unobservable input as the CPI wedge. A change of 10bps in the CPI wedge would result in a change in the carrying value of £4.5 million.

32 Fair values of financial instruments – Group (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:

	31 March 2023		31 March 2022	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Floating rate debt				
Bank loans	**545.4**	**527.4**	625.8	623.5
Other loans	**146.8**	**157.9**	147.8	161.4
Bank overdraft	**5.4**	**5.4**	7.7	7.7
	697.6	**690.7**	781.3	792.6
Fixed rate debt				
Other loans	**4,241.6**	**4,014.6**	3,784.9	4,024.8
Lease liabilities	**103.2**	**103.2**	108.8	117.9
	4,344.8	**4,117.8**	3,893.7	4,142.7
Index-linked debt				
Bank loans	**144.0**	**137.1**	129.9	149.5
Other loans	**1,886.1**	**1,798.0**	1,593.2	2,352.6
	2,030.1	**1,935.1**	1,723.1	2,502.1
	7,072.5	**6,743.6**	6,398.1	7,437.4

The above floating, fixed or index-linked classification does not take into account the impact of unhedged interest rate swaps or cross currency swaps.

Fixed rate loans are valued using market prices for similar instruments, which is a Level 2 valuation technique.

Index-linked bonds are rarely traded and quoted prices are not considered to be a reliable indicator of fair value. Therefore, these bonds 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.

33 Risks arising from financial instruments – Group

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 sections a) (i) and note 34 b) (i) below.

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) below.

Energy swaps are held to mitigate the Group's exposure to changes in electricity prices. Further details are provided in note 34 below.

Severn Trent Water operates under a regulatory environment where sales 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/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 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 in AMP7. In measuring this metric, management makes adjustments to the carrying value of debt to better reflect the amount that interest is calculated on. Details of the adjustments made are set out below:

	2023 £m	2022 £m
Net debt (note 36)	**6,875.0**	6,065.8
Cash and cash equivalents	**9.4**	77.8
Loan due from parent company and group undertakings	**154.5**	226.2
Cross currency swaps included in net debt at fair value	**33.6**	28.3
Fair value hedge accounting adjustments	**(20.1)**	(21.1)
Exchange on currency debt not hedge accounted	**(22.3)**	(14.9)
Interest bearing financial liabilities	**7,030.1**	6,362.1

The Group manages its cash flow interest rate risk by borrowing at fixed or index-linked rates and by using interest rate swaps. Under these swaps the Group receives floating 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 floating rates to fixed rates. The Group has entered into a series of these interest rate swaps to hedge future interest payments to beyond 2030.

33 Risks arising from financial instruments – Group (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 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 swaps is shown as an adjustment to floating rate and fixed rate debt to demonstrate the impact of the Group's interest rate swaps on the amount of liabilities bearing fixed interest.

2023	**Floating rate £m**	**Fixed rate £m**	**Index-linked £m**	**Total £m**
Bank overdraft	(5.4)	–	–	(5.4)
Bank loans	(545.4)	–	(144.0)	(689.4)
Other loans	(83.0)	(4,263.0)	(1,886.1)	(6,232.1)
Lease liabilities	–	(103.2)	–	(103.2)
	(633.8)	**(4,366.2)**	**(2,030.1)**	(7,030.1)
Impact of swaps not matched against specific debt instruments	275.0	(275.0)	–	–
Interest-bearing financial liabilities	**(358.8)**	**(4,641.2)**	**(2,030.1)**	**(7,030.1)**
Proportion of interest-bearing financial liabilities that are fixed		**66%**		
Weighted average interest rate of fixed rate debt		**4.12%**		
Weighted average period for which interest is fixed (years)		**9.6**		

2022	Floating rate £m	Fixed rate £m	Index-linked £m	Total £m
Bank overdraft	(7.7)	–	–	(7.7)
Bank loans	(625.8)	–	(129.9)	(755.7)
Other loans	(104.3)	(3,792.4)	(1,593.2)	(5,489.9)
Lease liabilities	–	(108.8)	–	(108.8)
	(737.8)	(3,901.2)	(1,723.1)	(6,362.1)
Impact of swaps not matched against specific debt instruments	475.0	(475.0)	–	–
Interest-bearing financial liabilities	(262.8)	(4,376.2)	(1,723.1)	(6,362.1)
Proportion of interest-bearing financial liabilities that are fixed		69%		
Weighted average interest rate of fixed rate debt		3.93%		
Weighted average period for which interest is fixed (years)		8.7		

Interest rate swaps not hedge accounted

The Group has a number of interest rate swaps which are not accounted for as cash flow or fair value hedges. This has led to a credit of £25.9 million (2022: £25.2 million) in the income statement.

	Average contract fixed interest rate		**Notional principal amount**		**Fair value**	
	2023	2022	**2023**	2022	**2023**	2022
		%	**£m**	£m	**£m**	£m
Pay fixed rate interest						
1 – 2 years	**–**	4.98	**–**	(50.0)	**–**	(2.2)
2 – 5 years	**–**	5.14	**–**	(150.0)	**–**	(13.6)
5 – 10 years	**5.46**	5.46	**(75.0)**	(75.0)	**(10.0)**	(21.2)
	5.46	5.20	**(75.0)**	(275.0)	**(10.0)**	(37.0)

33 Risks arising from financial instruments – Group (continued)

a) Market risk (continued)

i) Interest rate risk (continued)

Interest rate sensitivity analysis

The sensitivity after tax of the Group's profits, cash flow and equity, including the impact on derivative financial instruments, to reasonably possible changes in interest rates at 31 March is as follows:

	2023		2022	
	1.0%	**-1.0%**	1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**2.3**	**(2.8)**	9.7	(10.6)
Cash flow	**(2.8)**	**2.8**	(1.5)	1.5
Equity	**2.3**	**(2.8)**	9.7	(10.6)

ii) Exchange rate risk

Except for debt raised in foreign currency, which is hedged, the Group's business does not involve significant exposure to foreign exchange transactions 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 of sterling. Exchange risks relating to such operations are not material but are managed centrally by Group Treasury through forward exchange contracts to buy or sell currency. These contracts led to no charge (2022: nil) in the income statement.

The Group has raised debt denominated in currencies other than sterling to meet its objective of accessing a broad range of sources of finance. The Group mitigated its exposure to exchange rate fluctuations by entering into cross currency swaps at the time that the debt was drawn down to swap the proceeds into sterling debt bearing interest based on SONIA.

Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges, hence the swaps have been accounted for as fair value hedges. The notional value and fair value of these swaps is shown in note 34 a) (i).

The Group also has cross currency swaps with a notional sterling value of £98.3 million (2022: £98.3 million) which are not accounted for as fair value hedges. Economically these swaps act to mitigate the exchange rate risk of debt within the Group which is denominated in foreign currency and also swap the interest from fixed to floating, but they are not designated hedges under IFRS 9. This has led to income of £7.1 million (2022: £2.3 million) in the income statement as well as an exchange loss of £7.4 million (2022: gain of £6.6 million) on the underlying debt.

The Group's gross and net currency exposures arising from currency borrowings are summarised in the tables below. These show, in the relevant currency, the amount borrowed and the notional principal of the related swap or forward contract. The net position shows the Group's exposure to exchange rate risk in relation to its currency borrowings.

2023	**Euro** **€m**	**US Dollar** **$m**	**Yen** **¥bn**
Borrowings by currency	**(19.9)**	**(180.0)**	**(10.3)**
Cross currency swaps - hedge accounted	**19.9**	**30.0**	**10.3**
Cross currency swaps - not hedge accounted	**–**	**150.0**	**–**
Net currency exposure	**–**	**–**	**–**

2022	Euro €m	US Dollar $m	Yen ¥Bn
Borrowings by currency	(19.9)	(180.0)	(2.0)
Cross currency swaps - hedge accounted	19.9	30.0	2.0
Cross currency swaps - not hedge accounted	–	150.0	–
Net currency exposure	**–**	**–**	**–**

b) Credit risk

Operationally the Group has no significant concentrations of credit risk. Amounts provided against accounts receivable and movements on the provision during the year are disclosed in note 20.

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.

33 Risks arising from financial instruments – Group (continued)

b) Credit risk (continued)

Credit risk analysis

At 31 March, the aggregate credit limits of authorised counterparties and the amounts held on short term deposits were as follows:

	Credit limit		Amount deposited	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Double A range	**150.0**	150.0	–	–
Single A range	**770.5**	710.5	–	75.0
Below single A range	**–**	10.0	–	–
	920.5	870.5	–	75.0

The fair values of derivative assets analysed by credit ratings of counterparties were as follows:

	Derivative assets	
	2023	2022
	£m	£m
Single A range	**82.8**	52.6
Triple B range	**–**	6.2
	82.8	58.8

c) Liquidity risk

i) Committed facilities

Prudent liquidity management requires sufficient cash balances to be maintained; adequate committed facilities to be available and 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:

	2023	2022
	£m	£m
2 – 5 years	**700.0**	1,000.0
5 years	**100.0**	–
	800.0	1,000.0

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.

2023 **Undiscounted amounts payable:**	**Floating rate** **£m**	**Fixed rate** **£m**	**Index-linked** **£m**	**Trade and other payables** **£m**	**Payments on financial liabilities** **£m**
Within 1 year	(12.6)	(454.6)	(36.1)	(128.6)	(631.9)
1 - 2 years	(8.2)	(136.2)	(89.3)	–	(233.7)
2 - 5 years	(123.3)	(863.5)	(113.8)	–	(1,100.6)
5 - 10 years	(211.9)	(1,856.6)	(714.3)	–	(2,782.8)
10 - 15 years	–	(863.8)	(168.0)	–	(1,031.8)
15 - 20 years	–	(905.9)	(304.4)	–	(1,210.3)
20 - 25 years	–	(152.9)	(326.2)	–	(479.1)
25 - 30 years	–	–	(738.5)	–	(738.5)
30 - 35 years	–	–	(2,909.0)	–	(2,909.0)
35 - 40 years	–	–	(917.5)	–	(917.5)
40 - 45 years	–	–	(413.3)	–	(413.3)
45 - 50 years	–	–	–	–	–
Total	**(356.0)**	**(5,233.5)**	**(6,730.4)**	**(128.6)**	**(12,448.5)**

33 Risks arising from financial instruments – Group (continued)

c) Liquidity risk (continued)

ii) Cash flows from non-derivative financial instruments (continued)

Undiscounted amounts receivable:	**Loans due from related parties £m**	**Trade and other receivables £m**	**Cash and short term deposits £m**	**Amounts due from group undertakings £m**	**Receipts from financial assets £m**
Within 1 year	–	604.9	9.4	86.0	700.3
1-2 years	–	–	–	154.5	154.5
Total	**–**	**604.9**	**9.4**	**240.5**	**854.8**

2022	Floating rate £m	Fixed rate £m	Index-linked £m	Trade and other payables £m	Payments on financial liabilities £m
Within 1 year	(1.9)	(397.5)	(30.7)	(90.4)	(520.5)
1 - 2 years	(310.9)	(443.3)	(32.7)	(0.1)	(787.0)
2 - 5 years	(393.3)	(1,158.1)	(154.4)	–	(1,705.8)
5 - 10 years	(104.7)	(1,529.3)	(593.1)	–	(2,227.1)
10 - 15 years	–	(689.6)	(255.1)	–	(944.7)
15 - 20 years	–	(907.6)	(280.5)	–	(1,188.1)
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	(810.8)	(5,125.4)	(6,493.1)	(90.5)	(12,519.8)

Undiscounted amounts receivable:	Loans due from related parties £m	Trade receivables £m	Cash and short term deposits £m	Amounts due from group undertakings £m	Receipts from financial assets £m
Within 1 year	–	488.9	77.8	70.6	637.3
1-2 years	–	–	–	227.1	227.1
Total	–	488.9	77.8	297.7	864.4

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 or CPIH. Interest payments are made bi-annually based on the revalued principal. The principal repayment equals the revalued amount at maturity. The payments included in the table above are estimates based on the forward inflation rates published by the Bank of England at the balance sheet date.

(iii) Cash flows from derivative financial instruments

The following tables show the estimated cash flows that will arise from the Group's derivative financial instruments. The tables are based on the undiscounted net cash inflows/(outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest and foreign currency rates derived from the forward curves existing at the balance sheet date. Actual amounts may be significantly different from those indicated below.

				Cross currency swaps		
2023	**Interest rate swaps £m**	**Inflation swaps £m**	**Energy swaps £m**	**Cash receipts £m**	**Cash payments £m**	**Total £m**
Within 1 year	8.5	0.5	0.5	7.4	(6.1)	10.8
1 – 2 years	8.4	0.5	–	7.5	(6.0)	10.4
2 – 5 years	15.2	2.0	–	157.2	(125.1)	49.3
5 – 10 years	4.2	7.2	–	47.7	(45.1)	14.0
10 – 15 years	–	(1.9)	–	82.8	(59.0)	21.9
	36.3	**8.3**	**0.5**	**302.6**	**(241.3)**	**106.4**

33 Risks arising from financial instruments – Group (continued)

c) Liquidity risk (continued)

iii) Cash flows from derivative financial instruments (continued)

2022	Interest rate swaps	Inflation swaps	Energy swaps	Cross currency swaps Cash receipts	Cross currency swaps Cash payments	Total
	£m	£m	£m	£m	£m	£m
Within 1 year	(16.0)	0.2	28.0	6.2	(3.5)	14.9
1 – 2 years	(15.1)	0.3	–	6.2	(3.5)	(12.1)
2 – 5 years	(28.0)	1.3	–	146.3	(120.3)	(0.7)
5 – 10 years	(24.8)	3.0	–	39.3	(33.2)	(15.7)
10 – 15 years	–	(5.7)	–	–	–	(5.7)
15 – 20 years	–	(8.2)	–	–	–	(8.2)
	(83.9)	(9.1)	28.0	198.0	(160.5)	(27.5)

d) Inflation risk

The Group's parent company, Severn Trent Water Limited, 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 Limited 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 (2022: £350 million) in order to mitigate the risk of divergence between inflation measured by CPIH and that measured by RPI.

Inflation rate sensitivity analysis

The finance cost of the Group's index-linked debt instruments varies with changes in CPI/CPIH/RPI rather than interest rates. The sensitivity at 31 March of the Group's profit and equity to changes in CPI/CPIH/RPI is set out in the following table. This analysis relates to financial instruments only and excludes any CPI/CPIH/RPI impact on Severn Trent Water's revenues and Regulated Capital Value, or accounting for defined benefit pension schemes.

	2023		2022	
	+1.0%	**-1.0%**	+1.0%	-1.0%
	£m	**£m**	£m	£m
Profit or loss	**(16.4)**	**16.4**	(14.0)	14.0
Equity	**(16.4)**	**16.4**	(14.0)	14.0

34 Hedge accounting – Group

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 in order to mitigate the Group's exposure to exchange rate fluctuations. Where the terms of the receivable leg of the swap closely match the terms of the underlying debt, the swaps are expected to be effective hedges.

At the year end the amounts of cross currency swaps designated as fair value hedges were as follows:

	Notional principal amount		Fair value	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Euro	**11.4**	11.4	**6.4**	7.4
US dollar	**23.2**	23.2	**3.1**	0.9
Yen	**59.9**	8.5	**3.6**	6.3
	94.5	43.1	**13.1**	14.6

b) Cash flow hedges

(i) Interest rate swaps

The Group has entered into interest rate swaps under which it has agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. Where the hedge is expected to be highly effective these interest rate swaps are accounted for as cash flow hedges.

Details of interest rate swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract fixed interest rate		Notional principal amount		Fair value	
	2023	2022	**2023**	2022	**2023**	2022
Period to maturity	**%**	%	**£m**	£m	**£m**	£m
2 – 5 years	**1.73**	1.70	**100.0**	50.0	**9.9**	1.0
5 – 10 years	**1.83**	1.82	**248.0**	298.0	**30.6**	1.9
	1.80	1.80	**348.0**	348.0	**40.5**	2.9

The Group recognised a loss on hedge ineffectiveness of £1.3 million (2022: loss of £0.6 million) in gains on financial instruments in the income statement in relation to interest rate swaps.

(ii) Energy swaps

The Group enters into a series of energy swaps under which it agrees to exchange the difference between fixed and market prices of electricity at six-monthly intervals. No such energy swaps are currently active and the risk of changes in wholesale energy prices in the next year is managed through physical contracts.

Details of energy swaps that have been accounted for as cash flow hedges are summarised below:

	Average contract price		Notional contracted amount		Fair value	
	2023	2022	**2023**	2022	**2023**	2022
Period to maturity	**£/MWh**	£/MWh	**MWh**	MWh	**£m**	£m
Less than 1 year	**44.7**	38.5	**43,680**	131,520	**0.5**	27.6
	44.7	38.5	**43,680**	131,520	**0.5**	27.6

34 Hedge accounting – Group (continued)

b) Cash flows 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:

2023

	Carrying amount of hedged items		**Cumulative amount of fair value adjustments on the hedged items**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	£m	**£m**	**£m**	**£m**
Cross currency swaps	**–**	**(109.9)**	–	**(14.0)**
Interest rate swaps	–	**(147.8)**	–	–
	–	**(257.7)**	–	**(14.0)**

2022

	Carrying amount of hedged items		Cumulative amount of fair value adjustments on the hedged items	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Cross currency swaps	–	(58.2)	–	(13.7)
Interest rate swaps	–	(347.7)	–	–
	–	(405.9)	–	(13.7)

£109.9 million (2022: £58.2 million) of the carrying amount of hedged items and £14.0 million (2022: £13.7 million) of the cumulative amount of fair value adjustments on the hedged items relates to fair value hedges. The remainder relates to cash flow hedges.

35 Share based payment – Group

The Group operates a number of share based remuneration schemes for employees. During the year, the Group recognised total expenses of £9.2 million (2022: £8.0 million) related to equity settled share based payment transactions.

The weighted average share price of Severn Trent Plc during the period was £27.65 (2022: £27.30).

At 31 March 2023, there were no options exercisable (2022: none) under any of the share based remuneration schemes.

a) Long Term Incentive Plans ('LTIPs')

Under the LTIPs, 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.

Awards outstanding

The 2019, 2020, 2021 and 2022 LTIP awards are subject to Severn Trent Water's achievement of Return on Regulated Equity in excess of the level included in the Severn Trent Water business plan over a three year vesting period. It has been assumed that performance against the LTIP non-market conditions will be 100% (2022: 100%).

Details of changes in the number of awards outstanding during the year are set out below:

	Number of awards
Opening at 1 April 2021	684,222
Granted during the year	199,232
Vested during the year	(230,003)
Lapsed during the year	(26,744)
Outstanding at 1 April 2022	626,707
Granted during the year	180,642
Vested during the year	(221,558)
Lapsed during the year	(12,517)
Outstanding at 31 March 2023	**573,274**

Details of LTIP awards outstanding at 31 March were as follows:

		Number of awards	
Date of grant	**Normal Date of Vesting**	**2023**	2022
July 2019	2022	**–**	227,242
July 2020	2023	**188,080**	200,233
July 2021	2024	**181,632**	199,232
July 2022	2025	**203,562**	**–**
		573,274	626,707

The awards outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.1 years (2022: 1.1 years).

Details of the basis of the LTIP scheme are set out in the Directors' remuneration report on pages [128] and [129].

b) Employee Sharesave Scheme

Under the terms of the Sharesave Scheme, the Board may grant the right to purchase ordinary shares in Severn Trent Plc to those employees who have entered into an HMRC approved Save As You Earn contract for a period of three or five years.

35 Share based payment – Group (continued)

b) Employee Sharesave Scheme (continued)

Options outstanding

Details of changes in the number of options outstanding during the year are set out below:

	Number of share options	Weighted average exercise price
Outstanding at 1 April 2021	3,954,506	1,687p
Granted during the year	844,913	2,307p
Forfeited during the year	(69,143)	1,731p
Cancelled during the year	(126,119)	1,801p
Exercised during the year	(713,797)	1,660p
Lapsed during the year	(4,264)	1,691p
Disposal of subsidiary	(64,377)	1,852p
Outstanding at 1 April 2022	3,821,719	1,823p
Granted during the year	815,985	1,897p
Forfeited during the year	(67,386)	1,966p
Cancelled during the year	(197,307)	2,111p
Exercised during the year	(963,558)	1,502p
Lapsed during the year	(7,749)	1,772p
Outstanding at 31 March 2023	**3,401,704**	**1,981p**

Sharesave options outstanding at 31 March were as follows:

			Number of awards	
Date of grant	**Normal date of exercise**	**Option price**	**2023**	2022
January 2017	2020 or 2022	1,633p	**–**	120,336
January 2018	2021 or 2023	1,652p	**101,990**	104,593
January 2019	2022 or 2024	1,474p	**203,612**	1,045,033
January 2020	2023 or 2025	1,787p	**787,550**	841,055
January 2021	2024 or 2026	1,860p	**808,539**	888,452
January 2022	2025 or 2027	2,307p	**689,996**	822,250
January 2023	2026 or 2028	2,183p	**810,017**	–
			3,401,704	3,821,719

The awards outstanding at 31 March 2023 had a weighted average remaining contractual life of 1.7 years (2022: 1.7 years).

c) Fair value calculations

The fair values of the share awards made and share options granted during the year were calculated using the Black Scholes method. The principal assumptions and data are out below:

	2023			2022		
	LTIP	**SAYE**		LTIP	SAYE	
		3 year scheme	**5 year scheme**		3 year scheme	5 year scheme
Share price at grant date (pence)	**2,858**	**2,674**	**2,674**	2,676	2,939	2,939
Option life (years)	**3**	**3.3**	**5.3**	3	3.3	5.3
Vesting period (years)	**3**	**3**	**5**	3	3	5
Expected volatility (%)	**18.2**	**18.2**	**18.2**	18.2	18.2	18.2
Expected dividend yield (%)	**3.7**	**4.0**	**4.0**	3.9	3.5	3.5
Risk free rate (%)	**n/a**	**3.5**	**3.6**	n/a	0.1	0.1
Fair value per share (pence)	**2,842**	**526**	**542**	2,659	543	521

Expected volatility is measured over the three years prior to the date of grant of the awards or share options. Volatility has been calculated based on historical share price movements.
The risk-free rate is derived from yields at the grant date of gilts of similar duration to the awards or share options.
The dividend yield is calculated using the expected dividend for the year divided by the share price at the date of grant.

36 Cash flow statement

a) Reconciliation of operating profit to operating cash flows

	2023 £m	2022 £m
Profit before interest and tax	**482.7**	490.8
Depreciation and impairment of property, plant and equipment	**360.6**	349.9
Depreciation of right-of-use assets	**2.2**	2.1
Amortisation of intangible assets	**29.9**	33.4
Pension service (credit)/cost	**(8.3)**	0.2
Defined benefit pension scheme administration costs	**4.0**	3.8
Defined benefit pension scheme contributions	**(99.8)**	(61.4)
Share based payments charge	**9.2**	8.0
Profit on sale of property, plant and equipment and intangible assets	**(2.3)**	(7.6)
Release of deferred credits	**(16.1)**	(17.4)
Contributions and grants received	**45.1**	42.7
Provisions charged to the income statement	**8.1**	14.5
Utilisation of provisions for liabilities and charges	**(15.1)**	(12.5)
Operating cash flows before movements in working capital	**800.2**	846.5
Increase in inventory	**(2.7)**	(0.1)
Increase in amounts receivable	**(138.8)**	(106.8)
Increase in amounts payable	**89.6**	116.6
Cash generated from operations	**748.3**	856.2
Tax received	**6.1**	62.5
Tax paid	**(13.9)**	(1.2)
Net cash generated from operating activities	**740.5**	917.5

b) Non-cash transactions

Non cash investing and financing cash flows disclosed in other notes are:

- Acquisition of right-of-use assets (note 17)
- Acquisition of infrastructure assets from developers at no cost (note 16)
- Shares issued to employees for no cash consideration under the LTIP (note 35)

c) Exceptional cash flows

There were no cash flows from items classified as exceptional in the income statement (2022: nil).

d) Reconciliation of movement in cash and cash equivalents to movement in net debt

Group

	At 1 April 2022 £m	Cash flow £m	Fair value adjustments £m	Inflation uplift on index-linked debt £m	Foreign exchange £m	Other non-cash movements £m	**At 31 March 2023 £m**
Net cash and cash equivalents	70.1	(66.1)	–	–	–	–	**4.0**
Bank loans	(755.7)	80.5	–	(13.5)	–	(0.7)	**(689.4)**
Other loans	(5,525.9)	(551.4)	0.9	(191.2)	(7.4)	0.5	**(6,274.5)**
Leases	(108.8)	11.4	–	–	–	(5.8)	**(103.2)**
Cross currency swaps	28.3	–	–	–	–	5.3	**33.6**
Loans due from parent company	226.2	(71.7)	–	–	–	–	**154.5**
Net debt	**(6,065.8)**	**(597.3)**	**0.9**	**(204.7)**	**(7.4)**	**(0.7)**	**(6,875.0)**

Liabilities from financing activities comprise bank loans, other loans and leases.

36 Cash flow statement (continued)

e) Liabilities from financing activities

	Bank loans	Other loans	Lease liabilities	**Total**
	£m	£m	£m	**£m**
At 1 April 2021	(980.8)	(5,177.4)	(111.8)	(6,270.0)
Cash flow	234.9	(250.6)	9.4	(6.3)
Fair value adjustments	–	2.9	–	2.9
Inflation adjustment on index-linked debt	(6.9)	(96.0)	–	(102.9)
Foreign exchange	–	(6.6)	–	(6.6)
Other non-cash movements	(2.9)	1.8	(6.4)	(7.5)
At 1 April 2022	(755.7)	(5,525.9)	(108.8)	(6,390.4)
Cash flow	80.5	(551.4)	11.4	(459.5)
Fair value adjustments	–	0.9	–	0.9
Inflation uplift on index-linked debt	(13.5)	(191.2)	–	(204.7)
Foreign exchange	–	(7.4)	–	(7.4)
Other non-cash movements	(0.7)	0.5	(5.8)	(6.0)
At 31 March 2023	**(689.4)**	**(6,274.5)**	**(103.2)**	**(7,067.1)**

37 Contingent liabilities – Group and Company

a) Bonds and guarantees

Group undertakings have entered into bonds and guarantees in the normal course of business. No liability (2022: nil) is expected to arise in respect of either bonds or guarantees.

b) Banking offset arrangements

The banking arrangements of the Group operate on a pooled basis with certain fellow group undertakings. Under these arrangements participating companies guarantee each other's balances only to the extent that their credit balances can be offset against certain overdrawn balances of other Severn Trent group companies.

At 31 March 2023 the Group and Company's maximum liability under these arrangements was £5.4 million (2022: nil).

c) Claims under the Environmental Information Regulations 2004 regarding property searches

Since 2016, the Group has received letters of claim from a number of groups of personal search companies (PSCs) which allege that the information held by Severn Trent Water Limited (STW) used to produce the CON29DW residential and also the commercial water and drainage search reports sold by Severn Trent Property Solutions Limited (STPS), is disclosable under the Environmental Information Regulations. In April 2020, a group of over 100 PSCs commenced litigation against all water and sewerage undertakers in England and Wales, including STW and STPS. The claimants are seeking damages, on the basis that STW and STPS charged for information which should have been made available either free, or for a limited charge, under the Environmental Information Regulations. STW and STPS are defending this claim. This is an industry-wide issue and the litigation is in progress. A timetable for the claim has recently been set by the court leading up to a stage 1 trial on the EIR legal issues only (not the other issues or amount of damages) which is scheduled to be held in November 2023.

d) Ongoing combined sewer overflow 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.

38 Financial and other commitments – Group and Company

a) Investment expenditure commitments

Capital commitments are as follows:

	2023 £m	2022 £m
Contracted for but not provided for in the financial statements	**630.1**	352.5

In addition to these contractual commitments, the Group and Company have 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.

39 Post balance sheet events – Group and Company

There have been no post balance sheet events.

40 Related party transactions – Group and Company

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the Group, ultimate parent Severn Trent Plc and other related parties are disclosed below.

Transactions

	Transactions with fellow subsidiary undertakings		Transactions with ultimate parent		Transactions with other related parties	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Sale of services	**0.4**	0.5	**–**	–	**259.5**	259.8
Purchase of services	**5.5**	4.2	**0.4**	1.0	**–**	–
Net interest income	**–**	–	**3.7**	1.6	**3.9**	2.5
Dividends paid to related parties	**428.0**	355.1	**–**	–	**–**	–
Balances outstanding at 31 March:						
Amounts due from related parties	**85.8**	71.7	–	–	**–**	–
Amounts due to related parties	**(83.0)**	(51.2)	**(3.2)**	(6.1)	**–**	(0.2)
Loans due from related parties	**0.2**	0.2	**154.5**	226.0	**–**	–

The related parties are fellow subsidiary undertakings, the ultimate parent Severn Trent Plc, and Severn Trent Plc's joint venture, Water Plus Limited.

Remuneration of key management personnel

Key management personnel comprise the members of STEC during the year, and non-executive directors of the Company.

The remuneration of the directors is included within the amounts disclosed below.

	2023 £m	2022 £m
Short-term employee benefits	**4.6**	5.7
Service contract non-executive director benefits	**0.9**	0.7
Share based payment	**5.4**	6.6
	10.9	13.0

The retirement benefit schemes entered into by the Group are considered to be related parties. Details of transactions and balances with the retirement benefit schemes are disclosed in note 26.

41 Alternative performance measures – Group

Financial measures or metrics used in this report that are not defined by IFRS are alternative performance measures ('APMs'). The Group uses such measures for performance analysis because they provide additional useful information on the performance and position of the Group. Since the Group defines its own alternative performance measures, these might not be directly comparable with other companies' alternative performance measures. 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, if of a similar type, in aggregate 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.

b) 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 36.

c) Effective interest cost

The effective interest cost is calculated as net finance costs, excluding net finance costs from pensions, plus capitalised finance costs divided by the monthly average net debt during the year.

	2023 £m	2022 £m
Net finance costs	**355.3**	259.0
Net finance costs from pensions	**(3.9)**	(6.5)
Capitalised interest	**54.7**	34.2
	406.1	286.7
Average net debt	**6,547.7**	5,977.4
Effective interest cost	**6.2%**	4.8%

This APM is used as it shows the average finance cost for the net debt of the business.

d) 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 inflation adjustments on index-linked debt).

	2023 £m	2022 £m
Net finance costs	**355.3**	259.0
Net finance costs from pensions	**(3.9)**	(6.5)
Indexation adjustments	**(210.2)**	(102.9)
Capitalised interest	**54.7**	34.2
	195.9	183.8
Average net debt	**6,547.7**	5,977.4
Effective cash cost of interest	**3.0%**	3.1%

This is used as it shows the average finance cost that is paid in cash.

41 Alternative performance measures – Group (continued)

e) PBIT interest cover

The ratio of PBIT to net finance costs excluding net finance costs from pensions.

	2023	2022
	£m	£m
PBIT	**482.7**	490.8
Net finance costs	**355.3**	259.0
Net finance costs from pensions	**(3.9)**	(6.5)
Net finance costs excluding finance costs from pensions	**351.4**	252.5

	ratio	ratio
PBIT interest cover ratio	**1.4**	1.9

This is used to show how the PBIT of the business covers the financing costs associated only with net debt on a consistent basis. In previous years we have reported adjusted PBIT interest cover.

f) EBITDA and EBITDA interest cover

The ratio of profit before interest, tax, depreciation and amortisation to net finance costs excluding net finance costs from pensions.

	2023	2022
	£m	£m
PBIT	**482.7**	490.8
Depreciation (including right-of-use assets)	**362.8**	352.0
Amortisation	**29.9**	33.4
EBITDA	**875.4**	876.2
Net finance costs	**355.3**	259.0
Net finance costs from pensions	**(3.9)**	(6.5)
Net finance costs excluding finance costs from pensions	**351.4**	252.5

	ratio	ratio
EBITDA interest cover ratio	**2.5**	3.5

This is used to show how the EBITDA of the business covers the financing costs associated only with net debt on a consistent basis.

41 Alternative performance measures – Group (continued)

g) 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 and exceptional items.

	2023	**Current tax thereon**	2022	Current tax thereon
	£m	**£m**	£m	£m
Profit before tax	**189.0**	**–**	284.6	–
Adjustments:				
Net gains/(losses) on financial instruments	**61.6**	**–**	(52.8)	–
	250.6	**–**	231.8	–
Adjusted effective current tax rate		**0.0%**		0.0%

h) Operational cashflow

Cash generated from operations less contributions and grants received.

	2023	2022
	£m	£m
Cash generated from operations	**748.3**	856.2
Contributions and grants received	**(45.1)**	(42.7)
Operational cashflow	**703.2**	813.5

This APM is used to show operational cash excluding the effect of contributions and grants received as part of capital programmes.

i) Cash capex

Cash paid to acquire property, plant and equipment and intangible fixed assets less contributions and grants received and proceeds on disposal of property, plant and equipment and intangible fixed assets.

	2023	2022
	£m	£m
Purchase of property, plant and equipment	**(669.4)**	(596.3)
Purchase of intangible assets	**(39.7)**	(36.0)
Contributions and grants received	**45.1**	42.7
Proceeds on disposal of property, plant and equipment	**11.8**	11.3
Cash capex	**(652.2)**	(578.3)

This APM is used to show the cash impact of the Group’s capital programmes.

42 Ultimate parent undertaking

The immediate parent undertaking is Severn Trent Draycote Limited.

The ultimate parent undertaking and controlling party is Severn Trent Plc, which is the parent undertaking and controlling party of the largest group to consolidate these financial statements. Copies of the Severn Trent Plc consolidated financial statements can be obtained from Severn Trent Plc's registrars at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.